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Your details

1 Please provide the following details:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Vincent Papa CFA Institute

- (b) Are you a:

Preparer User Other (please specify)

- (c) Please provide a short description of your activity:

User representative / Interim Head Financial Reporting Policy

- (d) Country where you are located:

UK and Belgium

- (e) Contact details, including e-mail address:

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Appendix 3 of the draft endorsement advice

Potential effects on stakeholders' behaviours

- 2 Do you agree with EFRAG's discussion and preliminary conclusions (Appendix 3, paragraphs 28-57)?

Yes No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

See attached comments

Impact of IFRS 16 on the leasing industry

- 3 Do you agree with EFRAG's discussion and preliminary conclusions (Appendix 3, paragraphs 58-67)?

Yes No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

*IFRS 16 Leases
Note to Constituents and Invitation to Comment*

Impact of IFRS 16 on SMEs

- 4 Do you agree with EFRAG's discussion and preliminary conclusions (Appendix 3, paragraphs 68-103)?

Yes No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Costs and benefits of applying IFRS 16

- 5 EFRAG has received some information that quantifies the costs of applying IFRS 16. Are you able to provide further quantification of the costs and/or benefits of applying IFRS 16? (Appendix 3, paragraphs 132-214)?

See attached comments

ADDITIONAL COMMENTS- VINCENT PAPA

EFRAG has comprehensively substantiated its preliminary conclusions throughout the endorsement letter including through the discussion in Appendix 3. We agree with the overall conclusion that IFRS 16 brings a significant improvement to the reporting of leases when compared with IAS 17 as noted in Paragraph 27. We concur with the outline of key issues/changes in the accounting by lessees, lessors and sale and leaseback transactions (i.e. Paragraphs 5 to 20) and the potential limitations of the revised standard (i.e. as described in Paragraphs 21 to 26), particularly in as far allowing optional recognition exemptions for short-term or low value leases.

Another limitation that we have noted is that the measurement of the lease asset and liability reflects the base lease contractual arrangements. To address these limitations as well as the level of judgements of some requirements (paragraph 25 to 26), we would emphasize the importance of comprehensive disclosures.

ANTICIPATING INCREMENTAL USER BENEFITS

In the articulation of effects on stakeholders' behaviours and costs and benefits, the endorsement letter reflects benefits to users that are consistent with those that were highlighted by a 2013 CFA Institute survey including that of providing users with a better starting point for making any analytical adjustments when getting to their own view of the magnitude of the economic obligation. We agree with and support EFRAG's overall and specific conclusions on benefits for users.

Nevertheless, it appears that the economics consultancy impact study that was an input to EFRAG's conclusions- may have inferred that there are limited incremental benefits for users from IFRS 16- mainly because sophisticated investors currently adjust for operating leases. If our interpretation of the inference of the economics consultancy report is correct, for the following two reasons, we would not agree that there are only limited incremental benefits for users in as far as estimating leverage is concerned.

- Current Estimation Error: A 2010 Credit Suisse study showed that under current reporting there are significant errors (wide dispersion in analyst guesstimates of the lease obligation). We anticipate that IFRS 16 will lead to a more precise estimate of leverage across the body of capital market participants. Furthermore, the 2016 IASB effects analysis suggested the likelihood of wrong estimations of leverage relative to what companies would report under IFRS 16.
- Need for Empirical Evidence Illustrating Impact, if Any, in Estimation Error: it is not clear whether the consultancy study undertook any empirical analysis that demonstrated that the new lease standard will not result in reduced analyst error. In effect, there is no rebuttal of investor/analyst anticipation of more precise estimate of leverage due to IFRS 16.