



EFRAG

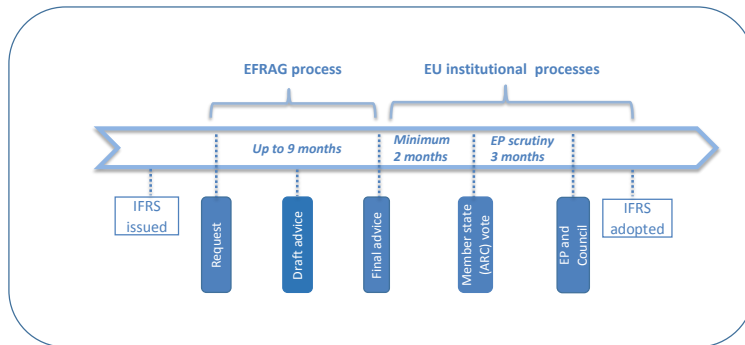
European Financial Reporting Advisory Group

IFRS 16 Leases –EFRAG endorsement advice

Joint Investor Outreach – Milan – 29 November 2016

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Endorsement timeline



EFRAG planned process

- 13 January 2016 – Standard issued
- 9 June 2016 – request for advice received from EC
- 28 July 2016 – Economic Study commissioned to economic consultancy after public call for tender (input to EFRAG’s European public good assessment)
- 12 October 2016 – preliminary consultation document issued for comment together with
 - EFRAG Secretariat paper on quantitative assessment of accounting impacts
 - EFRAG Secretariat paper on field work on the definition of a lease

EFRAG planned process

- 7 November 2016 – user questionnaire issued
- November: additional research on the impact of IFRS 16 on SMEs
- 8 December 2016 – preliminary consultation document comment period closes
- Beginning of February 2017 – draft endorsement advice will be issued for comment
- End of February 2017 – draft endorsement advice consultation period closes
- Beginning of March 2017 – preliminary review of comments received
- End of March: endorsement advice issued

Request from the European Commission

EFRAG's views on whether IFRS 16:

- Is not contrary to the true and fair view principle
- Is conducive to the European public good
- Meets the criteria of understandability, relevance, reliability and comparability

EFRAG should support its advice by an impact analysis, including a cost-benefit analysis and analysis of the broader economic impacts.

Request from the European Commission

The EC asked EFRAG as well to take into consideration in its assessment of IFRS 16:

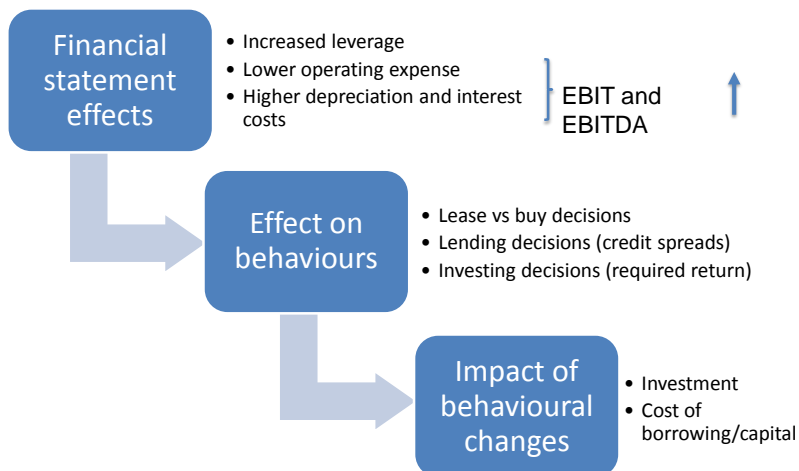
- General:
 - Appropriateness of a definition of a lease
 - Asymmetry between lessee and lessor accounting
 - Is IFRS 16 overly complex?
 - Is IFRS 16 an improvement over IAS 17?
- Potential effects on stakeholders' behaviour
 - Will companies change the way they use leases
 - Are capital providers likely to change their investment?
 - Impact on the lease industry

Request from the European Commission

The EC asked EFRAG as well to take into consideration in its assessment of IFRS 16:

- Potential impact on competitiveness
 - How could IFRS 16 affect SMEs?
 - Will the impact on the leasing industry have knock-on effects on SMEs' access to leases as a source of finance?
 - Would there be a disadvantage for EU companies compared to US competitors?
- Potential effects on financial stability
 - Analysis of impacts on the financial sector (financial ratios, debt covenants, credit scores, required level of bank capital etc)

Analysing the impacts: basic approach



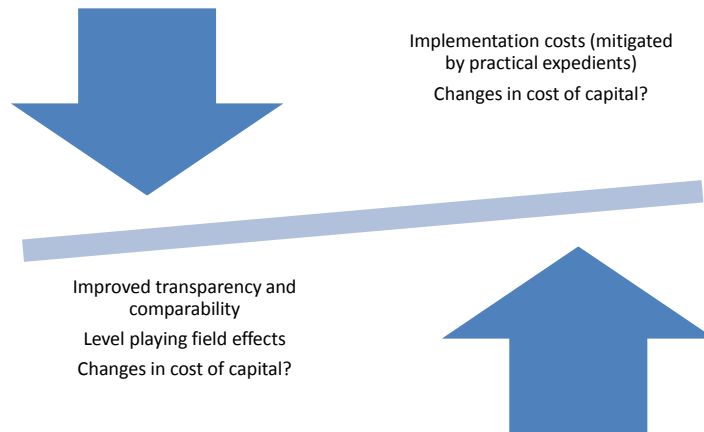
Simulation of effects on financial statements

EFFECTS ON THE BALANCE SHEETS	
Lease assets	↑
Liabilities	↑
Equity	↓
EFFECTS ON PROFIT OR LOSS	
EBITDA	↑
Finance costs	↑
Net result	Depends on the status of the portfolio
EFFECTS ON STATEMENT OF CASH FLOWS	
Cash from operating activities	↑
Cash from financing activities	↓
Total cash flows	↔

Simulation of effects on financial statements (on a sample of 417 companies)

Industry	Simulated liability (Euro bn)	% of total debt
Consumer Discretionary	93.4	17%
Consumer Staples	64.5	21%
Energy	60.8	26%
Healthcare	17.5	10%
Industrials	79.5	20%
Information Technology	8.2	22%
Materials	14.3	9%
Telecoms	49.4	20%
Utilities	16.5	4%
Total (excl. Financial Services)	404.7	16%

Cost and benefit assessment



EFRAG's preliminary position

EFRAG's overall preliminary assessment is that IFRS 16

- ✓ Meets the criteria of understandability, relevance, reliability and comparability
- ✓ Is not contrary to the true and fair view principle
- ✓ Would improve financial reporting compared to IAS 17
- ✓ Would not put European entities at a competitive disadvantage taking into account the lack of convergence with the equivalent US GAAP standard

EFRAG's preliminary position

EFRAG has not yet assessed whether IFRS 16 would reach an acceptable cost-benefit trade-off
Additional work conducted during consultation period:

- Additional research on the impact on SMEs
- Additional outreach with users
- Obtain evidence and input from an economic study commissioned by EFRAG

EFRAG has *not* yet reached a preliminary conclusion whether IFRS 16 is conducive to the European public good.

EFRAG seeking users' input on ...

User questionnaire

- Impact of IFRS 16 on user activity:
 - Adjustments to figures about leases
 - Expectation to adjusted reported figures for low-value items and short-term leases.
- Benefits and costs of IFRS 16
 - Will IFRS 16 be a better and more transparent basis for analysis compared to IAS 17?
 - Is there additional time/costs needed? If so, the first time IFRS 16 is applied or on a continuous basis?

EFRAG 's preliminary consultation document on IFRS 16



**Thank you for your
attention!
We are waiting for
your views**

<http://www.efrag.org/>



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