

**TAKING STOCK AND SIZING UP: A STUDY OF THE IMPACT OF IFRS 16 LEASES ON THE STOCK PRICE AND SIZE OF PUBLICLY-TRADED EUROPEAN AIRLINES**

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[dx.doi.org/10.18374/JIFE-23-2.7](https://doi.org/10.18374/JIFE-23-2.7)

**ABSTRACT**

*The past few decades for the European airline industry could be described as tumultuous ones. Unforeseeable exogenous shocks such as global contagions, terrorist incidents and fluctuating oil prices have caused increased operational and financial risk for airlines around the globe, including in Europe. Such risks are contrasted against an exigent need for strong solvency and liquidity to fund an array of fixed and variable costs, making the airline model unique in this sense. A further characteristic that typifies this industry is exposure to promulgation of new accounting standards which carry the potential for severe changes to financial reporting. Such a standard, IFRS 16, became effective January 1<sup>st</sup>, 2019 for publicly-traded firms, mandating capitalization of leased “right-of-use” assets and associated liabilities on airline balance sheets which had previously not been reported. Such a reporting change was significant for airlines with estimates of approximately \$3 trillion in newly-capitalized assets.*

*In this study, we analyze a longitudinal dataset spanning 2017-2019 to determine whether passage of IFRS 16 was associated with a statistically significant change in stock price and size, with various proxies employed including market capitalization, total assets and load factors. Other variables including operating income, cash flows from operations, revenues, and debt-to-equity ratio were also examined for any significant changes. The longitudinality of this study was purposively selected to avoid the potentially confounding effects of the Covid-19 pandemic. We show that passage of IFRS 16 was not significantly associated with changes in any of the dependent variables utilized in this research. This study offers valuable findings and a viable contribution to the empirical literature in this field by showing that institutional and individual investors appear to have understood that the extreme changes to the balance sheet were ultimately a reporting nuance rather than a detrimental change to actual cash flows and liquidity. Such findings offer positive implications to financial reporting, costs of capital, market capitalization, and the effect of legislative transparency on airline equities markets.*

**Keywords:** IFRS 16, Airlines, Leases, Market Capitalization, Load Factor

**1. INTRODUCTION**

The airline industry finds itself in a unique and arguably perilous position. Airlines in Europe and around the globe are routinely exposed to financial and operational risk in the form of terrorist incidents such as potential hijackings (Dugan et al., 2005), expeditious fuel price increases (Kristjanpoller, 2016), and contagions of a global nature (Nicolaidis et al., 2012). In sharp contrast to such risks are highly-leveraged capital structures (Lee & Hooy, 2012) and a historically high reliance on leased assets (Bandeira et al., 2022).

Despite this, the industry still retains much of its glamor and prestige as a unique and exciting mode of transportation. Even after consideration of the aforementioned risks, airline travel is still one of the safest methods of transportation (Stoop & Kahan, 2005) connecting individuals to loved ones across the globe and likewise delivering cargo to all four corners of the planet (Gillen, 2016). Over the years the industry