

EFRAG SECRETARIAT PAPER FOR PUBLIC EFRAG TEG MEETING

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IFRS 16 Leases

Cover Note

Objective

- 1 The objective of this session is to discuss and approve a Draft Endorsement Advice on IFRS 16 *Leases*.

Background

- 2 At its December meeting, EFRAG TEG considered the feedback received from constituents in response to its Preliminary Consultation Document ('the PCD') and agreed that the Draft Endorsement Advice should reiterate the preliminary view that IFRS 16 meets the technical criteria for endorsement, with a limited number of improvements to the drafting that are enumerated below.
- 3 At its January meeting, the EFRAG Board considered the feedback received from constituents and expressed support for the suggested changes to the technical assessment.

	Topic	DEA Para
Cover Letter	<ul style="list-style-type: none"> • Report the concerns expressed respondents about the timeliness of the endorsement process. • Report the concerns expressed respondents as the need to clarify the interaction of the new standard with regulatory capital requirements of Banks. 	
Appendix 1	<ul style="list-style-type: none"> • No change. 	
Appendix 2	<ul style="list-style-type: none"> • Further explain why the concepts of right-of-use assets, as defined in IFRS 16, is appropriate in the case of leases. • Expand the discussion on the complexity induced by the level of judgement created by some requirements in IFRS 16 (substitution rights and assessment of the lease term). 	<p>§23 and §96-99</p> <p>§ 140-149</p>

IFRS 16 Leases – Summary of work to date and next steps

	Topic	DEA Para
	<ul style="list-style-type: none">Further explain why the concept of control as defined in IFRS 16 is appropriate and would not create inconsistencies with other standards.	§ 225-227
Appendix 3 (Cost and Benefits)	<ul style="list-style-type: none">Revise the assessment of costs for lessors to clarify that, although lessor accounting is substantially unchanged, lessors could incur additional costs to provide information to lessees (e.g. interest rate, stand-alone prices of components).	§ 134-135

Questions for the EFRAG TEG

- 4 Do EFRAG TEG approve the proposed revisions to EFRAG's technical assessment contained in appendix 2?
- 5 Do EFRAG TEG have comments on the proposed revisions to the assessment of cost and benefits?

European Public Good

- 6 EFRAG's PCD did not contain a conclusion as to whether adopting IFRS 16 would be conducive to the European Public Good as additional input and evidence was expected from the following:
 - (a) The feedback from constituents in response to the PCD;
 - (b) Evidence and input from an economic study it has commissioned on the effect analysis of IFRS 16; and
 - (c) Additional research on the impact of IFRS 16 on SMEs conducted during the consultation process.
- 7 Based on the above, the EFRAG Secretariat has prepared a draft assessment on European Public Good, including a comprehensive effects analysis of IFRS 16, that is contained in Appendix 3. The assessment will be discussed by the EFRAG Board at its February meeting.

Questions for the EFRAG TEG

- 8 Do EFRAG TEG have comments on the assessments contained in Appendix 3?

Agenda Papers

- 9 In addition to this cover note, the following agenda paper is provided for this session:
 - (a) Agenda paper 05-02 – EFRAG's Draft Letter to the European Commission Regarding the Endorsement of IFRS 16 Leases.