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**Chairman**  
**PDC N° 24**

**Paris, March 13<sup>th</sup>, 2017**

**Mr Jean-Paul GAUZES**  
Chairman – EFRAG Board  
35 square de Meeûs  
B1-000 Bruxelles  
Belgium

### **IFRS 16 Leases – Draft Endorsement Advice**

Dear Mr Gauzes,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned *IFRS 16 Leases – Draft Endorsement Advice* issued in February 2017 regarding the endorsement of IFRS 16 Leases. This letter sets out the most important comments raised by interested stakeholders involved in ANC's due process. Our Board has reviewed and approved this letter on March 10<sup>th</sup> 2017.

From an overall standpoint ANC supports the recommendation to endorse IFRS 16. However, we consider that it is necessary, for the record, to reiterate some points on which a proper emphasis is needed. ANC summarises below a number of comments already communicated on different occasions (notably at the TEG and Board sessions). ANC acknowledges that most of our concerns have already been one way or the other addressed in the DEA published in February 2017. However ANC considers key to ensure that the overall judgment over IFRS 16 is read in conjunction with the remaining outstanding concerns identified. In particular, ANC believes that a comprehensive vision of the benefits and risks resulting from the implementation of this standard is needed; notably following the Europe Economics report which not only concludes on the effects of the implementation of IFRS 16 but also evidences the limits of the study.

ANC has therefore identified the following points of attention:

#### *1. Overall relevance of the concept of Right of Use*

In ANC's view, IFRS 16's conceptual position leading to recognize operating lease contracts as an asset and a liability in the balance sheet relies notably on a widened definition of control and a specific vision of what the substance of a contract is. As a consequence, ANC notes that the emphasis is put on the financial and economic features of those leases, by contrast with their legal and contractual features and believes that this principle should therefore only be considered as relevant for and be applied to consolidated statements of listed companies subject to the IAS Regulation.

## *2. Inadequacy for individual financial statements and for small and medium entities (SMEs)*

ANC wishes to express serious doubts as to whether this standard would be appropriate for individual financial statements and for non-listed companies, in particular for SMEs. As regards individual financial statements, in a number of jurisdictions, there is an unnecessary risk of disconnect, should the right of use concept be introduced for operating leases, between such an accounting approach and the contractual clauses, tax treatment and Company Law consequences of those leases. In addition, for SMEs, it would induce significant complexity and probably modify the balance of the costs/benefits assessment.

ANC notes that at this point of time a very small number, if any, of National Standard Setters have incorporated or, to the best of our knowledge, consider incorporating the Right of Use conceptual approach into their national GAAPs. ANC underlines the fact that this position appears to be aligned to and consistent with the legally enforceable nature of these leases contract, as well as with the related tax consequence and Company Law requirements. In this respect we underline the fact that the Accounting Directive does not provide specific requirements on leases.

## *3. Costs / Benefits assessment*

ANC welcomes the efforts made to perform, for the first time, a detailed ex-ante impact assessment of IFRS 16. This exercise has been extremely useful for the preparation of Appendix 3 of the DEA.

However, ANC believes that the DEA still needs to be read in conjunction with the Europe Economics report, as this study outlines numerous limits. This point needs, in our view, to be clearly stated in the final endorsement advice in order to ensure the European Commission and the other European institutions take into account all comments and limits presented in this report.

## *4. Regulatory ratios*

ANC's stakeholders from the insurance and banking sectors reiterate their comments as regards potential interactions between IFRS 16 and regulatory ratios. In this context, one of the key issues is to ensure that the simultaneous recognition of an asset and a liability does not lead to unintended imbalance for prudential ratios.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,



Patrick de CAMBOURG