

March 2019

AASB 16 – Lease Accounting



**A Ranking of
the Leasing Obligations
of the ASX 100**

BACKGROUND AND HISTORY OF IFRS 16

On 1 January 2019 companies began 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 US\$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. Australian organisations reporting under AASB will now report under the Australian standard AASB 16, which supersedes AASB 117. This Standard is applicable to Australian organisations with annual reporting periods beginning on or after 1 January 2019.

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 be reported in the footnotes.

Additional information on IFRS 16 is available on <https://www.ifrs.org/projects/2016/ifrs-16-leases/>. For more information about AASB 16 visit https://www.aasb.gov.au/admin/file/content105/c9/AASB16_02-16.pdf.

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Assets	✈️ 🏛️	---	✈️ ✈️ 🚗 🚌 🏛️ 🏛️ 🏛️
Liabilities	\$\$	---	\$\$\$\$\$\$\$\$
Off balance sheet rights / obligations	---	<div style="border: 1px solid green; padding: 5px; display: inline-block;"> 🚗 🚌 ✈️ 🏛️ 🏛️ \$\$\$\$\$\$ </div>	---

Source: International Accounting Standards Board - IFRS 16 Effects Analysis

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

LeaseAccelerator ranked the operating lease obligations of the ASX 100 as of February 2019. It sourced the operating lease obligations data from each company's latest annual report (posted on the investor relations page of the company's corporate website) as of February 2019. The numbers have been rounded up to the nearest ten thousand for presentation purposes. Numbers reported in a currency other than the Australian dollar 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 ASX 100 index companies found that Woolworths, Wesfarmers, Ramsay Health Care, Commonwealth Bank, and Telstra have the highest operating lease obligations. The highest leasing obligations are concentrated among companies from the retail, healthcare, telecommunications, mining and financial services sectors.

- Retailers such as Woolworths, Wesfarmers, JB Hi-Fi, and Flight Centre 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. (Note: We were not able to obtain data for Coles.)
- Healthcare companies such as Ramsay Health Care, Sonic Healthcare, and Healthscope typically lease medical equipment, office buildings, laboratories, medical centres and hospitals.
- Telecommunications firms such as Telstra lease a mix of real estate and equipment assets including mobile phone towers, data centre properties, fibre optic circuits, and networking equipment.
- Mining companies such as BHP, RIO Tinto, and Woodside Petroleum typically lease excavating, exploration, grinding, and crushing equipment as well as feeders, loaders, conveyors, trucks, rail cars and marine vessels.
- Financial institutions such as Commonwealth Bank, National Australia Bank, and AMP 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. (Note: We were not able to obtain data for ANZ Banking Group or Westpac).

COMPANIES RANKED BY OPERATING LEASE OBLIGATIONS			
Rank	Company	Industry	Operating Leases (AUD MM)
1	Woolworths Group Ltd	Retail	\$22,904.00
2	Wesfarmers Ltd	Retail	\$18,373.00
3	Ramsay Health Care	Healthcare	\$4,756.77
4	Commonwealth Bank	Banking	\$4,356.00
5	Telstra Corporation	Telecommunications	\$4,124.00
6	National Australia Bank	Banking	\$2,998.00
7	Qantas Airways	Transportation	\$2,058.00
8	BHP Group Ltd	Mining	\$2,012.00
9	Insurance Australia Group	Insurance	\$2,008.00
10	RIO Tinto Ltd	Mining	\$1,845.00
11	Woodside Petroleum	Mining	\$1,678.00
12	AMP Ltd	Financial Services	\$1,311.00
13	Caltex Australia	Energy	\$1,158.98
14	Sonic Healthcare	Healthcare	\$1,103.09
15	Cimic Group Ltd	Infrastructure	\$1,066.90
16	Treasury Wine Estate	Food & Beverage	\$850.00
17	Macquarie Group Ltd	Financial Services	\$833.00
18	Suncorp Group Ltd	Financial Services	\$808.00
19	Amcor Ltd	Packaging	\$786.09
20	CSL Ltd	Pharmaceuticals & Biotechnology	\$773.50
21	JB Hi-Fi Ltd	Retail	\$684.40
22	Flight Centre Travel	Retail	\$634.20
23	Lendlease Group	Real Estate	\$621.60
24	Downer Edi Ltd	Infrastructure	\$610.70
25	Coca-Cola Amatil	Food & Beverage	\$601.40
26	QUBE Holdings Ltd	Infrastructure	\$590.40
27	Brambles Ltd	Manufacturing	\$582.60
28	Bluescope Steel Ltd	Metals and Mining	\$511.90
29	Healthscope Ltd	Healthcare	\$503.20
30	Orora Ltd	Manufacturing	\$470.20
31	CYBG Plc	Banking	\$450.56
32	WorleyParsons Ltd	Engineering	\$406.90
33	Origin Energy	Energy	\$398.00
34	Boral Ltd	Construction Materials	\$385.40
35	Santos Ltd	Energy	\$381.50
36	Link Group	Financial Services	\$352.60
37	Tabcorp Holdings Ltd	Gaming and Entertainment	\$352.20
38	Aristocrat Leisure	Gaming and Entertainment	\$327.50
39	Aurizon Holdings Ltd	Transportation	\$321.80

Rank	Company	Industry	Operating Leases (AUD MM)
40	Bendigo and Adelaide	Banking	\$314.50
41	Oil Search Ltd	Energy	\$290.40
42	Whitehaven Coal	Mining	\$245.90
43	Incitec Pivot	Chemicals Manufacturing	\$241.50
44	Domino PIZZA	Food & Beverage	\$237.40
45	SOUTH32 Ltd	Mining	\$236.50
46	Janus Henderson	Financial Services	\$228.90
47	Cleanaway Waste Ltd	Waste Management	\$219.50
48	Medibank Private Ltd	Banking	\$203.40
49	Bank of Queensland	Banking	\$200.00
50	Computershare Ltd	Financial Services	\$197.90
51	Nine Entertainment	Entertainment	\$179.81
52	AGL Energy Ltd	Energy	\$176.00
53	Cochlear Ltd	Healthcare	\$171.80
54	Transurban Group	Infrastructure	\$151.00
55	Adelaide Brighton	Construction Materials	\$148.70
56	Als Ltd	Pharmaceuticals & Biotechnology	\$138.10
57	The Star Ent Group	Gaming and Entertainment	\$136.40
58	TPG Telecom Ltd	Telecommunications	\$136.30
59	Xero Ltd	Financial Services	\$123.50
60	Orica Ltd	Explosives Manufacturing	\$111.60
61	IIOF Holdings Ltd	Financial Services	\$106.90
62	Reliance Worldwide	Construction Materials	\$99.80
63	James Hardie	Construction Materials	\$93.76
64	Ausnet Services Ltd	Energy	\$92.40
65	Newcrest Mining	Mining	\$84.00
66	Resmed Inc	Healthcare	\$80.80
67	Challenger Ltd	Financial Services	\$76.20
68	APA Group	Energy	\$72.50
69	ASX Ltd	Financial Services	\$71.20
70	Mirvac Group	Real Estate	\$65.00
71	Seek Ltd	Recruitment	\$64.20
72	Fortescue Metals Group	Mining	\$61.94
73	Ansell Ltd	Manufacturing	\$61.70
74	Pendal Group Ltd	Financial Services	\$52.80
75	Goodman Group	Real Estate	\$51.90
76	Stockland	Real Estate	\$48.00
77	Carsales.com Ltd	Retail	\$43.70
78	Northern Star Resources Ltd	Mining	\$35.80
79	Crown Resorts Ltd	Gaming and Entertainment	\$33.40

Rank	Company	Industry	Operating Leases (AUD MM)
80	Dulux Group Ltd	Construction Materials	\$30.99
81	Vicinity Centres	Real Estate	\$27.30
82	GPT Group	Real Estate	\$26.90
83	REA Group	Real Estate	\$25.70
84	Magellan Financial Group Ltd	Financial Services	\$25.20
85	Evolution Mining Ltd	Mining	\$25.08
86	Charter Hall Group	Financial Services	\$21.50
87	Iluka Resources	Metals and Mining	\$19.70
88	The a2 Milk Company	Food & Beverage	\$5.80
89	Spark Infrastructure	Infrastructure	Not material
90	Westpac Banking Corp	Banking	DNA
91	ANZ Banking Group Ltd	Banking	DNA
92	Scentre Group	Retail	DNA
93	Coles Group	Retail	DNA
94	Sydney Airport	Infrastructure	DNA
95	QBE Insurance Group	Insurance	DNA
96	Dexus	Real Estate	DNA
97	Alumina Ltd	Mining	DNA
98	Atlas Arteria	Infrastructure	DNA
99	Unibail Rodamco Westfield	Retail	DNA
100	OZ Minerals	Mining	DNA

About LeaseAccelerator

LeaseAccelerator offers the market-leading Software-as-a-Service (SaaS) solution for Enterprise Lease Accounting, enabling compliance with the current and new AASB 16 and IFRS 16 standards. Using LeaseAccelerator's proprietary Global Lease Accounting Engine, customers can apply the new standards to all types of leases including real estate, fleet, IT, and other equipment at an asset-level as required by AASB and IASB. On average, LeaseAccelerator's Sourcing and Management applications generate savings of 17 percent with smarter procurement and end-of-term management.

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