



Preliminary consultation document regarding the endorsement of IFRS 16 *Leases*

ICAEW welcomes the opportunity to comment on the preliminary consultation document regarding the endorsement of IFRS 16 *Leases*, published by the EFRAG on 12 October 2016, a copy of which is available from this [link](#).

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MAJOR POINTS

The European Commission should endorse IFRS 16 as soon as possible

1. We have not conducted any detailed survey of preparers or users and accordingly have not answered the detailed questions set out in the consultation document. Instead, we provide below our high level thoughts on the endorsement of the standard. We continue to believe that, when EFRAG reaches the endorsement recommendation decision, given its proactive involvement in the development of IFRS, detailed questioning and surveys tend to duplicate the IASB due process. EFRAG should at this stage consider the standard as a package in terms of its overall impact, taking into account evidence already submitted to both EFRAG and the IASB.
2. We encourage EFRAG to recommend that the European Commission endorses IFRS 16 as soon as possible. This will remove any lingering uncertainty about the applicability of the standard within the EU and allow those reporting entities affected sufficient time to implement its requirements.
3. We have followed the development of the new standard closely and have commented in detail at each stage of the IASB's due process. We are confident that IFRS 16 meets the technical criteria for endorsement by the EU. In other words, we believe that the standard is not contrary to the principle of true and fair view and meets the criteria of understandability, relevance, reliability, comparability and raises no issues regarding prudent accounting. Moreover, we believe that overall IFRS 16 is an improvement over current requirements and, as such, is conducive to the European public good.

IFRS 16 is unlikely to endanger financial stability in Europe

4. We believe that IFRS 16 is unlikely to endanger financial stability in Europe. In fact, we think the opposite is true. Bringing additional leases on-balance sheet will provide both preparers and users of financial statements with more meaningful information about the gearing of companies applying IFRS, which in turn should bring potential issues to light at an earlier stage.
5. This is, perhaps, best illustrated by the table included on page 35 of the IASB's effects analysis, reproduced below:

Retailer	Country	Off balance sheet leases		On balance sheet debt	Off balance sheet leases (discounted) as a multiple of an balance sheet debt
		Undiscounted	Discounted		
Borders	US	\$2,796m	\$2,152m	\$379m	5.68
Circuit City	US	\$4,537m	\$3,293m	\$50m	65.86
Clinton Cards	UK	£652m	£525m	£58m	9.05
HMV	UK	£1,016m	£809m	£115m	7.03
Praktiker	Germany	€2,268m	€1,776m	€481m	3.69
Woolworths	UK	£2,432m	£1,602m	£147m	10.9

6. This table highlights the extent of off-balance sheet lease commitments for a sample of retailers that ultimately went into some form of reorganisation or liquidation. It illustrates how different the financial leverage and operating flexibility of companies can be when the effect of off-balance sheet lease commitments is taken into account.
7. Some investors and analysts, of course, use the information currently disclosed in the notes to the financial statements to estimate assets and liabilities arising from off-balance sheet leases.

But even where such estimates are made, they can be inaccurate due to the limited information available. Putting such leases on-balance sheet will, undoubtedly, provide more accurate information and – as noted above – should help to bring issues to light at an earlier stage.

Costs and benefits

8. Implementing the standard will undoubtedly bring significant costs for many entities, and we do not underestimate these. Nonetheless, we have no reason to doubt that overall those costs will be outweighed overall by the benefits it will bring.