

EFRAG
35 Square de Meeûs
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EFRAG Consultation regarding the endorsement of IFRS 16

EFRAG has issued a preliminary consultation document regarding the endorsement of IFRS 16 Leases. The document contains EFRAG's preliminary assessments of the standard against the EU endorsement criteria and the reasons thereof. It also poses a number of questions to constituents regarding lease-accounting and the application of the standard.

The Swedish Enterprise Accounting Group (SEAG) welcomes the consultation and would like to contribute with the following comments from a preparer perspective. Overall, we agree with EFRAG's assessment that IFRS 16 meets the criteria for endorsement. We also believe that – as the development of the standard for several reasons was prolonged – it would be valuable if the endorsement process onward caused no further delays. The first time application of a new standard with large impact – such as IFRS 16 – can be a very demanding project for the affected companies and unanticipated interruptions may be both costly and burdensome. Therefore, we hope that EFRAG will issue a positive endorsement advice early in 2017 according to plan.

Our comments to some of the specific questions posed in the consultation are provided in the appendix below.

We are happy to be of service if you have additional queries or comments.

Kind regards,

CONFEDERATION OF SWEDISH ENTERPRISE
Swedish Enterprise Accounting Group



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The Swedish Enterprise Accounting Group (SEAG) represents more than 40 international industrial and commercial groups, most of them listed. The largest SEAG companies are active through sales or production in more than 100 countries.

Appendix: Comments on some of the specific questions to constituents raised by EFRAG

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 our members will use both type of exceptions. However, it is too early in the process to assess to what extent the exceptions for short-term and low-value leases will be used. We expect that lap tops will make up a large quantity of assets for which exceptions will be used. However, for many preparers lap-tops usually count for a relatively small share of the value of total leased assets.

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

Unfortunately it is still too early to comment on the transition choice that our members will make. However, the analysis so far indicates that the choice between the full retrospective method and the cumulative catch up method may cause a noticeable difference in equity. That difference will be compared to the cost and effort of applying the full retrospective approach. For some preparers it may not even be possible to applying the full retrospective method.

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.

We are not yet aware of any contracts that we believe should be considered as leases that do not meet the classification in IFRS 16. However, it should be noted that the impact of classifying a contract as a lease contract in many cases will be significant since all leases will be financial. Operational leases behave in many ways just like service contracts.

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 have software providers among our members. For these entities, the applicable standard for revenue recognition – IFRS 15 or IFRS 16 – is not clear in all cases. We believe this may cause implementation problems going forward, at least in the transition face.

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

We believe that the principles in IFRS 16 are more logical and that the language is easier to understand. We also believe that the flow chart in B31 is of much help.

Do you have any views or information on how IFRS 16 can be expected to affect the behaviour 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. Please provide any available evidence.

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

Currently, we believe that the adjustments made by users may overstate lease liabilities to some extent, due to incorrect assumptions, excessive cautiousness or crude rules of thumb. If so, the cost of capital may be affected positively by the new standard. However, we have no evidence of this being the case.

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?

As IFRS has only one model, we believe that applying IFRS 16 will be easier and less costly than applying US GAAP for leases.

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).

It is yet too early for our members to make reliable estimations of both the one-off implementation costs and the running costs for applying the standard. Evidently from a lessee point of view, it will vary with the line of business as well as its volume. For lessees with many leases we expect both the one-off and ongoing costs to be significant. A particular issue is leased assets that are subject to subleasing, that in many cases will have to be accounted for separately from other leased assets, which will give rise to both initial implementation costs and running costs.

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.

It is likely that preparers that already have processes and system resources to cater for financial leases will have lower implementation costs than preparers that do not. However, as stated above, we do not have any evidence of the costs as it is yet too early in the process.

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.

Lessees that develop new systems and resources for lease accounting, may very well benefit from the better means for asset control as it is more likely that all or substantially all leased assets will be included in the financial reporting. This may enhance the decision process around investments and the ability to make forecasts of future cash flows.