Dear Sir/Madam:

EFFAS' Commission on Financial Accounting “FAC”, ("Commission", “we") is pleased to share with you the views of European users of financial statements regarding EFRAG’s Preliminary Consultation Document regarding The Endorsement of IFRS 16 Leases in which EFRAG is seeking the views of constituents on the specific matters raised in the document and any other issues considered relevant to the final endorsement advice.

It is important for analysts to understand an issuer’s lease activities. We think that lessees - signing a lease contract- are committed to future payments of rentals which consequently increase their financial obligations and risks. Lessee accounting should reflect the right to consume the leased asset (right-of-use asset) and the obligation to settle the related lease liability. Thus, leases, as they give rise to a financial liability should be incorporated onto the balance sheet. Also, for practical purposes it can be accepted that certain leases such as leases for a shorter period than 12 months are excluded to the extent that the notes contain the information that allows users to understand the impact of these so-called short-term leases. The same goes for the other so-called small-ticket lease exemption.

As users, it is welcomed the proposed changes in the standard for lease accounting. We consider that a significant advantage will be the reduction of the current adjustments that have to be made to the financial statements in order to get a more accurate view of the actual net debt position of the entities. This will improve the accuracy -reducing the need for estimating and “guess work”- and transparency and facilitate the comparability in the analysis.
Moreover, we think that the classification as one type of lease and the separation in the income statement between depreciation and interest expense will provide the basis for a better understanding of risks and rewards. Lease payments should be allocated to both interest cost and capital reimbursement – in combination with a depreciation charge on the right-of-use asset - reflecting the “debt repayment” obligation of the lessee to the lessor. Moreover, if a liability for the lease is recognized and this liability is over twelve months an interest expense will be recognized and the corresponding asset will be amortized like almost any other asset.

We consider that these improvements in accuracy, transparency and comparability will compensate the cost and effort of making a one-off adjustment to the current financial models. Once the adjustments to the financial models are incorporated, future estimates will be made on a consistent and equal basis.

Therefore on this ground, lessee accounting should reflect the right to consume an asset and to settle the related liability and as we have indicated in several meetings and outreaches. We support and endorse EFRAG’s preliminary document to implement IFRS16 as of January 2019.

If you would like to further discuss the views expressed in this letter please do not hesitate to contact us.

Javier de Frutos  
Chairman  
On behalf of EFFAS  
Commission on Financial Accounting

EFFAS was established in 1962 as an association for nationally-based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 27 member organizations representing more than 16,000 investment professionals. The Commission on Financial Accounting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. FAC members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman-SFAF, France), Rolf Rundfelt (SFF, Sweden), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium), Jérôme Vial (SFAA, Switzerland), Luca D’ Onofrio (AIAF, Italy).