

PAPER FOR PUBLIC EFRAG BOARD MEETING

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

IFRS 16 Leases

Cover Note

Objective

- 1 The objective of the session is to discuss and approve a draft letter to the European Commission regarding the endorsement of 16 *Leases* (hereafter '*the Draft Endorsement Advice*').

Background

- 2 In October 2016, EFRAG published a Preliminary Consultation Document regarding the endorsement of IFRS 16 and a questionnaire seeking the views of users and user organisations on a number of issues in relation to its assessment on costs and benefits and whether IFRS 16 is an improvement over IAS 17.
- 3 EFRAG's preliminary assessment was that IFRS 16 meets the technical criteria for EU endorsement; is not contrary to the true and fair view principle; is a significant improvement to the reporting of leases compared to IAS 17; provides for more transparent and meaningful information on leasing arrangements to be reported and would not put European entities at a competitive disadvantage notwithstanding the lack of convergence with the equivalent US GAAP Standard.
- 4 EFRAG's Preliminary Consultation Document did not contain a preliminary conclusion as to whether adopting IFRS 16 would be conducive to the European public good as additional input and evidence was expected from the feedback from constituents in response to the consultations and the input from an economic study commissioned by EFRAG on the economic and behavioural effects of IFRS 16.
- 5 The feedback received from both consultations was considered by EFRAG TEG and the EFRAG Board at their December 2016 and January 2017 meetings, respectively.
- 6 The Draft Endorsement Advice, including an assessment on European public good is contained in agenda paper 06-02. It takes account of:
 - (a) Comments from constituents in response to EFRAG's Preliminary Consultation Document and user questionnaire;
 - (b) Additional research undertaken in respect of the impact of IFRS 16 on SMEs;
 - (c) Findings from the economic study commissioned by EFRAG; and
 - (d) Expert advice from the European Central Bank and the European Banking Authority in their areas of expertise.

- 7 The Draft Endorsement Advice is presented in clean version only due to the number of changes made to Appendix 3 of the Preliminary Consultation Document.

EFRAG TEG discussion and advice to the EFRAG Board

- 8 EFRAG TEG discussed the Draft Endorsement Advice at its January meeting, with the discussion focusing mainly on whether IFRS 16 meets the technical endorsement criteria contained in the IAS Regulation.
- 9 EFRAG TEG members unanimously agreed to recommend to the EFRAG Board the Draft Endorsement Advice reiterating support for the endorsement of IFRS 16.
- 10 Although comments from constituents are welcome on any parts on the Draft Endorsement Advice, it is suggested that the question in the forthcoming consultation focus on components of Appendix 3 which were not part of the EFRAG's previous consultation (see proposed questionnaire at the beginning of the consultation document) and more particularly:
- (a) Potential effects on stakeholders' behaviours
 - (b) Impact of IFRS 16 on the leasing industry
 - (c) Impact of IFRS 16 on SMEs
 - (d) Costs and benefits of applying IFRS 16

Questions to the EFRAG Board

- 11 Does EFRAG Board approve the Draft Endorsement Advice, including the attached questionnaire, as contained in Agenda Paper 06-02?
- 12 Does the EFRAG Board agree to a 2-week comment period?

Agenda Papers

- 13 In addition to this cover note, agenda paper 06-02 – Draft Letter to the European Commission Regarding the Endorsement of IFRS 16 *Leases* has been provided for the session.