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Impacts of Covid-19 on IFRS 16: Analysis of the financial statements of some listed companies.

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Abstract

The international accounting standard IFRS 16 rewrites the definition of leasing from scratch, determining practical effects not only in the activity of accountants but also for company consultants who are experts in extraordinary transactions. The article aims to give a critical approach to the subject of Leasing by studying its origin and the regulations that have led to the current international rules. The transition from IAS 17 to IFRS 16 and the new accounting methods for the parties involved in the contract will be examined, focusing on the main effects determined by the new standard on retail companies. With the spread of the Covid-19 pandemic, the IFRS 16 accounting standard on leasing was affected by an amendment called Covid-19-Related Rent Concessions – Amendment to IFRS 16 published in May 2020. An empirical analysis is then conducted on the consequences of applying IFRS 16 to the financial statements of Italian listed companies and then I focus specifically on the impact of Covid-19, on the new standard and on its amendments citing the EU regulation n. 2020/1434. The changes and discussions concerning the problems caused by Covid-19 in terms of leasing are examined in more detail by breaking down the analysis of the text and the Exposure Draft into several paragraphs.

Keywords: IFRS, Financial Leasing, Operating Leasing, International Accounting, Financial Report

1. INTRODUCTION

On 1 January 2019, IFRS 16 (leasing) came into force, replacing the previous IAS 17 and which is used in preparing the financial statements starting from the 2019 financial year. The term "Leasing" derives from the English to lease, which means to rent. The leasing contract has its origins in the Anglo-Saxon world where, in the early seventies, it began to establish itself as an alternative source of financing compared to the classic forms of bank loans (Albanese M., & Zeroli A., 2011).

IFRS 16, at least for now, does not apply to those who adopt the OIC national accounting standards, which will continue to recognize financial leasing separately from operating leasing, using the "financial method" or the "equity method" respectively. In Italian regulations there is no accounting principle that regulates the accounting treatment of leasing contracts and in general the financial leasing method is not permitted in the financial statements but is permitted in the consolidated financial statements as established by OIC 17. (PwC, 2018). In the financial statements, the criterion for recognizing leasing contracts makes the formal aspects prevail and consequently the accounting treatment of all leases involves the recognition of lease installments as a cost over the duration of the leasing contract (taxes and fees, 2020).

The accounting provided for in the old IAS 17 in implementation since 1982, required the lessor and the lessee to distinguish between two types of leasing: operating leasing and financial leasing (Segal M., 2019, Branswijck D., Longueville S., & Everaert P., 2011). The accounting of leasing transactions has always been a problem for accounting standards. The main issue is the recognition of the leased asset in the user's balance sheet (Cordazzo M., et al., 2019). It is difficult to distinguish between operating leases and finance leases, so there could be a risk that different companies account for the same type of lease differently.

To overcome all these problems, the IASB has decided to modify the leasing regulations, replacing IAS 17 with the new IFRS 16, issued in 2016. IFRS 16 was implemented with Reg. 1986/2017, published in the Official Gazette of the European Union of 9 November 2017, n. L 291. The process that led to the publication of the new accounting standard was characterized by multiple successions. Their correct reconstruction is important because it provides a valid starting point for the analysis, to understand what were the needs and causes that gave rise to the new accounting standard IFRS 16 - Leasing in its final form, i.e. the one published in January 2016 by the IASB. The new accounting standard provides for a substantial change to the existing discipline and reduces the technical discretion of the preparer of the financial statements with respect to the provisions of IAS 17. The new standard attempts to overcome the problems that the old IAS 17 brought with it (Nasser D., &, Alrashedy T., 2022).

The business environment will also change with the new Standard application due to changing negotiation models between tenants and landlords and leasing incentives. (EY, 2016a).

IFRS 16 applies starting from 2019 financial statements, with the aim of improving the transparency and comparability of financial statements as of that date (Yu J., 2019; Gouveia D., 2019) and reducing information asymmetries by lowering the cost of debt (Florou A., & Kosi U., 2015). Preparers and users of financial

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statements are aware that financial information reported under IFRS will meet the needs of creditors (Ball R., et al., 2014).

IFRS 16 improved the information provided for the lessor by IAS 17, accused of not accurately reflecting the economic reality underlying the leasing transactions, (Cordazzo M., et al, 2019), as it did not provide sufficient detail about: the exposure to credit risk, and exposure to risk on the value of the assets, deriving from its interest in the asset at the end of the lease (Rizzi M., 2016).

Another problem deriving from the use of IAS 17 in accounting was that the operating lease commitment was disclosed only in the explanatory notes at an undiscounted value, so it was not accounted for as an asset over which control is held, nor as an unavoidable liability related. In this sense, the financial statements did not provide detailed, exhaustive and complete disclosure of the leased assets and related associated liabilities (Thran T., & Eriksson R, 2019). This gave rise to the classic phenomenon of off-balance sheet financing (Morales D., & Zamora R., 2018). The key element, although not the first in chronological order, occurred in the early 2000s, precisely between 2001 and 2002, when a series of corporate accounting scandals that broke out in the United States of America highlighted a series of deficiencies in the corporate governance, auditing practices and corporate US financial reporting. In response to this serious problem, the US Congress adopted Sarbens-Oxley in 2002, the most important company law since the 1930s.

Among the various provisions in section 401 it required SEC7 to conduct an empirical study which had two main questions: a) investigate the degree of adequacy of issuers' financial statements as to whether they transparently reflect the excluded assets provisions; b) the scope of off-balance sheet agreements.

With reference to the first point, the studies carried out by the SEC have focused on a series of commercial agreements that could have budgetary implications, therefore, in detail, equity investments of other companies, asset transfers of bonds, guarantees, derivatives but above all leasing contracts. On this front, departments concluded that some had been achieved under the new law, but that there was room for improvement in the presentation of financial information on various types of arrangements with off-balance sheet implications.

As for the second point, based on a study of a sample of 200 companies, the SEC said there could have been $1.25 trillion non-cancelable future liabilities derived from operating leases not recognized in the issuers' financial statements but, only in the notes to the financial statements. In it, the SEC also recognized the insufficiency of existing accounting standards and urged the FASB to embark on a new project to reconsider a number of standards, including that relating to leasing, and suggested developing a regulatory environment focused on disclosure of information in the financial statements, in order to improve their quality and transparency. Finally, the SEC recommends that this renewal project be initiated, preferably with the IASB; although the reasons for this request can be many, one of which turns out to be that more than 1000 companies have registered with the SEC not under US law and since March 2008 are authorized to prepare their financial statements in accordance with international standards IAS-IFRS standards, without the latter being obliged to prepare a statement to be compared with US GAAP. For this reason, it would be appropriate to arrive at a single system of accounting principles, achieving a real strategy of accounting harmonization, without distinction between US GAAP and IFRS principles. This need is determined by the movement of enterprises towards a global economy, which over time have accelerated the need for a transition to global accounting standards and towards the creation of a universally accepted accounting language (Bakidjanovich A., K., et al, 2022).

The creation of a universally valid language would benefit the entire world economy by making it more stable. Stakeholders will be the first to obtain benefits in terms of greater clarity and transparency in global financial reporting. 2008 is really only a part of the harmonization process of the two main international accounting agencies, launched six years earlier and is fundamental in trying to adapt the two accounting systems to the problems related to the growing globalization of the financial markets and their scarce comparability.

In 2002 the Norwalk Agreement was signed, a Memorandum of Understanding with which the two parties undertook to: try to remove the major differences between the two accounting standards and publish the new accounting standards and coordinate their work programs together to guarantee a higher level of uniformity in the future. Subsequently in 2006 the two bodies, FASB and IASB began a process of convergence between their respective accounting standards such as US GAAP and IFRS, as described in the document "A Roadmap of convergence between IFRSs and US GAAP-2006-2008 Memorandum of Understanding between the FASB and the IASB", which reaffirms the previous agreement reached and has the aim of analyzing and eliminating the major differences existing between the IAS- IFRS and US Accounting Standards. To do this, joint projects of convergence and reconciliation had to be undertaken which had as their object impairment, research and development, the joint ventures, income tax and other topics. In the long term, the objective of increasing and sharing the development of future new standards on the basis of common paths in order to ensure greater comparability between prospectuses. Subsequently, the IASB and FASB renewed their mandate to fulfill the long-term objectives set out in the Memorandum.

2. The Transition From IAS 17 To IFRS 16

IAS 17 (Leases) in force in the years prior to the introduction of the new IFRS 16 is applied to the financial statements for years starting from 1 January 2008 and ending on 1 January 2019. The application of IAS 17 involves the definition, for lessees and landlords, the appropriate accounting treatment and the identification of supplementary information, for financial and operating leasing transactions. According to this principle, leasing is a contract whereby a subject (lessor) grants another subject (lessee) the right to use one's own asset for a predetermined period of time in exchange for a periodic consideration (payment installments). In essence, in its "pure" form it is a simple rental contract, and in this case, it is called operational leasing. In many cases, however, the lessee assumes all (or substantially all) of the risks and rewards associated with ownership of the asset. In this case, considering the economic substance of the transaction rather than its legal form, the contract is similar to a mortgage, guaranteed by the ownership of the asset which remains with the lessor. This case is called financial leasing (Pwc, 2018).

Leasing contracts generally relate to income-producing assets, such as buildings or plant and machinery or in any case assets used on a lasting basis by the company. It is important to determine whether a lease is of an operational or financial nature since two different accounting methods arise on the basis of this distinction. This standard must be applied for the accounting of all leasing transactions other than: a) leasing for the exploration or extraction of minerals, oil, natural gas and similar non-regenerative resources; b) licensing agreements for goods such as films, video recordings, performances, manuscripts, patents and copyrights. However, this Standard shall not be applied as the basis of measurement for: (a) lessee-owned properties that are accounted for as investment property; (b) investment properties granted by lessors through operating leases; (c) biological assets used by lessees through finance leases; (d) biological assets leased by lessors under operating leases.

The Standard applies to agreements that transfer the right to use assets, even if the lessor may be required to provide significant services in connection with the use or maintenance of those assets. This Standard does not apply to contracts for services that do not transfer the right to use assets from one contracting party to the other.

This new regulation specifies the study of two different aspects of Leasing analyzed as operational and financial. The classification of leasing transactions adopted in IAS 17 is based on the attribution to the lessor or lessee of the risks and rewards deriving from ownership of a leased asset. Risks include the possibility of losses resulting from unused capacity or technological obsolescence and variations in returns due to changes in economic conditions.

The benefits can be represented by an expected profitable use during the economic life of the asset and by profits associated with the revaluation or realization of the residual value. A lease is classified as financial if it substantially transfers all the risks and rewards associated with ownership. Conversely, a lease is classified as an operating lease if it does not substantially transfer all the risks and rewards deriving from ownership. Since the transaction between a lessor and a lessee is based on a leasing agreement between the parties, uniform definitions should be used. The application of these definitions to the different situations of lessor and lessee may result in the same leasing contract being classified differently by lessor and lessee. The classification of a lease as finance or operating depends on the substance of the transaction rather than on the form of the contract.

Examples of situations which individually, or collectively, would normally result in a lease being classified as a finance lease are: (a) the lease transfers ownership of the asset to the lessee upon termination of the lease agreement; (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently less than its fair value at the date the option becomes exercisable so that at the inception of the lease, it is reasonably certain, that, it will be exercised; (c) the lease term covers most of the economic life of the asset even if ownership is not transferred; (d) at the inception of the lease, the present value of the minimum lease payments equals at least the fair value of the leased asset; (e) the leased assets are of such a special nature that only the lessee can use them without major modification.

Also according to IAS 17, the accounting of the items in the financial statements, envisaged for the leasing contract, can be approached on the basis of two different perspectives: a) Equity perspective - provides for the recognition in the financial statements of only the assets to which the company has a right Property; b) Financial perspective - provides for the consideration of the lease as a purchase of a fixed asset, where all the risks and rewards associated with the use of the asset are effectively transferred to the lessee.

According to Italian legislation on financial statements, the accounting of the leased assets is envisaged in accordance with the balance sheet perspective; or as a lease contract for which the lessee recognizes: 1) the lease payments as the cost of the operation; 2) the asset among the balance sheet assets at the time of redemption when it acquires ownership, providing from that date to allocate to income statement the related depreciation charges.

The financial lease is therefore accounted for as an operating lease and information on the financial method is given only in the explanatory notes. On the other hand, the lessor registers the asset subject to the finance lease among its assets and charges the related depreciation and the lease payments to the income statement. To date, according to the international accounting standards in the case of IAS 17, the financial perspective must always be applied to financial leasing as an accounting method. The asset object of the financial leasing contract is no longer recorded among the assets of the grantor, but among those of the user, who in the face of this enters a debt for the operation by referring to the aforementioned financial perspective. It follows that the user will charge the depreciation quotas of the asset and the interest expense which constitute the financial component of the leasing installments to the income statement.

Conversely, the grantor enters a credit for the financial leasing transaction and charges the interest income which constitutes the financial component of the rent to the income statement; at the same time, the part of the rent that represents the capital portion reduces the value of the credit deriving from the financing transaction.

The financial perspective gives more weight to the substantive nature of the contract, and not simply to the legal form, so that the transaction reflects the will of the parties; since the lessee is to all intents and purposes the one who bears the risks associated with the use of the asset and derives the benefits from it, even if he is not the effective owner. The validity of the IAS 17 standard ends with the advent of IFRS 16 thanks to EU Regulation 1986/2017 which completely reformulates the discipline of both operating and financial leasing (Quagli A., 2019).

The most significant aspect that characterizes the new standard is given by the introduction of a single accounting model for leasing contracts by the lessee, with the consequent elimination of the distinction between operating and financial leasing. With the entry into force of the new IFRS 16 from 1 January 2019, as anticipated, for the lessee, a single leasing accounting model will persist, i.e. the one used to date, used solely for the accounting of finance leases.

The studies on the need to innovate this principle began much earlier but the official work began with the publication of a Discussion Paper in March 2009 and continued with two separate Exposure Drafts16, respectively in August 2010 and May 2013. Specifically on 13 January 2018 the IASB (International Accounting Standard Board) published the new international accounting standard for leasing accounting called IFRS 16. The accounting standard replaces the old IAS 17 which has been in force for about 30 years. As widely expected, in fact, the new IFRS 16 introduces a new registration criterion by standardizing the accounting of financial leasing and operating leasing which will therefore be treated in the same way in the financial statements of the IAS users adopted with evidence in the balance sheet of the rights and obligations emerge from the two types of contracts.

The new standard will be mandatory in financial statements starting on 1 January 2019 although early applications of IFRS 16 will be permitted in the case of companies that already adopt IFRS 15 Revenue. The amendment process in question took its first steps from the well-known Discussion Paper of 2009 which was then followed by the first edition of the 2010 Exposure Draft and subsequently the second of 2013. In particular, on 16 May 2013 the IASB and the FASB have issued the revised Exposure Draft Leases for consultation. This latter document was produced to collect the numerous reproaches leveled at the international Boards by the leasing industry in relation to the first Exposure Draft Leases published precisely in the month of August 2010 from which a high level of criticality and which immediately forced the IASB and FASB to make a general reconsideration of the proposed criteria taking the form of a consistent number of modifications aimed at modifying the initial structure during the course. Exposure Draft Leases itself, following its publication, was the subject of rethinking concerted by the two international Boards especially throughout 2014 and which were formalized in the new standard.

3. Changes And Challenges Of The New IFRS 16 Principle

IFRS 16 applies to all contracts that meet the definition of leasing (financial, operating, rental and hire), including sub-leases with the exception of the following cases: a) exploration and evaluation of mineral resources, b) agreements for services under concession, c) agriculture, d) revenues from contracts with customers, e) intangible assets.

The IASB, while recognizing that in principle there are no reasons not to consider IFRS 16 applicable to intangible assets, leaves the lessee the option to use the standard for all leases involving intangible assets other than those described previously. Since its first application, leasing accounting according to IAS 17 has been the subject of criticism from operators because if this principle in financial leasing required the recognition of leased assets against a liability linked to the debt towards the lessor, in the same no recognition was required for assets and liabilities for operating leasing transactions.

To put an end to these limitations, the IASB together with the FASB, launched a project aimed at improving leasing accounting and related disclosures with the aim of improving understanding of the effects of leasing transactions. The project officially got underway in February 2006 when the two organizations promoted a project to amend the leasing accounting rules in force at the time. From 2006 until the issue of the new IFRS 16, a Discussion Paper was published in March 2009 and two separate Exposure Drafts, respectively in August 2010 and May 2013.

The 2009 Discussion paper had the objective of 'identification of an accounting model for lessees based on the right to use according to which, on the effective date, the lessee is obliged to make a series of payments for the lease to the lessor against the right to use the asset underlying the contract during the term of the leasing contract.

Based on the comments received and the inputs obtained from the specially created leasing working groups, in August 2010, the IASB and the FASB published the first Exporure Draft which further refined the distinction between finance and operating leases from an accounting point of view.

The IASB and the FASB received 786 comment letters which, in addition to being numerous, did not arrive at a unified vision of the problems associated with leasing and highlighted a high degree of application complexity. Among the many innovations, the most relevant and debated was certainly the reintroduction of two different types of leasing, based however on consumption according to which the consideration that a company pays to the lessor reflects either the consumption of the underlying asset or the simple use of the same Well. Also, in this case, the two bodies received numerous letters (641) which claimed that the identification of two different types of leasing further increased the complexity and increased subjectivity. Having examined the feedback received in 2010 and 2013, the IASB confirmed the previous forecast by identifying a single model for the recognition of leasing transactions in the financial statements of the lessee based on the assumption that all leasing can be traced back to a financing transaction and therefore their recognition in the financial statements must reflect the acquisition of an asset against the recognition of a debt.

The process of amending IAS 17 was therefore completed on 13 January 2016 with the publication by the IASB of the new IFRS 16 Lease, the endorsement of which took place through Regulation (EU) 2017/1986 of 31 October 2017. The IFRS 16 has therefore replaced the following standards and interpretations: a) IAS 17 Leasing; b) IFRIC 4 Determining whether an arrangement contains a lease; c) SIC 15 operating leasing, incentives; d) SIC-27 Evaluating the substance of transactions in the legal form of a lease.

The Standard is accompanied by illustrative examples which do not form an integral part of IFRS 16 but are intended to provide interpretative guidance. In recent decades, companies have acquired valuable interests through operating leases, allowing the assets to be used without having to hinder the balance sheet. As of January 2019, with the introduction of the new international accounting standard, lease agreements must be reported as liabilities in company accounts and can no longer be hidden. For companies where, corporate real estate is a major payout, this will have a heavy impact on the balance sheet, in some cases dramatically increasing the level of debt. The entry into force of the new accounting rules resulted in an increase in leased assets (in right-of-use assets) and financial liabilities in the balance sheet of the lessees with material former leases off the balance sheet and their EBITDA increased significantly (Todorova E. S., & Sokolova N., V., 2019).

4. The Impacts And Challenges In The Retail Sector

One of the largest industries in many economies is the retail sector, given its high number of employees and value creation, among other parameters (Tambo, 2014). Considering retail and consumer companies with a portfolio consisting mostly of leases, the ability to gather the required information on existing leases and capture data on new leases is critical for a smooth transition and adjust to the new standard. The recognition of right- of-use assets and associated liabilities has profoundly changed the balance sheet of companies in this sector. This could affect many factors such as loan terms, credit ratings and other external measures of financial performance. The issues that could create major conflicts for tenants in the retail sector are: a) determining whether renewal options should be considered in the initial measurement; b) treatment of variable payments due for leasing; c) accounting treatment of payments to the previous tenant; d) identification of events that could require a reclassification of the lease.

Retail companies often enter into agreements that usually contain lease agreements (for example for shops) or which may leave the owner with residual elements of control (for example airport bar concessions). The agreement occurs when the lease is received, if an underlying asset is explicitly or implicitly identified and the use of the asset is controlled by the customer. If an agreement explicitly identifies the asset to be used, but the supplier has a substantive contractual right to substitute the asset, the agreement does not contain an identified asset. A right of substitution is material if: a) the supplier can practically use another asset to fulfill the agreement for the duration of the agreement; b) it is economically advantageous for the supplier to do so. The supplier's right or obligation to replace an asset for repair, maintenance, malfunction or technical upgrade does not preclude the customer's right to use an identified asset.

5. MATERIALS AND METHODS

The application of the new standard has caused a worsening of the debt levels after the capitalization of the operating lease and improvements in the profitability at EBIT and EBITDA or GOM level. The entry into force of the new accounting rules will result in an increase in leased assets (in right-of-use assets) and financial liabilities on the balance sheet of lessees with former leases off-balance sheet material and their EBITDA will increase significantly; operating profit will also increase (Todorova E. S., & Sokolova N. V., 2019).

This analysis aims to detect and estimate the impacts resulting from the introduction of IFRS 16 on the financial statements of listed companies operating in the sectors in which Covid-19 has had the greatest negative impacts during the period (2019-2020). In particular, the analysis pays attention to:

- sectors for which IFRS 16 has relevance;
- the negative impact on the financial statements of the companies under analysis;
- establish and comment on the main indices for budget analysis.

The sectors most affected by the pandemic and which have been taken into consideration, according to the findings of the Sole24 ore, appear to be travel agencies, air transport, hotels and restaurants. To conduct the analysis, a listed company was considered for each sector and in particular, and in particular the companies examined are illustrated in table 1:

Table 1. product sectors and companies analysed.

Sectors most affected	Agency
Trips	TUI
Airplane transport	Lufthansa
Catering	Campari
Hotel	Fabilia

Source: *Our Production*

To establish a more accurate analysis, different financial statement aggregates were taken into consideration for each company, as shown in table 2 and table 3:

Table 2. Budget aggregates.

Aggregates	Agency
Mkt Cap	Punctual market capitalization at the closing date
Other elements	Minorities or other elements of equity not included in the previous point
Total payables from IFRS 16	Amount of gross financial debt based on the new IFRS 16
Cash & Cash Equivalents	Active financial assets
Enterprise Value	Algebraic sum of the first 4 categories above
Net Financial Position IFRS 16	Difference between total gross debt and active liquidity
D/EV	Ratio between Net Financial Position and EV
Sales	Sales
EBITDA IFRS16	Earnings Before Interest, Taxes, Depreciation and Amortization

Source: *Our Production*

Table 3. Economic-financial market data of listed companies (data in EUR /mln) considering IFRS 16.

SOCIETY	Mkt Cap	Other elements	IFRS 16 payables	Cash & cash	IV	Net financial position	D/EV	Sales	IFRS 16 EBITDA
TUI	3,725	750.3	3,696	1,233.1	9,404.1	2,914.5	3,226.7	38.4	-2,927.4
LUFTHANSA	7,848	154.6	2.176	112.36	2,450.80	224.51	1,091.62	43.8	6,025
CAMPARI	3,606	144	7.8	548.1	730.50	1.103	0.6622	6.24	15.8
FABILIA	1,250	688.4	2,097	1,614	693.36	1,615	429.32	4.7	5,118

Source: *Our Production*

6. DATA ANALYSIS

Analyzing the TUI company, we see how the COVID-19 pandemic has given reason to focus and accelerate the digital transformation of TUI, as a result, the software systems that will be replaced by group-wide software have been written down to a residual value of zero. This includes €28.6 million internally and €25.3 million in acquired computer software. In addition to the software, the projects presented as intangible fixed assets under construction were written down by € 15.3m. likewise it was decided that minor trademarks and licenses with a total value of €7.0 million. As a result, these assets have been written down and the useful life of individual software systems has been revised based on the acceleration of the digital transformation. As a result of this revision, the useful life of the affected software systems has been reduced with a provision for future periods of an increase in depreciation compared to the amount that would have been charged before the change in useful life.

As for Lufthansa, it posted a record operating loss of $6.6 billion in 2018, versus a profit of $2.4 billion in 2019. Revenue plummeted to $16.4 billion in 2020 from $42.8 billion of the previous year. In 2020, Lufthansa flew at just 31% capacity compared to pre -pandemic levels, while passenger numbers plunged 75% to 36.4 million. Staff numbers have also taken a hit: At the end of 2020, the airline had 110,000 employees, a 20% reduction from 2019. Lufthansa said it could consider permanent retirement of all older aircraft. at 25 for safety reasons. The company burned through about $360 million of cash a month in the fourth quarter and incurred about $2.176 billion of lease debt.

Campari, on the other hand, due to covid has also suffered a collapse in sales especially in Italy due to the closure of bars and restaurants. The consequences were seen on the group's net profit, equal to 187.9 million euros, down by 39.1% compared to the previous year after operating, financial and tax adjustments of -14.2 million euros (in in particular the operational adjustments were negative for €90.1 million, while there were positive tax adjustments for €55.1 million). Adjusted net profit amounted to 202.1 million, down 24.4% year-on-year. Adjusted EBIT amounted to 321.9 million euros, with an organic decline of 20.4% compared to the previous year. On the other hand, there was a sharp increase in net financial debt, to €1,103.8 million as at 31 December 2020, up by €326.4 million compared to 31 December, as the positive cash generation was absorbed by financial commitments (in particular the repurchase of treasury shares and the payment of the dividend) for a total amount of €519.2 million. The new method for representing leasing contracts, in accordance with the accounting standard IFRS 16 - ' Leases ', led to the recognition of notional interest expense of €2.5 million. In particular, the incremental payable rates set by the company for the valuation of leasing contracts are reviewed on a recurring basis and applied to all agreements with similar characteristics and are considered a single portfolio of agreements. In the period under review, the adoption of the new accounting rules relating to leasing operations resulted in a positive effect of €1.3 million on adjusted EBIT, corresponding to 10 basis points on both overall and organic growth.

The Fabilia Group has used the practical expedient introduced by the amendment to the IFRS 16 accounting standard approved with the publication in the Official Gazette L. 331 of 12 October 2020 of Commission Regulation (EU) 2020/1434 of 9 October 2020 which adopts "COVID-19 related rent concessions (Amendment to IFRS 16)", in order to provide optional and temporary COVID-19 related operational support for lessees benefiting from suspension of payments due for leasing. EBITDA came to -0.7 million euros, down from 3.0 million euros in 2019, reflecting both the contraction in revenues and the increase in operating costs due to the greater number of open facilities. EBIT amounted to -4.4 million euros, compared to -4 thousand euros in 2019, after depreciation and amortization of 3.7 million euros, of which 2.9 million euros for rights of use (relating to of the structures according to the application of IFRS16), an increase compared to 2019 (2.4 million euros) following the new contracts that entered the amortization process at the beginning of 2020.

Effects of EU regulation no. 2020/1434: Dialogue with Standard Setters – Potential impacts of the Covid-19 on IFRS financial statements.

On 28 May 2020, the International accounting standards board issued amendments to the international standard IFRS 16 - Leases and represent the first intervention to the international accounting standards following the COVID-19 pandemic by the IASB. The IASB has not changed the accounting regulations for the lessor. The concessions given to the lessee have a corresponding effect on the lessor, albeit from a different perspective. Thus, the landlord will not be able to take advantage of the practical expedients envisaged by the amendments to IFRS 16 for the lessee and will therefore have to assess whether each concession on lease contracts is configured as a lease modification or not. Many problems have arisen as a direct consequence of the COVID-19 pandemic and, through paragraphs 46A and 46B, a practical expedient has been introduced in the chapter "Changes to leasing" which allows the lessee not to consider any concessions on the payment of fees arising from the effects of Covid-19 such as a modification of the original contract; therefore, the aforementioned modifications must be accounted for as if the contract were not modified. In order to apply this exemption, all the following conditions must be verified: a) the change in the payments due for the leasing involves a revision of the leasing consideration which is substantially equal to or lower than the leasing consideration immediately preceding the modification; (b) any reduction in lease payments is only for payments originally due before and including 30 June 2021 (for example, a rental concession would comply with this condition if it results in a reduction in lease payments before 30 June 2021 included and in an increase in lease payments due beyond June 30, 2021); c) there is no substantial change to the other terms and conditions of the leasing.

If the lessee applies the practical expedient in paragraph 46A, it must indicate: (a)that it has applied the practical expedient to all rent concessions that meet the conditions in paragraph 46B or, if it has not applied it to all such concessions on rents, information on the nature of the contracts to which the practical expedient has been applied; the amount recognized in profit (loss) for the reporting period to reflect changes in lease payments resulting from rent concessions to which the lessee has applied the practical expedient referred to in paragraph 46A.

In May 2020, the Board provided a practical workaround that allows lessees to not assess lease concessions that occur as a direct result of the covid-19 pandemic and meet conditions specified as lease changes, and instead account for those lease concessions as if they were not lease changes. The Council provided the practical remedy in response to information on the effects of the covid-19 pandemic. The council had been advised that many landlords were providing rental grants to tenants due to the pandemic and learned that lessees may have difficulty assessing whether a potentially large volume of covid-19-related individuals for rental grants are changes to the plan lease agreement and, for those that are, apply the accounting required in IFRS 16, especially in light of the many challenges' tenants face during the pandemic. In addition, adding to the challenges that have arisen during the pandemic is the work being done by lessees in implementing the new lessee accounting model in IFRS 16. The Board concluded that the expedient practice could provide relief for lessees while allowing to continue to provide financial instrument users with useful information about their lease agreements. The Board allowed immediate application of the amendment in any interim or annual financial statements for issue on the date the amendment was issued.

Commission Regulation (EU) 2021/1421 of August 30, 2021 which amends Regulation (EC) no. 1126/2008 which adopts certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 regarding International Financial Reporting Standard 16 (Leasing).

The amendment to IFRS 16 extends the optional and temporary operational support related to the Covid-19 pandemic for lessees in relation to lease agreements with suspension of payments and with payments originally due on and including 30 June 2021, to leasing agreements with suspension of payments and with payments originally due before and including 30 June 2022. (banc law. it, 2021).

7. Conclusion

In this paper, we wanted to analyze the issue of accounting for leasing transactions, which is always the subject of conflicting opinions and divergent accounting practices. What led to the choice of this topic was the publication by the International Accounting Standard Board of the new accounting standard, IFRS 16 Leases with subsequent amendments on the subject of Covid and aims to define accounting methods for the representation of leasing contracts in States able to grasp the economic substance of the operation and to provide more transparent and complete information than at present. In particular, the first part analyzed the legal context of the standard starting from the 2008 regulation which specified IAS 17 and subsequently the distinction between operating and financial leasing. With regard to the latter, there was talk of its introduction into the Italian legal system which took place in 2017 and finally the discussion of the members on the now new standard Ifrs 16 was presented.

The birth of the new standard was taken into consideration, the changes that this has contributed internationally and how the accounting of both operational and financial leasing varies. Analyzing the practice, it was noted what the effects were on retail companies and when the contract falls within the application of the principle. We wanted to analyze the effect of Covid on the companies that have had the greatest negative impact from the pandemic in a practical way, taking into consideration the balance sheet aggregates defining their economic and financial performance.

Finally, what led to the introduction of the new European regulation of 2020 regarding the pandemic was observed in a very detailed way. Specifically, we have seen how the accounting and valuation of leasing varies and finally the birth of the practical expedient.

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