

The New Accounting for Operating Leases: Unintended Consequences in the Airline Industry

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By 2020, new accounting rules for operating leases were applicable to publicly traded companies reporting under either the US Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). The accounting authorities under both standards noted that the new rules were developed to increase the transparency of lease transactions to provide more relevant and comparable information. We compare two Brazilian airlines reporting under IFRS, Azul and Gol, with an operationally similar US airline reporting under US GAAP, JetBlue, to determine whether the new standards improve the ability to understand, evaluate, and compare performance, managerial decision making and credit metrics. We conclude that unintended consequences of the new rules have in some areas hindered rather than enhanced the comparability and transparency. Based on our analysis, we recommend two changes that would enhance comparability and transparency in the airline industry as well as other industries with heavy reliance on operating leases.

Keywords: operating lease, airline, ASC 842, IFRS 16

SYNOPSIS AND CONTRIBUTION TO PRACTICE

By 2020, new accounting rules for operating leases were applicable to publicly traded companies reporting under either the US Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). The US rules, US GAAP ASC 842, move operating leases onto the balance sheet as right of use assets and corresponding liabilities. This followed changes to lease accounting initiated by the International Accounting Standards Board (IASB), IFRS 16. The accounting authorities under both standards noted that new rules were developed to increase the transparency of lease transactions to provide more relevant and comparable information (Peters & Ciesielski, 2019).

Soon after these changes became effective, the airline industry was confronted with the Covid 19 pandemic and forced to swiftly make strategic decisions related to operations, fleet, and financing. We compare two Brazilian airlines reporting under IFRS with an operationally similar US airline reporting

under US GAAP to consider whether the new standards improve the ability to understand, evaluate, and compare performance. After examining the financial statements of Azul Linhas Aéreas Brasileiras S.A (Azul), GOL Linhas Aéreas Inteligentes S.A (Gol), and JetBlue Airways (JetBlue), we conclude that unintended consequences of the new rules have hindered rather than enhanced the comparability and transparency of the airlines' financial statements. Based on our analysis, we recommend two changes that would assist in comparability and transparency. To aid in comparability across global airlines, GAAP and IFRS should be brought into closer alignment by allowing both operating and financial leases. To provide greater transparency in decision-making for fleet changes, the theoretical incremental borrowing rate (IBR) could be replaced with a rate more directly relevant to a company's borrowing cost by using the borrowing rate at the issuance of corporate bonds. While this study focuses on airlines, the underlying issues apply to all industries that rely heavily on operating leases.

CASE STUDY: AIRLINE INDUSTRY

In early 2020, the Covid 19 pandemic forced airline executives to rapidly make operating and investment decisions under uncertain conditions. Airlines are capital-intensive, relying on the continued operation of airplane flights along established route networks that serve passengers to generate revenue and cash flow. Scientific uncertainty regarding the transmissibility of the Covid-19 virus, coupled with the social fear of congregating in enclosed spaces as well as government-mandated shutdowns, caused airlines to cancel flights at unprecedented rates. In April 2020, two-thirds of the world's passenger jets were grounded, with commercial services suddenly falling to a 26 year low. Airlines faced a cash flow crisis and needed to make fleet decisions despite massive uncertainty about when and if things would return to "normal."

This case study examines whether the 2020 financial statements developed under the new accounting for leases did indeed improve comparability and facilitate analysis of performance, executive decision-making, and creditworthiness at three airlines during 2020: Azul, Gol, and JetBlue. Azul and Gol are both Brazilian airlines reporting under IFRS, while JetBlue has an operating model similar to Azul and reports under US GAAP.

Context: How the Airline Industry Operates

The airline industry is global, cyclical and highly regulated. It is capital-and energy-intensive with high fixed costs, taxation, and fees. Profit margins are low for many airlines. Revenues derive primarily from business and leisure travel and freight traffic and may also include income from sales of inflight items and fees. Key managerial decisions include selection of operating routes, ticket pricing, ancillary revenue streams, fleet access, financing, and hedging decisions related to fuel costs, interest rates, and currency exposure. Pricing is based on sophisticated algorithms that analyze forecasted demand. Major costs include fleet access, personnel-related expenses, and jet fuel costs. Simplifying, airlines make money by selling seats at a spread over the cost of the seat per distance travelled. Revenue per available seat mile (RASM) is operating income divided by available seat miles (ASM). Cost per available seat mile (CASM) is operating expenses divided by available seat miles. Airlines profit from the spread between RASM and CASM. CASM is often used to compare the relative efficiency of different airlines.

ACCOUNTING FOR FLEET DECISIONS

Fleet decisions are among the most critical decisions made by management and are a key driver of CASM. Airlines typically obtain aircraft through secured loans, finance leases, and operating leases. Management considers fleet decisions strategic in nature because an aircraft type or size may be optimized for a chosen route, maintenance may impact potential utility, and negotiated prices of aircraft can become an operational advantage in a highly competitive industry.

If an airline buys a plane and finances the purchase with a secured loan or finance lease the asset is shown on the balance sheet as "Property, Plant and Equipment" and is depreciated over time. Depreciation

and finance costs (interest expense) are both expenses but only depreciation is included in operating expenses. The treatment under US GAAP and IFRS is similar.

Alternatively, an airline may access the use of an airplane through an operating lease. Historically, under both US GAAP and IFRS, the operating lease expense appeared on the income statement as an operating expense but there was no impact on the balance sheet.

Under both standards, almost all leases will now be reflected on the balance sheet. The most significant difference is that, under IFRS 16, there is a single lease accounting model; all leases are accounted for as financial leases. US GAAP allows for operating leases that are now on the balance sheet and are labelled as a “right of use” asset representing the lessee’s right to use the asset for the lease term and a corresponding liability. The entire operating lease expense is included in operating expenses. Finance lease expense is allocated across interest expense and depreciation. As a result, the income statement and cash flow statements of firms reporting under the different standards will not be directly comparable nor will key ratios and metrics such as operating profit margins, earnings before interest and taxes (EBIT) and credit metrics based on debt (PWC, 2016, 2022).

Key to lease accounting is measurement of lease liability, which is the present value of future lease payments. Three factors determine lease liability:

- (1) Lease expense
- (2) Contract length
- (3) Discount rate

Lease liability, equal to the present value of lease payments

- Increases with the amount of the lease expense
- Increases with contract life (more payments)
- Decreases as the discount rate rises

This accounting can lead to unusual outcomes. The first factor, the size of the lease liability, is easy to understand - it makes sense that larger lease payments should lead to a larger lease liability. The second factor, contract length, also makes sense in some contexts, but can be misleading for airlines. Consider a mortgage. It makes sense that more years of mortgage payments should imply a larger liability. For airlines, however, most contracts will be renewed or replaced so the accounting can be confusing rather than helpful.

For simplicity, consider two airlines with one aircraft each. The aircraft type is the same, the monthly rent is identical - \$300,000, but the contracts were signed at different times so Airline 1 has 1 year left in the lease term and Airline 2 has 11 years left. Assuming a 10% discount rate Airline 1 will report a lease liability of \$3.412 million (the present value of 12 payments of \$300,000) while Airline 2 will report a lease liability of \$23.962 million (the present value of 121 payments of \$300,000). Airline 2 appears more far highly leveraged.

In one year, Airline 1 will return the old aircraft, sign a new lease (same terms for simplicity) on a 12 year aircraft with monthly payments of \$300, and record a lease liability of \$25.1 million (the present value of 144 payments of \$300,000). This appears to be an enormous increase in leverage when, in reality, operationally not much has changed.

Prior to the accounting change, operating leases were off balance sheet but many analysts estimated the debt equivalent of a lease using a multiple of 7 or 8 times the annual lease payment. A multiple of 7 would imply an identical lease liability of \$25.2 million for both airlines. The average remaining lease life can vary significantly over time and across airlines. Some airlines rely on shorter leases and therefore will report a far lower liability than those signing longer term contracts even though the monthly payments may be fairly similar.

Next we consider the impact of the discount rate on the lease liability.

Under both IFRS and US GAAP, lease payments must be discounted at:

- The interest rate implicit in the lease (IRIL) if the rate can be readily determined or
- The lessee’s incremental borrowing rate (IBR)

Consider two airlines that value an aircraft at the same amount but have discount rates of 10% and 20% respectively. The interest portion of the lease payment will be higher for the airline with a discount rate of

20% so monthly payments will be higher and profits will reflect this. But the lease liability is the present value of the lease payments and since the discount rates differ the lease liability will be the same for both.

In practice, additional complications surround discount rates. Although both IFRS and FASB allow the adoption of an implicit interest rate for a lease, most aircraft lessors do not explicitly disclose the rate for aircraft lease agreements, which means that IRIL cannot be determined. Therefore, the incremental borrowing rate (IBR) is typically used as the discount rate (FASB, 2022). The IBR is defined as the rate of interest that the lessee would have to pay to borrow on a collateralized basis over a similar term in a similar economic environment. While the IBR is defined, the calculation in practice is very complicated because of the number of leases and lease features that must be considered to determine the appropriate IBR. According to Deloitte, an entity aiming to determine the IBR should gather at least the following data: currency, economic environment, term of the contract, identify the correct reference rate, define credit spread, level of indebtedness, asset type and security (Deloitte, 2022). In practical terms, it is difficult to blend all the data to determine the IBR. The value of the leased asset is not obvious since quotes are not readily available in the market and key players are not interested in sharing such information unless they enter a valid deal. The result is a lot of judgment by accountants and treasury professionals, which leads to diverse outcomes.

The discount rates reported by JetBlue, Azul, and Gol on 12/31/2019 appear below. Note the significant variations across firms and lease types.

The discount rates are weighted average rates across leases and will change over time as existing leases terminate and new leases commence. The IBR of a new lease is determined based on the commencement date of the lease and is only reset if there is a modification of the lease terms or scope not accounted for in a separate contract. When the discount rate is reset, lease liability must be remeasured using the new discount rate. During the reset, the impact on the financial statements might be a similar adjustment to the asset and liability, or it may be that the reduction in the liability is less (greater) than the reduction in the asset, in which case the difference is recorded as a gain(loss).

ANALYZING FLEET DECISIONS MADE IN 2020

As the pandemic unfolded, passenger traffic ground to a halt. Airlines faced a cash flow crisis with uncertainty around when the pandemic would resolve. Solvency risks forced urgent decisions related to staff and fleet to assure financial viability. Fleet management, always among the key strategic considerations for airlines, became perhaps the most prominent decision for most airlines. As the pandemic continued, management teams reassessed the fleet in a search for opportunities to shed underperforming assets, renegotiate leases, or reposition for a post-pandemic future. This often meant attempting to renegotiate lease contracts.

Many countries, including the United States, offered financial rescue packages to airlines. Brazil is one of only a few countries that did not offer direct financial rescue assistance to the industry which includes its three major carriers, LATAM, GOL and Azul. Without government support, Brazilian carriers were forced to swiftly make decisions to survive the pandemic. LATAM declared bankruptcy and filed for Chapter 11 in May 2020. GOL and Azul made fleet changes to adjust operating expenses and cash burn.

The ability to use financial statements to understand and evaluate fleet management decisions is an important component of managerial performance evaluation and is essential for credit analysis and firm valuation. Using information from the annual reports and SEC filings, we analyzed the fleet decisions made by JetBlue, Azul, and Gol. While all leases are considered finance leases under IFRS accounting, airlines still distinguish between operating and finance leases, with the most important distinction relating to the portion of the lease compared to the useful life of the asset and the existence of a purchase option at the end of the lease.

Table 1 provides fleet information for the three airlines at the end of 2019 and again at the end of 2020 using information primarily found in the notes of annual financial statements.

What Can We Learn About Management’s Fleet Decisions From The Information in Table 1?

**TABLE 1
SUMMARY DATA ON LEASES**

Description	jetBlue	Azul	GOL
Pre COVID-19 pandemic - operating fleet - as of 12/31/19			
Fleet average age	10.6 years	5.8 years	9.9 years
Number of aircraft	259	142	130
Owned	82%	4%	-
Right of use:	US\$1,083 million	US\$2,219 million	US\$841 million
Operating lease	US\$912 million	US\$2,205 million	US\$705 million
Finance lease	US\$171 million	-	US\$108 million
Other - operating lease	-	US\$14 million	US\$28 million
Finance and operating lease liabilities	US\$907 million	US\$3,003 million	US\$1,501 million
Operating lease	US\$818 million	US\$2,741 million	US\$1,354 million
Finance lease	US\$89 million	US\$245 million	US\$136 million
Other - operating lease	-	US\$17 million	US\$11 million
Discount rate - operating lease	5.95% p.y.	8.82% p.y.	8.57% p.y.
Discount rate - finance lease	4.78% p.y.	7.28% p.y.	3.72% p.y.
Operating lease average remaining term	9.0 years	7.9 years	5.0 years
Post COVID-19 pandemic - operating fleet - as of 12/31/20			
Fleet average age	11.3 years	6.9 years	11.0 years
Number of aircraft	267	152	127
Owned	75%	3%	-
Right of use:	US\$935 million	US\$1,023 million	US\$511 million
Operating lease	US\$804 million	US\$1,015 million	US\$500 million
Finance lease	US\$131 million	-	-
Other assets - operating lease	-	US\$8 million	US\$11 million
Finance and operating lease liabilities	US\$928 million	US\$2,409 million	US\$1,456 million
Operating lease	US\$865 million	US\$2,244 million	US\$1,447 million
Finance lease	US\$63 million	US\$154 million	-
Other - operating lease	-	US\$11 million	US\$9 million
Discount rate - operating lease	5.99% p.y.	22.19% p.y.	13.11% p.y.
Discount rate - finance lease	4.60% p.y.	13.56% p.y.	12.03% p.y.
Operating lease average remaining term	11.0 years	8.3 years	5.6 years

JETBLUE

At JetBlue, the number of aircraft increased slightly from 259 to 267, while the average fleet age over one year increased from 10.6 to 11.3 years. The value of the fleet declined by \$148 million (\$1,083 to \$935 million), while lease liabilities increased by \$21 million (\$907 to \$928). One might wonder why fleet asset values fall while fleet liabilities rise. A review of the cash flow statement and auditor’s report shows a \$273 million impairment of the Embraer E190 fleet due to COVID-19, which negatively impacted the fleet asset value reported in 2020. On page 55 of the JetBlue 2020 annual report, the auditor’s note “*impairment assessments was highly subjective due to the significant estimation required in determining the fair values of long-lived assets.*”

The impairments recognized by the airlines appear in Table 2.

TABLE 2
IMPAIRMENTS RECOGNIZED AT JETBLUE, AZUL AND GOL

JetBlue – 2020 Annual Report

	Year Ended December 31,		
	2020	2019	2018
Special Items			
CARES Act payroll support grant recognition ⁽¹⁾	\$ (685)	\$ –	\$ –
CARES Act employee retention credit ⁽²⁾	(36)		
Fleet impairment ⁽³⁾	273	–	–
Severance and benefit costs ⁽⁴⁾	59	–	–
Losses on sale-leaseback transactions ⁽⁵⁾	106	–	–
Embraer E190 fleet transition costs ⁽⁶⁾	–	6	362
Union contract costs ⁽⁷⁾	–	8	73
TOTAL	\$ (283)	\$ 14	\$ 435

Gol 2020 Annual Report Note 15.2

Total Net - Property, Plant & Equipment in Use	130,880	(29,985)	(649)	-	100,246
Impairment Losses ⁽²⁾	(41,719)	7,389	-	-	(34,330)
Total	5,901,946	(508,584)	(612,166)	-	4,781,196
Advances to Suppliers ⁽⁴⁾	156,155	96,537	(73,600)	-	179,092
Total Property, Plant & Equipment	6,058,101	(412,047)	(685,766)	-	4,960,288

(1) ROU - Right of Use
(2) Refers to provisions for impairment losses for rotatable items (spare parts), classified under "Parts and spare engines", recorded by the Company in order to present its assets according to the actual capacity for the generation of expected future benefits.
(3) CMA - Maintenance Center - Confins/MG
(4) The write-off refers to PDP return, as mentioned in note 1.3.
(5) Write-off resulting from the sale-leaseback transaction, see Note 18.1.
(6) As of December 31, 2020, the balance of spare parts is granted as a guarantee to Secured Senior Notes 2026, according to note 17.
(7) As of December 31, 2020, 19 engines of the Company are granted as a guarantee to the Spare Engine Facility and the Loan Facility, according to note 17.

61

From the Azul Annual report page F19 (millions reais)

Description	December 31,	
	2020	2019
Provision for impairment of ROU	(706,618)	(1,351,431)
Provision for impairment of aircraft and engines	(211,062)	(171,050)
Provision for impairment of rotables	(225,797)	(509,725)

AZUL

At Azul, the number of aircraft increased from 142 to 152, while the average fleet age over one year increased from 5.8 to 6.9 years. The value of the fleet declined by \$995 million (\$1,882 million to \$887 million) while the lease liabilities fell when stated in US dollars by \$595 million but increased from R\$12,106 to R\$12,521 million reais. Of note, Azul's fleet age is the lowest, whereas its weighted average discount rates are by far the highest.

Azul was able to renegotiate a large portion of its lease contracts, postponing payments and extending contract terms. These modifications triggered remeasurement of lease liability at the then current IBR, which reflected the peak of economic turmoil caused by the pandemic. By adopting a significantly higher hypothetical, IBR, the lease liability fell significantly while the related assets did not change; Should the impact be a reduction in lease liability? Rationally no, but according to the new accounting requirements: yes!

GOL

Unlike JetBlue and Azul, Gol slightly reduced its fleet by three aircraft during 2020 from 130 to 127, while the average fleet age increased from 9.9 to 11 years. The value of the fleet declined by \$331 million (from \$841 million to \$511 million), while the lease liabilities decreased by \$45 million (from \$1,501 million to \$1,456 million).




In contrast, to its local competitor, GOL uses operating leases to acquire its entire fleet. It maintained its lease agreements during the peak of economic turmoil in 2020 so while its IBR increased the impact was minimal compared to Azul.

How Did the Accounting for Leases Impact the Results?

As noted earlier, during the life of a contract, liabilities are remeasured to reflect payments, exchange rates, and interest rate effects, whereas the right to use assets remains at historical rates less depreciation. If a contract is modified, according to IFRS or US GAAP, the discount rate must be reset. The lease liability must be remeasured using the new discount rate. However, economic conditions had changed dramatically in 2020 and the IBR needed to reset to a higher rate to reflect the additional risk. Uncertainty and lack of clear guidelines made estimation challenging and led to volatility in discount rates across airlines especially in countries experiencing high inflation and currency depreciation.

Table 3 illustrates the impact of post pandemic IBR on discount rates and lease liabilities at Azul, Gol, and JetBlue.

**TABLE 3
INTEREST RATE COMPARISON**

	Interest rate			
	Pre pandemic, at adoption IFRS-16 / ASC-842 01/01/19		During pandemic, as of 12/31/20	
	Finance	Operating	Finance	Operating
	4.78% p.y.	5.95% p.y.	5.99% p.y.	4,60% p.y.
	7.28% p.y.	8.82% p.y.	13.56% p.y.	22.19% p.y.
	3.72% p.y.	8.57% p.y.	13.11% p.y.	12.03% p.y.

	Reduction of lease liability			Reduction of Right-of-use (ROU)		
	Lease liability 12/31/19 (*)	Contractual modification during 2020 (*)	Change %	ROU 12/31/19 (*)	Contractual modification during 2020 (*)	Change %
jetBlue	907,000	-	-	1,083,000	-	-
Azul	12,106,621	(5,701,928)	(47.1%)	14,510,701	(4,799,040)	(33.1%)
GOL	6,052,780	221,248	3.7%	4,332,213	176,041	4.1%

The impact of post pandemic IBR on discount rates and lease liabilities.

The largest change in value on a year-over-year basis among the three airlines was at Azul; therefore, we analyze this in more detail. Table 4 copies Note 17 from Azul's 2020 annual report and shows that the contractual modifications were impacted by a soaring IBR; for aircraft and engines, the weighted average IBR in 2020 was 22% vs. 8% the year prior. The contractual modifications and reset IBR reduce the lease liability by R\$5.7 million but the effect of the devaluation of the Brazilian currency versus the dollar adds R\$ 3.6 million to the lease liability.

TABLE 4
AZUL 2020 ANNUAL REPORT NOTE 17

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

17. LEASE LIABILITIES

17.1 Changes in lease liabilities

Description	Average payment term in years	Weighted average rate	December 31, 2019	Additions	Contractual modifications	Payments	Interest incurred	Write-offs	Foreign exchange variations	December 31, 2020
Lease without purchase option:										
Aircraft and engines	7.89	22.19%	11,046,134	2,329,443	(5,327,038)	(1,162,869)	1,431,944	(4,912)	3,350,441	11,663,143
Other	2.12	8.11%	72,230	—	—	(21,741)	6,881	—	(92)	57,278
Lease with purchase option:										
Aircraft and engines	5.54	13.56%	988,257	—	(374,890)	(231,417)	130,326	—	288,115	800,391
Total in R\$			12,106,621	2,329,443	(5,701,928)	(1,416,027)	1,569,151	(4,912)	3,638,464	12,520,812
Current liabilities			1,585,233							2,272,349
Non-current liabilities			10,521,388							10,248,463

Description	Average payment term in years	Weighted average rate	December 31, 2018	Additions	Payments	Interest incurred	Write-offs	Foreign exchange variations	December 31, 2019
Lease without purchase option:									
Aircraft and engines	8.26	8.20%	7,725,397	4,153,314	(1,865,472)	726,613	(24,775)	331,057	11,046,134
Other	2.90	7.64%	82,545	22,888	(39,008)	8,628	(279)	(2,544)	72,230
Aircraft and engines	4.24	6.15%	1,111,804	32,188	(269,988)	70,767	—	43,486	988,257
Total in R\$			8,919,746	4,208,390	(2,174,468)	806,008	(25,054)	371,999	12,106,621
Current liabilities			1,237,909						1,585,233
Non-current liabilities			7,681,837						10,521,388

**TABLE 5
LEASE SUMMARY**

Description	Azul	jetBlue	GOL
Finance lease	7.28% p.y.	4.78% p.y.	3.72% p.y.
Operating lease	8.82% p.y.	5.95% p.y.	8.57% p.y.

Although the company strictly followed the new accounting rules, an interview with the Company's CFO and Director of Investor Relations, Alex Malfitani, revealed that the company would never enter into a contract with an interest rate of 22%. Therefore, while the rate is set to comply with accounting requirements, it is not a useful data point for analysing the decision-making process.

In 2020, Azul renegotiated a large portion of the fleet's contracts, around 96% according to the financial statements, garnering improved terms based on the market dislocation. As noted earlier, from 2019 to 2020, Azul reported an increase of 10 aircraft in its fleet from 142 to 152. However, the value of fleet assets fell by R\$421 million, whereas lease liabilities increased by R\$429 million. The new accounting does not improve transparency into Azul's management or the financial profile of the fleet during this time of crisis. Nor do the rules provide information to assist users in evaluating managerial decision-making or assessing future company profitability.

CONCLUSIONS

This case study highlights the challenges faced by those analysing the financial statements of airlines following the new accounting standards for leases. We believe that in some areas, the new rules have hindered, rather than aided, transparency and comparability. It is undeniable that the COVID-19 pandemic and its effects have had an outsized impact, however, the lack of comparability will remain even under more typical economic conditions in the airline industry, as well as other industries that rely heavily on operating leases.

The accounting rules determining the value of lease liabilities and right of use assets do not allow for straightforward comparisons over time or across firms. Because the lease obligation is the present value of future lease payments, firms with different average remaining lease lives report different relative levels of fleet assets and liabilities. A firm with longer average lease terms reports correspondingly higher lease assets and liabilities. Comparisons are also impacted by renegotiated contracts because the reset IBR may be distorted by changes in interest rates and exchange rates and can have a huge impact on year-on-year changes in value.

The accounting for leases will impact the comparability over time and across firms of some financial ratios, including return on assets and liabilities to assets. Similarly, debt ratios are not easily comparable globally because under US GAAP, operating lease liabilities are not considered debt. To enhance comparability, data providers including Standard & Poor's Capital IQ, Bloomberg, and FactSet have addressed this by including operating lease liabilities as debt equivalents. Finally, although not the focus of this study, since US GAAP allows for operating leases and the entire operating lease expense is included in operating expenses (versus only the depreciation portion of a finance lease), profitability metrics, including operating profit, operating cash flow, EBIT, and EBITDA, are not comparable across firms that use different combinations of finance and operating leases.

Review of new standards is an essential part of the ongoing process of developing accounting standards. Our study revealed that the two accounting conventions are too dissimilar to facilitate the comparison of peers across a global industry. We found that when leases are modified and a hypothetical IBR is adopted as the discount rate, the resulting balance sheet and income statement figures are not reflective of business decisions relating to fleet. Consequently, transparency in the decision-making processes is not provided. We suggest that changes be made to the recently issued accounting requirements. To improve

comparability, we suggest aligning IFRS to GAAP to permit both financial and operating leases. Transparency would be enhanced if the IBR were less open to interpretation and less subjective overall. When leases are modified, adoption of the latest interest rate in an actual comparable finance transaction, would lead to a discount rate more representative of actual lease values.

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