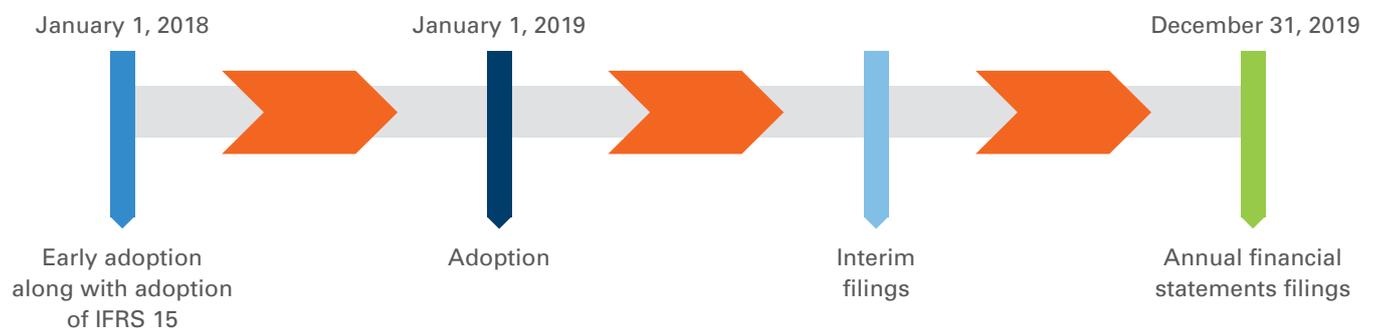


In January 2016, the International Accounting Standards Board (IASB) issued IFRS 16, 'Leases', starting a new era of lease accounting. Under the previous guidance in IAS 17, 'Leases', a lessee had to make a distinction between a finance lease (on the statement of financial position) and an operating lease (off the statement of financial position). The new standard requires the lessee to recognize almost all lease contracts on the statement of financial position; the only optional exemptions are for certain short-term leases and leases of low-value assets. The new IFRS 16 is effective for periods beginning January 1, 2019.



SCOPE OF IFRS 16

IFRS 16 will apply to all *lease contracts* except for:

- Leases to explore for or use minerals, oil, natural gas and similar resources.
- Leases of certain biological assets held by lessees.
- Service concession arrangements within the scope of IFRIC 12, Service Concession Arrangements.
- Licenses of certain intellectual property granted by a lessor.
- Rights held by lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

A lessee may choose to apply IFRS 16 to leases of intangible assets other than those mentioned above.

Application of this standard will require a detailed analysis of pertinent agreements, facts and circumstances along with the appropriate knowledge and expertise on interpreting the standard.

KEY ELEMENTS

- Identification of Lease i.e. what constitutes a lease.
- Right of a customer including right to direct the use of asset/right to economic benefits.
- Assessment of lease contracts for separating lease and non-lease components.
- Assessment of lease term.
- Recognition and measurement exemptions, and available practical expedients.
- Initial recognition of right-of-use asset and related lease liability.
- Major differences between IAS 17 and IFRS 16 regarding sale and leaseback transactions.

HOW SRCO CAN ASSIST WITH YOUR TRANSITION TO IFRS 16

SRCO has developed a diagnostic tool to assist companies with the adoption of these new and complex accounting standards. We work with our clients in a collaborative manner for adoption of new standards as described below:

Phase I: Gap analysis involves identification of differences between existing (IAS 17) and new lease standards, and assessing the impact on operational and IT processes.

Phase II: Solution development involves developing work programs, setting milestones, communicating project plan, drafting white papers, preparing financial statements, completing disclosure checklist, developing IT solutions and presenting to the Audit Committee, Board of Directors and finally coordinating regular and timely review by internal and external auditors.

Phase III: Implementation Procedures and Guidelines involves accounting policies, processes and procedures documentation, IT solutions implementation, downstream business impacts assessment, financial statement closing process modification, detailed technical review, stakeholders reporting revision and finally education and orientation.

Phase IV: Post Implementation Review includes compliance with policies, procedures and disclosure requirements, and alignment of subsidiaries, associates and joint ventures to holding company's accounting policies and disclosures.

SRCO provides regular reports on the project and change management throughout the various phases including regular meetings with various stakeholders and regular updates to senior management and the Audit Committee.

OUR EXPERIENCE

- SRCO specializes in assisting businesses with the implementation of the newly issued IFRS
- We have experience in assisting with the implementation of IFRS 16 for over 20 private and public companies in Saudi Arabia and Canada
- Our industry experience in Saudi Arabia and Canada includes financial institutions like commercial and merchant banks, investment companies, and non-banking financial corporations and entities involved in construction, retail and manufacturing.
- Our IFRS lead partner, Sameer Parekh, is an acknowledged expert on the implementation of IFRS 16, having assisted many entities in Saudi and Canada with IFRS 16 implementation

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