

IFRS 16 LEASES

Draft Endorsement Advice

NOTE TO CONSTITUENTS

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the endorsement of IFRS 16 *Leases*. EFRAG has been carrying out an assessment of IFRS 16 against the criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been developing responses to specific issues raised in the letter from the EC dated 9 June 2016.

EFRAG is conducting the consultation on its endorsement advice in two phases.

1 *Preliminary Consultation Document (consultation closed 8 December 2016)*

During this consultation, EFRAG sought views on the following:

- (a) Whether IFRS 16 meets the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raises no issues regarding prudent accounting and is not contrary to the true and fair view principle (see Appendix 2 of the attached draft endorsement advice).
- (b) Whether IFRS 16 would improve financial reporting, compared to IAS 17 *Leases* and the associated Interpretations it replaces and the lack of full convergence with the equivalent Standard on leases in US GAAP would not put European entities at a competitive disadvantage (see relevant components of Appendix 3).
- (c) A preliminary assessment of the costs and benefits expected to arise from the application of IFRS 16.

2 *Draft Endorsement Advice (consultation closes on 13 March 2017)*

The draft endorsement advice reflects:

- (a) Comments from constituents on the Preliminary Consultation Document;
- (b) Responses to the user questionnaire;
- (c) Additional research undertaken in respect of the impact of IFRS 16 on SMEs;
- (d) Findings from the economic study commissioned by EFRAG; and
- (e) Expert advice from the European Central Bank and the European Banking Authority in specific areas of those organisations' expertise.

EFRAG is now seeking comments on its draft endorsement advice. EFRAG welcomes comments on any part of the draft endorsement advice, but notes that the Preliminary Consultation Document included a complete draft of Appendices 1 and 2 which is largely unchanged in this document. Accordingly, EFRAG is primarily interested in comments on specific components of Appendix 3 of the draft endorsement advice, along with supporting evidence, if applicable.

Comments should be submitted by [date] by using the 'Express your views' page on EFRAG website or by clicking [here](#)

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:

Marco Lambeck on behalf of BASF SE

- (b) Are you a:

Preparer User Other (please specify)

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

Preparation of BASF Group Financial statements

- (d) Country where you are located:

Germany

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

marco.lambeck@basf.com

Appendix 3 of the draft endorsement advice

Potential effects on stakeholders' behaviours

2 EFRAG has assessed the potential effects on stakeholders' behaviours, including lessees, users of financial statements, lessors and other lenders (see Appendix 3, paragraphs 48-78). To support the assessment, EFRAG commissioned a study from an economic consultancy to provide input into EFRAG's analysis of potential changes in the behaviour of preparers, investors and lenders.

3 Overall EFRAG does not anticipate that IFRS 16 will have any material effect on entities' access to and the pricing of leasing as a source of finance. EFRAG however notes that some lessees may seek changes to their contract terms and conditions and that lessors may be requested to provide lessees with more information than in the past.

4 Do you agree with this assessment?

Yes No

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

Potential impact of IFRS 16 on the leasing industry

5 EFRAG has assessed the potential impact of IFRS 16 on the leasing industry in Europe. The assessment was informed by the economic study commissioned by EFRAG which considered the extent to which IFRS 16 is expected to lead to changes in behaviours of lessees and, specifically, changes in the demand for leases (Appendix 3, paragraphs 79-88).

