FleetLogistics
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Fleet Vision offers support on IFRS16 implementation

Fleet Vision, the consultancy arm within the Fleet Logistics Group, is offering detailed advice, analysis and assessment in the run-up to the introduction of the new lease accounting standard, IFRS16, which becomes mandatory from next January.

The new standard takes effect from 1, January 2019, but as with any other change to accounting standards, companies will need to ensure that they produce a set of comparative accounts for 2018.

The new standard is intended to bring all leased assets onto the balance sheet, giving a more complete picture of a business's financial commitments.

This new approach to lease accounting, called the 'right of use' model, differs substantially from the current standard, which does not require operating leases to be reported in company accounts.

Under the new model, a lessee, or leasing customer, identifies the right to use a leased asset on their balance sheet and incurs a corresponding liability for future rental payments.

However, short term hire vehicles, informal vehicle extensions and ancillary leasing services, such as service and maintenance, do not have to be reported. The new standard also gives fleet operators the option to report leases on a portfolio level rather than individually.

The International Accounting Standards Board (IASB) has said that the new standard "will provide much-needed transparency on companies' lease assets and liabilities, meaning that off balance sheet lease financing is no longer lurking in the shadows. It will also improve comparability between companies that lease and those that borrow to buy".

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The new standard applies to any companies and public sector organisations that report to International Financial Reporting Standards (IFRS).

To help companies make the right decisions going forward, FleetVision is offering three levels of analysis and assessment around the new lease accounting standard.

The first is a readiness check and comprises an audit of the global fleet to ensure that consolidation of IFRS reporting from all supplying leasing companies is in place and is set to occur on a regular basis.

For companies with material off-balance sheet assets, the new standard could affect key accounting and financial ratios, and, as a result, debt covenants may be affected and may need to be renegotiated.

The new standard affects major commonly used financial metrics, such as the gearing ratio, current ratio, asset turnover, interest cover, EBIT, operating profit, net income, EPS, ROCE, ROE and operating cash flows.

These impacts may also lead organisations to reassess 'lease versus buy' decisions going forward to evaluate whether leasing rather than buying their vehicles remains the best option. Many companies may still want to continue to lease their vehicles as the majority of the existing benefits from leasing will remain.

Leasing allows companies to benefit from spreading a fixed cost over the lease term, provides 50% VAT recovery on the financing of company cars, offers protection against fluctuations in residual values and provides the opportunity to fully outsource fleet operations and services.

FleetVision can also look at the case for different types of funding and will perform a lease versus buy assessment in any set of countries, based on the business's weighted average cost of capital (WACC) or borrowing rate, and using its extensive and highly detailed market data.

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As IFRS16 eliminates the distinction between operating and finance leases for leasing companies' customers, this may lead the leasing industry to produce new products, such as short term leases, that retain the existing benefits of operating leases.

Under the new lease accounting standard, short term leases for a year or less with no renewal option would still qualify for off-balance sheet accounting treatment.

For those businesses sensitive to the changes affecting longer term leases, such shorter term contracts could become more appealing, especially on job-need fleets where vehicle choice is not such an issue.

Given this scenario, FleetVision will assess the full case for change, looking at all options available and assessing the decisions necessary to change the types of funding methods being used across a global fleet operating in many different countries.

This will include not only the timeline for change, but also a comparison of a number of scenarios from a gradual transition under the new rules to more extreme measures such as a complete sale and leaseback of the fleet.

FleetVision will also examine the case for moving from a leased fleet to a purchased fleet, as well as designing the most effective end-to-end inhouse or outsourced fleet management system, identifying and contracting all in-life service providers, executing supplier tenders and assessing all the day-to-day interfacing, invoicing and authorizations which would need to go with any new approach.

Thibault Alleyn, Director of Fleet and Mobility Consultancy at FleetVision, said: "The new lease accounting standard will have different implications for different companies depending on a variety of factors such as size, profitability, attitude to risk and ownership of assets and a host of other issues.

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"The best advice currently is to consult as early as possible with your fleet management provider or fleet consultant to decide on the most appropriate course of action for your business going forward in the light of the new lease accounting rules. "

If you require any further information or advice on the above, please contact Thibault Alleyn on mobile: +32 475 705 755 or email talleyn@fleetvision.biz

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