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IFRS 16 ADOPTION IN GERMANY



**A Ranking of
the Leasing Obligations
of DAX Companies**

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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 DAX, Germany's best-known blue-chip index managed by Deutsche Borse, 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 DAX index companies found that Deutsche Telekom, Deutsche Post, Fresenius, Deutsche Bank, and Fresenius Medical Care have the highest operating lease obligations. The DAX only tracks 30 companies with the greatest concentrations in three sectors: 1) industrial manufacturing, 2) financial services, and 3) consumer and pharmaceutical products.

- Industrial manufacturers such as Daimler, BMW, BASF, and Continental often lease transportation assets such as trucks, railway carriages, and marine vessels to transport raw materials, component parts, and finished goods throughout the supply chain. They also lease material handling equipment such as forklifts, pallet jacks, and conveyors, as well as technology assets such as servers, storage, and data centre equipment.
- Financial Institutions such as Deutsche Bank and Allianz 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.
- Consumer and pharmaceutical manufacturers such as Adidas, Bayer, Merck, and Henkel 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.

COMPANIES RANKED BY OPERATING LEASE OBLIGATIONS			
Rank	Company	Industry	Operating Leases (M)
1	Deutsche Telekom	Communications	€15,132
2	Deutsche Post	Logistics	€11,298
3	Fresenius	Health Care	€5,525
4	Deutsche Bank	Financial Services	€4,564
5	Fresenius Medical Care	Health Care	€4,505
6	Daimler	Automotive	€3,009
7	Allianz	Insurance	€2,977
8	Adidas	Apparel and Footwear	€2,649
9	Deutsche Lufthansa	Airlines	€2,547
10	BMW	Automotive	€2,474
11	RWE	Energy	€2,211
12	SAP	Software	€1,459
13	BASF	Chemicals	€1,410
14	Continental	Manufacturing	€1,394
15	HeidelbergCement	Building	€1,332
16	E.ON	Energy	€856
17	Bayer	Pharmaceuticals, Chemicals	€801
18	Merck	Pharmaceuticals	€530
19	Vonovia	Real Estate	€485
20	Linde	Industrial Gases	€485
21	Covestro	Chemicals	€424
22	Munich Re	Insurance	€409
23	Henkel	Consumer Goods, Chemicals	€394
24	ThyssenKrupp	Industrial, Manufacturing	€340
25	Deutsche Borse	Securities	€324
26	Infineon Technologies	Semiconductors	€301
27	Beiersdorf	Consumer Goods, Chemicals	€80
28	Wirecard	Financial Technology	€5
29	Siemens	Industrial, Electronics	Data Not Available
30	Volkswagen Group	Automotive	Data Not Available