

December 2018

IFRS 16 ADOPTION IN CANADA



**A RANKING OF THE
LEASING OBLIGATIONS
OF S&P/TSX 60 INDEX
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 sheet, 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 lease accounting standard, IAS 17, starting in January 2019.

IFRS 16 eliminates the operating lease 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 of financial statements.

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 companies listed on the S&P/TSX 60 Index, as of December 2018. The S&P/TSX 60 is a stock market index of 60 large companies listed on the Toronto Stock Exchange and managed by the Canadian S&P Index Committee. The operating lease obligation data was sourced from each company’s latest annual report and/or financial statements. The numbers are presented in millions of Canadian dollars for presentation purposes. Numbers reported in a currency other than the Canadian Dollar were converted. No other manipulations of the data have been performed.

Operating lease obligations are comprised of two principal 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, railcars, 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 S&P/TSX 60 Index companies found that Brookfield Asset Management, Loblaw Companies, the Toronto-Dominion Bank, and the Royal Bank of Canada have the highest operating lease obligations. The S&P/TSX 60 tracks 60 companies with the highest concentrations in sectors such as financial services, retail, and energy.

- Financial institutions such as Brookfield Asset Management and the Toronto Dominion Bank 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.
- Retailers such as Loblaw Companies, Alimentation Couche-Tard, Canadian Tire Corporation Limited, and Restaurant Brands International typically lease a large footprint of real estate to support their stores and distribution centres as well as IT assets, such as servers, storage, and data centre equipment to support their e-commerce operations.
- Energy companies such as Cenovus, Suncor, Husky, and Enbridge typically lease a diverse range of assets including drilling equipment, tankers, terminals, pipelines, storage tanks, railway freight carriages, and retail stores.

COMPANIES RANKED BY OPERATING LEASE OBLIGATIONS			
Rank	Company	Industry	Operating Leases (C\$M)
1	Brookfield Asset Management Inc.	Financials	\$13,404
2	Loblaw Companies Limited	Consumer Staples	\$9,987
3	The Toronto-Dominion Bank	Financials	\$7,267
4	Royal Bank of Canada	Financials	\$5,810
5	Canadian Imperial Bank Of Commerce	Financials	\$5,760
6	George Weston Limited	Consumer Staples	\$4,826
7	Cenovus Energy Inc.	Energy	\$4,726
8	Alimentation Couche-Tard Inc.	Consumer Staples	\$3,298
9	Bank of Montreal	Financials	\$2,742
10	Magna International Inc.	Consumer Discretionary	\$2,712
11	The Bank of Nova Scotia	Financials	\$2,496
12	Canadian Tire Corporation Limited	Consumer Discretionary	\$2,493
13	Suncor Energy Inc.	Energy	\$2,457
14	Restaurant Brands International Inc.	Consumer Discretionary	\$2,207
15	Husky Energy Inc.	Energy	\$1,923
16	TELUS Corporation	Telecommunications Services	\$1,776
17	Enbridge Inc.	Energy	\$1,730
18	BCE Inc.	Telecommunications Services	\$1,612
19	Nutrien Ltd.	Materials	\$1,482
20	National Bank of Canada	Financials	\$1,382
21	Power Corporation of Canada	Financials	\$1,359
22	Metro Inc.	Consumer Staples	\$1,300
23	Bombardier Inc.	Industrials	\$1,193
24	Sun Life Financial Inc.	Financials	\$1,056
25	Rogers Communications Inc.	Telecommunications Services	\$979

COMPANIES RANKED BY OPERATING LEASE OBLIGATIONS			
Rank	Company	Industry	Operating Leases (C\$M)
26	SNC-Lavalin Group Inc.	Industrials	\$840
27	Pembina Pipeline Corporation	Energy	\$796
28	Shopify Inc.	Information Technology	\$776
29	TC Energy Corporation	Energy	\$729
30	CGI Inc.	Information Technology	\$706
31	Canadian National Railway Company	Industrials	\$663
32	Manulife Financial Corporation	Financials	\$575
33	Bausch Health Companies Inc.	Health Care	\$571
34	Canadian Natural Resources Limited	Energy	\$525
35	Open Text Corporation	Information Technology	\$519
36	Canadian Pacific Railway Limited	Industrials	\$485
37	Thomson Reuters Corporation	Consumer Discretionary	\$448
38	Teck Resources Limited	Materials	\$439
39	Gildan Activewear Inc.	Consumer Discretionary	\$435
40	Constellation Software Inc.	Information Technology	\$374
41	Waste Connections Inc.	Industrials	\$352
42	Inter Pipeline Ltd.	Energy	\$307
43	Imperial Oil Limited	Energy	\$291
44	BlackBerry Limited	Information Technology	\$265
45	Barrick Gold Corporation	Materials	\$228
46	CCL Industries Inc.	Materials	\$205
47	Emera Incorporated	Utilities	\$134
48	Agnico Eagle Mines Limited	Materials	\$126
49	Kinross Gold Corporation	Materials	\$96
50	First Quantum Minerals Ltd.	Materials	\$87
51	Fortis Inc.	Utilities	\$51
52	Wheaton Precious Metals Corp.	Materials	\$5
53	Franco-Nevada Corporation	Materials	\$4
n/a	Brookfield Infrastructure Partners L.P.	Financials	n/a
n/a	Cameco Corporation	Energy	n/a
n/a	Dollarama Inc.	Consumer Discretionary	n/a
n/a	Encana Corporation	Energy	n/a
n/a	Saputo Inc.	Consumer Staples	n/a
n/a	Shaw Communications Inc.	Telecommunication Services	n/a
n/a	Canopy Growth Corporation	Health Care	n/a



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