

C/O KAMMER DER WIRTSCHAFTSTREUHÄNDER
SCHOENBRUNNER STRASSE 222–228/1/6
A-1120 VIENNA
AUSTRIA

TEL +43 (1) 81173 228
FAX +43 (1) 81173 100
E-MAIL office@frac.at
WEB <http://www.frac.at>

Mr Roger Marshall
European Financial Reporting Advisory Group (EFRAG)
35 Square de Meeûs
B-1000 Brussels
Belgium
E-mail: commentletters@efrag.org

December 8, 2016

Dear Mr Marshall,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on *EFRAG's Preliminary Consultation Document regarding the Endorsement of IFRS 16 Leases*.

Principal authors of this comment letter are Werner Fleischer, Konrad Fuhrmann, Peter Geyer, Gerhard Marterbauer, Günter Schmidt and Raoul Vogel. In order to assure a balanced Austrian view, the professional background of these authors is diverse.

APPENDIX 1

Question 1:

Do you have any information or evidence on the extent to which leases (that you are party to or otherwise aware of) will be eligible for each of the short-term and low-value assets exceptions identified in paragraph 24? If so, please provide details.

If you are a preparer, do you expect to use the exceptions? If so, please:

- i) Quantify the number and annual lease payments for each category**
- ii) Indicate the proportion of your leases (by volume and/or value) you estimate to be covered by each of the exceptions.**

We expect that the use of a practical expedient in the context of short term leases will be the exception, since the usual term of a lease will exceed one year.

On the other hand, the use of the practical expedient concerning low value assets will be extensive. Even though qualitative criteria may be applied, we expect the quantitative threshold of 5000 USD mentioned in the guideline to be applied to the full extent.

Question 2:

If you are a preparer, which approach to transition do you expect to take? Please explain your reasons for this decision.

Full retrospective approach will rarely be used, since it will not be practicable (potentially relevant for real estate leases). Within the cumulative catch-up option, the type of measurement for an asset is decided on for each lease separately and, therefore, it is difficult to predict whether entities will choose to measure the RoU asset at transition date, as if IFRS 16 had been applied from lease commencement, or at the amount equal to the liability. We expect that previous conclusions reached under IFRIC 4 and IAS 17 will be “grandfathered” for the transition to IFRS 16.

APPENDIX 2

Question 3:

Are you aware of

- i) **Any contracts that you consider to be leases that would not be classified as leases under IFRS 16; or**
- ii) **Any contracts that you consider to be service contracts (or other non-lease contracts) that would be classified as leases under IFRS 16?**

If so, please provide details of these contracts and why you consider that the classification would not be appropriate.

- i) We are not aware of any contracts that are leases in substance, but which would not be classified as leases under IFRS 16.
- ii) We are not aware of any service contracts (or other non-lease contracts) that would be classified as leases. Since the classification criteria in IFRS 16 is clearer than in the former standard, it is to be expected that it will be easier for users to determine whether an agreement is a service or a lease contract.

Question 4:

EFrag is interested in understanding whether leases of intangible assets (other than rights held by a lessee under licensing agreements within the scope of IAS 38) are common. Do you have any information or evidence as to how frequently such leases of intangible assets arise in practice? If so, please provide information about the types of intangible assets that are subject to leases and the significance in operating and monetary terms.

We believe that leases of intangibles are rather unusual, except for specific industries dealing with software licenses and trademarks.

APPENDIX 3

Question 5:

Do you have any comments on the comparison of IFRS 16 with IAS 17?

We believe that, if correctly applied, IAS 17 led to a more adequate presentation of operating leases in the statement of profit or loss than IFRS 16, since IFRS 16 causes a “front loading effect”. Additionally, the equal treatment of operating lease and finance lease in IFRS 16 does not seem to be justified.

It is not expected that the extensive disclosures will improve information for users. We like to raise the question, whether this additional information is really relevant for users and whether the extensive disclosures contradict the current disclosure initiative, which aims at concise and relevant reporting.

We expect that the new standard will result in a set-up of contracts evolving from leasing to service contracts. Additionally, contracts will be structured through options.

Question 6:

Do you have any views or information on how IFRS 16 can be expected to affect the behavior of investors and/or lenders? If so, do you have any views or information on whether and how IFRS 16 could, for European companies that apply IFRS, positively or negatively affect:

- i) the overall cost of capital**
- ii) access to finance and cost of credit?**

Please provide any available evidence.

In general, we believe that analysts have already considered the information concerning the minimum lease payments. Therefore, we do not believe that there will be a major effect on the overall costs of capital for entities, even though the effect on the equity ratio in certain sectors (i.e. retail, logistics) might be considerable.

Question 7:

Do you have views or information on how IFRS 16 might affect entities' use of leasing? For example, do you expect lessees to:

- i) reduce their use of leases with a corresponding increase in purchases of assets;**
- ii) reduce their use of leases without a corresponding increase in purchases of assets**
- iii) seek to change the terms of new or existing leases?**

Please provide any available evidence.

- i) The industry seems to be divided on the subject. For some entities leasing might still be an attractive form of financing, while others may choose to purchase assets. The decision will**

depend on the individual characteristics of the entities. In the real estate industry, we expect that there will be an increase in the purchase of assets.

- ii) This option seems unlikely.
- iii) We believe that there could be a shift in Europe from lease contracts to service contracts.

We anticipate more negative consequences for pure rental contracts, since the calculation of ratios may not have been considered adequately in the past.

Question 8:

Do you have any additional information or views on how the endorsement of IFRS 16 can be expected to affect the leasing industry in Europe? EFRAG is particularly looking for views from the leasing industry.

Please provide any available evidence.

In general, we believe that the leasing industry will develop new products. We expect a shift from financing agreements to service contracts. In Austria, we believe that the effect will be limited, since only entities with securities admitted for trade on a regulated market have to apply IFRS. In the absence of explicit lease accounting rules in local GAAP, tax accounting rules are applied for the local GAAP accounts in Austria. Thus we expect that the effect was higher in countries, where local GAAP and tax bases will also be affected.

Question 9:

Do you have any information or views on how the endorsement of IFRS 16 can be expected to affect SMEs in Europe?

Please provide any available evidence.

No significant effect is expected. In the context of SMEs the standard may only have an effect on voluntary preparers of IFRS financial statements (for example, suppliers in the aviation and automotive industry, which prepare IFRS financial statements by request of their customers). These entities will probably reduce their use of leases.

Question 10:

Do you have any information or views on whether IFRS 16 is likely to endanger financial stability in Europe?

Please provide any available evidence.

No effect expected.

Question 11:

What is your view on the relative costs of applying IFRS 16 and US GAAP? Do you have any other views as to the advantages or disadvantages of IFRS 16 compared to US GAAP?

Please provide any available evidence.

We expect that the costs for documentation in accordance with each of the two standards are similar, therefore, we do not expect major differences concerning the implementation costs.

We believe that one major disadvantage of IFRS 16 compared to US GAAP is the “front loading effect”.

Question 12:

What is your view on the one-off and ongoing costs for preparers? (Please indicate whether you are a) a lessee; b) a lessor; c) both a lessee and a lessor or d) neither a lessee nor a lessor.)

Will preparers that already report finance leases have lower costs than preparers without finance leases?

Please provide any evidence you have on the expected magnitude of the costs.

- a) Lessees: We believe that, in general, the implementation costs of IFRS 16 are underestimated by most entities. The implementation for groups operating worldwide will be very challenging and costs might be high. First-time implementation will be a considerable effort, but the tracking of parameters and the monitoring of the contracts should neither be underestimated.
- b) Lessors will have to provide more information voluntarily (i.e. amortization schedules). IFRS 16 implementation will necessitate more effort concerning the information and the consulting of clients.

We do expect lower implementation costs for entities already applying finance leases.

Question 13:

If you are a user, are you aware of any costs in addition to those identified by EFRAG in paragraphs 116 to 118 of Appendix 3? Please quantify if possible and provide any available evidence.

We are not aware of any additional costs.

Question 14:

If a lessee has to develop new systems to support the accounting for leases, to what extent do you, as a lessee, expect internal benefits from the information provided by the new information? Please quantify to the extent possible.

Do you agree with the benefits for users and preparers identified above? Are there any additional benefits for users and preparers?

Please provide any available evidence.

Lessees will look for software applications for lease contract management. It will be important for users to find solutions providing an overview of their leasing agreements and, therefore, more information (especially concerning operating leases) will be available in entities. Furthermore, the new standard will increase the focus of management on leasing activities. These factors may lead to a closer analysis of leasing and financing activities of the entities, which may lead to the renegotiation of contract terms.

Question 16:

Are there any issues that have not been raised in this Preliminary Consultation Document that should be considered by EFRAG?

Please explain your view.

No additional comments.

Kind regards,

Romuald Bertl
Chairman