COMMUNIQUÉ

IFRS 16 – IMPACT ASSESSMENT AT TRANSITION DATE 31 DECEMBER 2018 – 1 JANUARY 2019

The new international financial reporting standard IFRS 16 Leases, published by the International Accounting Standards Board (IASB) in January 2016, replacing IAS 17 Leases, is applicable from 1 January 2019 in Luxembourg for all credit institutions in their prudential reporting FINREP/COREP and for those publishing their accounts under IFRS.

IFRS 16 brings significant changes in accounting rules for lessees, whereas the accounting rules for lessors remain largely unchanged from IAS 17. The main change introduced by IFRS 16 consists in requiring lessees to recognise operating leases on the balance sheet as a right-of-use asset (lessee’s right to use the underlying asset for the lease term) and a corresponding lease liability (obligation to make lease payments). This modification in accounting will impact the regulatory capital ratios, as the right-of-use assets for tangible assets are to be included at a 100% weight within the risk-weighted assets.

In order to assess the impact of IFRS 16 on credit institutions’ regulatory capital ratios, the CSSF conducted a survey as at transition date (31 December 2018 / 1 January 2019). The study covered 79 Luxembourg law banks and related to lease contracts on property, plant and equipment (IAS 16).

At transition date to IFRS 16, on 1 January 2019, the total right-of-use assets related to lease contracts whose underlying is property, plant and equipment amounted to 849 mio EUR and corresponded to 0.50% of the risk-weighted assets; consequently the global solvency ratio decreased by 14 bps\(^1\).

It has been found that about 80% of the banks are lessees of immovable property.

Should you have any question, please send it to the following two email recipients: Ms Marguy Mehling (marguy.mehling@cssf.lu) and Mr Michel Mendes (michel.mendes@cssf.lu).

Luxembourg, 2 August 2019

\(^1\) The decrease of 14 bps represents the difference between the global solvency ratio of the 79 banks included in the study as at 31 December 2018 and as at 1 January 2019. The solvency ratio at both dates is calculated at an aggregate level for the 79 banks as follows: the sum of regulatory own funds divided by the sum of risk-weighted assets.