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**IFRS Technical Committee**

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Berlin, 08 December 2016

Dear Jean-Paul,

**EFRAG's Preliminary Consultation Document regarding the endorsement of IFRS 16 Leases**

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on EFRAG's Preliminary Consultation Document (the 'PCD').

Overall, we support EFRAG's preliminary assessment that IFRS 16:

- meets the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, and raises no issues regarding prudent accounting;
- is not contrary to the true and fair view principle; and
- would improve financial reporting, compared to IAS 17 and the associated interpretations it replaces, and that the lack of convergence with the equivalent standard on leases in US GAAP would not put European entities at a competitive disadvantage.

We note that IFRS 16 was one of the major IASB projects. It encompassed nearly a decade of (joint) discussions, a Discussion Paper and two Exposure Drafts. Just in relation to the 2013 Exposure Draft, the IASB had to digest more than 600 comment letters and held dozens of outreach meetings, investor meetings, roundtables, webcasts and the like. This shows how much effort was put into seeking the views of a huge variety of different stakeholders and into incorporating these in order to achieve requirements for lease accounting that are clearly operational for most entities. Given the fact that most entities have entered into lease arrangements, the requirements apply to broadly everyone and need to cover a wide range of different transactions and (industry or entity related) characteristics.

In light of that and for a standard of such broad scope, we think that one has to inevitably accept compromises and trade-offs which may have a bigger impact for some entities than others.

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Hence, it does not come as a surprise that some entities may readily accept the new pronouncements whereas others tend to raise concerns with certain aspects of IFRS 16.

Thus, we agree that IFRS 16 includes some areas in which limitations exist with regard to relevance, reliability and/or comparability (e.g. the recognition exceptions for short-term leases and to leases of low-value assets, intragroup subleases and the practical expedient permitting lessees not to separate non-lease components from lease components). However, we understand that these exceptions and expedients help reducing costs and complexity, especially for preparers. Therefore, we think that the exceptions and expedients provided in IFRS 16 constitute an acceptable trade-off between the completeness and faithful representation of information on the one hand and the costs and complexity of applying IFRS 16 on the other.

Additionally, we agree that IFRS 16 provides guidance on all of the most important issues covered in the previous guidance on leases and, in addition, provides extended application guidance in areas where the IAS 17 guidance was considered inadequate or incomplete. Also, we think that the enhanced disclosures of information about a lessor's leasing activities represent an improvement. Therefore, we assess IFRS 16 to be an improvement overall in comparison to IAS 17.

Further, from the feedback we received thus far from our constituents we have not gained evidence that IFRS 16 might considerably affect the behaviour of investors and/or lenders. We expect that IFRS 16 will have no significant effect on the overall cost of capital, the access to finance and the cost of credit.

When deciding about the endorsement of IFRS 16, it also has to be taken into consideration that IFRS 16 as well as the equivalent US GAAP pronouncement (Topic 842) are the result of a joint project by the IASB and the FASB and that the final requirements of both standards are mostly converged. Therefore, we think that for globally operating entities supporting IFRS 16 is more beneficial than opposing it, even if they may not agree with every aspect of the standard.

In summary, we are aware of criticisms and limitations of IFRS 16, but we think that, on balance, the benefits of IFRS 16 outweigh those aspects. Therefore, we support endorsement of IFRS 16.

Additionally, we would like to flag that the IASB permits earlier application of IFRS 16, if an entity also applies IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. Since we are aware of some corporates highly affected by IFRS 16 that wish to apply IFRSs 15 and 16 at the same point in time, we believe that it is of utmost importance to ensure endorsement of IFRS 16 in a timely manner, so that entities domiciled in the EU can make use of earlier application of IFRS 16, if they choose so.



Please find the comments of our german constituents on the questions raised in the PCD in the appendix to this letter.

If you would like to discuss our comments further, please do not hesitate to contact Peter Zimniok or me.

Yours sincerely,

*Andreas Barckow*

President