

Draft Letter to the IASB

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX] Month 2020

Dear Mr Hoogervorst,

Re: Annual Improvements to IFRS Standards 2018-2020

On 14 May 2020, the IASB issued *Annual Improvements to IFRS Standards 2018-2020* ('the Amendments'). The package of Amendments includes an amendment to the Illustrative Example n. 13 (IE13) in IFRS 16 *Leases*.

In response to the IASB ED/2019/2 that precedes the Amendments, in its comment letter dated 20 August 2019, EFRAG agreed that the interpretation of the reimbursement of the leasehold improvements by the lessor to the lessee in IE13 has generated confusion which is the reason for the proposed amendment.

However, in order to address this confusion, EFRAG considered in its final comment letter that just removing the reference to the reimbursement of leasehold improvements from IE13 would be insufficient and that the explanation provided by the IASB in paragraph BC2 did not resolve the confusion.

In EFRAG's view, further clarification of when the reimbursement of leasehold improvements by the lessor constitute a lease incentive under IFRS 16 is required to remove any potential for confusion.

In addition, EFRAG noted in its final comment letter that this question leads to a broader issue of whether any leasehold improvements and restoration costs should be included in a right-of-use asset under paragraph 24 of IFRS 16.

EFRAG proposed that IFRS 16 should include the facts and circumstances where the reimbursement of the leasehold improvements by the lessor to the lessee may be considered to be a lease incentive either in the Basis for Conclusions or directly in paragraph IE13.

Upon revision of the final amendment to IFRS 16, EFRAG notes that the suggestion made by EFRAG was not addressed by the IASB in its final amendments as they consider that illustrative examples do not provide mandatory requirements, and that the requirements in IFRS 16 would prevail in case of any confusion or apparent conflict. EFRAG therefore recommends that the IASB considers this issue in the short term in a limited amendment.

If you would like to discuss our comments further, please do not hesitate to contact Joachim Jacobs or myself.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board