

EFRAG SECRETARIAT PAPER FOR PUBLIC MEETING

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Endorsement advice on IFRS 16 Leases
Proposed approach

Introduction

- 1 The EFRAG Secretariat has prepared the attached proposed overall approach to developing an endorsement advice as a basis for the EFRAG Board to consider the overall approach.

Proposed approach

Letter from EC	Proposed approach (see below for explanation of terms used)
<p>General issues:</p> <ol style="list-style-type: none"> 1. Definition of a lease 2. Asymmetry between lessee and lessor accounting 3. Complexity of IFRS 16 4. Comparison with IAS 17 <i>Leases</i> 	<p>Outreach with individual preparers to identify difficulties in classifying contracts currently being undertaken</p> <p>Technical analysis in progress. Issue will be included in questionnaires</p> <p>Technical analysis in progress. Issue will be included in questionnaire</p> <p>Technical analysis already discussed with EFRAG TEG</p>
<p>Potential effects on stakeholders' behaviour:</p> <ol style="list-style-type: none"> 1. Companies 2. Capital providers 3. Leasing industry 	<p>Economic consultancy</p> <p>Outreach with individual lenders by EFRAG Secretariat and economic consultancy</p> <p>Outreach on impact on covenants completed by EFRAG Secretariat</p> <p>Outreach with individual lessors and industry bodies by economic consultancy</p>

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Letter from EC	Proposed approach (see below for explanation of terms used)
<p>Potential effects on competitiveness</p> <p>1. Appropriateness for SMEs</p> <p>2. Access to finance by SMEs</p> <p>3. Comparison with US GAAP</p>	<p>Data for technical analysis being sourced. Also economic consultancy</p> <p>Outreach with individual lenders by EFRAG Secretariat and economic consultancy</p> <p>Technical analysis already discussed with EFRAG TEG</p>
<p>Potential effects on financial stability</p> <p>1. Impact on ratios</p> <p>2. Macroeconomic effects</p> <p>3. Leasing as a source of financing</p>	<p>Technical analysis in progress for further discussion with EFRAG TEG</p> <p>Opinions to be sourced from ECB and economic consultancy</p> <p>Outreach with lenders and companies by EFRAG Secretariat and economic consultancy</p>
<p>Cost-benefit analysis</p>	<p>Technical analysis in progress by EFRAG Secretariat. Issue will be included in questionnaires and economic consultancy</p>

2 Terms used

- (a) *Questionnaire* refers to the questionnaires for users and preparers currently being developed by EFRAG Secretariat. These questionnaires will be discussed with the European Commission and with the external provider before being finalised;
- (b) *Technical analysis* refers to work being undertaken directly by EFRAG Secretariat;
- (c) *Outreach* refers to outreach activities including outreach to individual companies by EFRAG Secretariat or through EFRAG events; and
- (d) *Economic consultancy* refers to work outsourced to an external provider.