

Answers to User Queries:

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	Question	After para	Comments
	Appendix 1		
1	Do you have any information or evidence on the extent to which leases (that you are party to or otherwise aware of) will be eligible for each of the short-term and low-value assets exceptions identified in paragraph 24? If so, please provide details.	24 pg 9	
	If you are a preparer, do you expect to use the exceptions? If so, please:		
	(i) quantify the number and annual lease payments for each category;		
	(ii) indicate the proportion of your leases (by volume and/or value) you estimate to be covered by each of the exceptions.		
2	If you are a preparer, which approach to transition do you expect to take? Please explain your reasons for this decision.	39 pg 12	
	Appendix 2		
3	Are you aware of:	20	
	(i) any contracts that you consider to be leases that would not be classified as leases under IFRS 16; or	pg 17	
	(ii) any contracts that you consider to be service contracts (or other non-lease contracts) that would be classified as leases under IFRS 16?		
	If so, please provide details of these contracts and why you consider that the classification would not be appropriate.		

	Question	After para	Comments
4	EFRAG is interested in understanding whether leases of intangible assets (other than rights held by a lessee under licensing agreements within the scope of IAS 38) are common. Do you have any information or evidence as to how frequently such leases of intangible assets arise in practice? If so, please provide information about the types of intangible assets that are subject to leases and the significance in operating and monetary terms.	24 pg 18	
	Appendix 3		
5	Do you have any comments on the comparison of IFRS 16 with IAS 17?	18 pg 48	
6	Do you have any views or information on how IFRS 16 can be expected to affect the behaviour of investors and/or lenders? If so, do you have any views or information on whether and how IFRS 16 could, for European companies that apply IFRS, positively or negatively affect:	34 pg 52	Lease obligations on balance sheet and the enhanced disclosure package will significantly improve comparability of companies irrespective of their financing structure and lease vs buy decision. There will be further adjustments needed for a minority of industries where leasing is highly material (retail, energy, trucking, hotels, restaurants etc) in order to capture the true leverage and risk in the business. But the starting point will be better and the disclosure will make adjustments more accurate.
	(i) the overall cost of capital;		It is hard to say in reality. It is possible that current understatement of risk, due to liabilities being held off balance sheet, leads some companies to have a cost of equity that is too low and so discounted cash flows of purely equity related flows might be optimistic – creating an inefficient market and heightened risk for less sophisticated (retail) investors who might buy those shares. On the other hand at an enterprise level it is probable that clarity around lease obligations will reduce perceived risk and lead to a lower cost of capital in the future. It will certainly lead to a more efficient market which is generally deemed to be better overall.
	(ii) access to finance and cost of credit?		Unlikely to have much of an impact as lenders typically adjust for leases and often have access to better data than is available on the published accounts.
	Please provide any available evidence.		
7	Do you have views or information on how IFRS 16 might affect entities' use of leasing? For example, do you expect lessees to:	41 pg 53	Leases should only ever be used by management to optimize risk adjusted after tax cash flows – balancing residual value risk, cost of finance and tax structuring that is often possible through a lease structure. This should never be driven by presentation of results
	(i) reduce their use of leases with a corresponding increase in purchases of assets;		If management are optimizing shareholder value currently through their use of leases then there should be no impact.

	Question	After para	Comments
	(ii) reduce their use of leases without a corresponding increase in purchases of assets;		As above
	(iii) seek to change the terms of new or existing leases?		It is possible that a greater focus on leases by boards may lead to a review of how to optimize lease terms and therefore it is to be encouraged. Again structuring of terms to get a particular treatment is to be discouraged.
	Please provide any available evidence.		
8	Do you have any additional information or views on how the endorsement of IFRS 16 can be expected to affect the leasing industry in Europe? EFRAG is particularly looking for views from the leasing industry.	44 pg 54	
	Please provide any available evidence.		
9	Do you have any information or views on how the endorsement of IFRS 16 can be expected to affect SMEs in Europe?	48 pg 55	
	Please provide any available evidence.		
10	Do you have any information or views on whether IFRS 16 is likely to endanger financial stability in Europe?	49 pg 56	Presenting leases on balance sheet should reduce risk in the financial system over a cycle as it will be easier to monitor risk in the system and manage it. There is some chance, however, that if this is done when liabilities have already built up and then we enter a recession, it is possible that there might be greater economic volatility. This is not a reason to defer or avoid recognition.
	Please provide any available evidence.		
11	What is your view on the relative costs of applying IFRS 16 and US GAAP? Do you have any other views as to the advantages or disadvantages of IFRS 16 compared to US GAAP?	66 pg 59	
	Please provide any available evidence		
12	What is your view on the one-off and ongoing costs for preparers? (Please indicate whether you are (a) a lessee; (b) a lessor; (c) both a lessee and a lessor or (d) neither a lessee nor a lessor).	115 pg 65	
	Will preparers that already report finance leases have lower costs		

	Question	After para	Comments
	than preparers without finance leases?		
	Please provide any evidence you have on the expected magnitude of the costs.		
13	If you are a user, are you aware of any costs in addition to those identified by EFRAG in paragraphs 116 to 118 of Appendix 3? Please quantify if possible and provide any available evidence.	118 pg 66	We are unlikely to incur any extra costs as we already attempt to adjust for material leases and as such we should see a reduction in time taken to make the adjustments as the disclosure is improved. We will be able to make fewer estimates (guesses) presented with factual and consistent information. We therefore anticipate that we should be able to improve our company assessment and enhance capital allocation – when taken together with other users one would hope that the capital markets overall will be more efficient to the good of all participants.
14	If a lessee has to develop new systems to support the accounting for leases, to what extent do you, as a lessee, expect internal benefits from the information provided by the new information? Please quantify to the extent possible.	128 pg 67	
15	Do you agree with the benefits for users and preparers identified above? Are there any additional benefits for users and preparers?		Note my answer to 13 which highlights some overall benefits to the system.
	Please provide any available evidence.		
	And finally ...		
16	Are there any issues that have not been raised in this Preliminary Consultation Document that should be considered by EFRAG? Please explain your view.	pg 69	