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# IFRS 16 ADOPTION IN FRANCE



**A Ranking of  
the Leasing Obligations of  
CAC 40 Companies**

## BACKGROUND AND HISTORY OF IFRS 16

Starting on 1 January 2019, companies will begin to adopt the new IFRS 16 lease accounting standard published by the International Accounting Standards Board (IASB). As one of the biggest accounting changes in history, IFRS 16 will result in listed companies transferring almost €3 trillion worth of liabilities onto corporate balance sheets over the coming years.

Historically, only finance leases – leases that have a similar structure to asset purchases – have been reported as assets and liabilities on corporate balance sheets. Other leases, called operating leases, were “off-balance sheet” and were accounted for using principles similar to service contracts.

Following the major US accounting scandals of the early 2000s such as WorldCom, Enron, and Arthur Andersen, off-balance sheet liabilities became a major focal point for the regulatory agencies that govern the capital markets in various countries around the world. Regulators were concerned that without corporations reporting leases on balance sheets, investors and analysts did not have sufficient information to evaluate the financial position of a company or easily make comparisons between peers in the same industry.

In an effort to provide greater transparency, the IASB, which defines standards for international financial reporting, introduced a new set of lease accounting standards. IFRS 16 was first published in January 2016 and will supersede the current lease accounting standard IAS 17.

IFRS 16 eliminates the operating leases classification. Instead, all leases will be treated as finance leases. The IFRS 16 standard was published in conjunction with the updated US GAAP lease accounting standard, ASC 842, though the standards differ on several key points, including that ASC 842 maintains the dual classification of leases as operating and finance. The IFRS 16 standard still allows short-term (less than or equal to 12 months) and low-value (less than or equal to \$5000) leases to still be reported in the footnotes.

Additional information on IFRS 16 is available on <https://www.ifrs.org/projects/2016/ifrs-16-leases/>.

## WHO WILL BE MOST IMPACTED BY THE NEW LEASE ACCOUNTING STANDARDS?

LeaseAccelerator ranked the operating lease obligations of the CAC as of December 2018. The operating lease obligation data was sourced from each company's latest annual report (posted on the investor relations page of the company's corporate website). The numbers have been rounded up to the nearest ten thousand for presentation purposes. Numbers reported in a currency other than the Euro were converted. No other manipulations of the data have been performed.

Operating lease obligations are comprised of two principle categories:

1. Real Estate – most companies lease rather than own the office buildings, distribution centres, retail stores, research labs, manufacturing plants, and data centres used to run their operations.
2. Equipment – companies also lease technology assets such as computers, servers, and data centre equipment to support their IT initiatives as well as transportation assets like forklifts, trucks, railway carriages, and marine vessels to move goods through the supply chain.

For most companies, the monetary value of the real estate portion of the lease portfolio is higher than the equipment portion. However, corporations tend to have a far greater number of equipment assets than real estate assets, complicating administration and accounting efforts.

LeaseAccelerator's analysis of the CAC 40 index companies found that LVMH, Orange, Total, Kering, and Carrefour have the highest operating lease obligations. However, we were not able to obtain leasing data for some of the largest companies on the index including Peugeot, AXA, BNP Paribas, and Societe Generale.

The CAC 40 components include companies from a diverse range of industries.

- Consumer brands such as LVMH, L'Oreal, Hermes, and Danone typically lease material handling and transportation equipment to move raw materials, component parts, and finished goods to and from supplier, distributor, and retailer locations. They also lease information technology assets and real estate assets to support sales, marketing, finance, and customer service operations.
- Retailers such as Carrefour and Kering typically lease a large footprint of real estate for their stores and distribution centres as well as IT assets such as servers, storage, and data centre equipment to support their e-commerce operations.
- Financial Institutions such as AXA, BNP Paribas, Societe Generale, and Credit Agricole typically lease a large footprint of real estate, including bank branches and office buildings, as well as technology assets such as servers, storage, and data centre equipment to support online banking and electronic trading operations.

COMPANIES RANKED BY OPERATING LEASE OBLIGATIONS			
Rank	Company	Industry	Operating Leases (M)
1	LVMH	Personal & Household Goods	€11,444
2	Orange	Telecommunications	€6,047
3	Total	Oil & Gas	€5,655
4	Kering	Retail	€3,880
5	Carrefour	Retail	€3,712
6	Engie	Utilities	€3,463
7	Saint-Gobain	Construction & Materials	€3,209
8	L'Oreal	Personal & Household Goods	€2,385
9	Publicis	Media	€1,982
10	Veolia	Utilities	€1,635
11	Vivendi	Media	€1,511
12	Essilor Intl	Health Care	€1,501
13	Sanofi	Health Care	€1,452
14	Atos	Technology	€1,387
15	Vinci	Construction & Materials	€1,237
16	Bouygues	Construction & Materials	€1,223
17	Air Liquide	Chemicals	€1,178
18	ArcelorMittal	Basic Resources	€1,155
19	Airbus	Industrial Goods & Services	€1,025
20	Hermes Intl	Personal & Household Goods	€997
21	Michelin	Automobiles & Parts	€783
22	Danone	Food & Beverage	€748
23	Sodexo	Travel & Leisure	€662
24	Schneider Electric	Industrial Goods & Services	€596
25	Renault	Automobiles & Parts	€546
26	Dassault Systems	Technology	€502
27	Accor	Travel & Leisure	€369
28	Pernod Ricard	Food & Beverage	€368
29	Valeo	Automobiles & Parts	€347
30	Safran	Industrial Goods & Services	€317
31	TechnipFMC	Oil and Gas	€315
32	Legrand	Industrial Goods & Services	€245
33	STMicroelectronics	Technology	€199
	AXA	Insurance	Data Not Available
	BNP Paribas	Banks	Data Not Available
	Capgemini	Technology	Data Not Available
	Credit Agricole	Banks	Data Not Available
	PSA Peugeot Citroen	Automobiles & Parts	Data Not Available
	Societe Generale	Banks	Data Not Available
	Unibail-Rodamco-Westfield	Real Estate	Data Not Available