Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

EFRAG
35 Square de Meeûs
B-1000 Brussels
BELGIUM

15 March 2016

Re: IFRS 16 Leases - Draft Endorsement Advice

Dear Jean-Paul,

We are pleased to have the opportunity to provide our comments in order to contribute to the finalization of the EFRAG Draft Endorsement Advice on IFRS 16 Leases ("DEA").

On balance, we support the overall assessment prepared by EFRAG on the endorsement of the IFRS 16 Leases ("IFRS 16"). However we still want to take this opportunity to highlight some aspects of the advice that we believe are significant for future activities.

We note that EFRAG has based some of the assessments of the impact analysis on a study made by an external advisor. We understand that the study has been developed on the feedback received by a sample of stakeholders who responded to specific surveys. We believe that in the future it should be further investigated whether EFRAG could carryon internally such an analysis, with the appropriate coordination with European National Standard Setters, in order to ensure that the sampling and the consequent results fully meet the expectations about the outcome of the impact assessment.

We received concerns from our stakeholders that are preoccupied that the adoption of IFRS 16 may create some competitive issues among European and American entities, since the level of financial liabilities recognized in the statements of financial positions may be very different. In par. 151 of the DEA it is noted that "*by requiring separate presentation of the liabilities arising from operating and finance leases, US GAAP makes it easier for users to assess and treat lease liabilities arising from operating and finance leases differently when calculating ratios if they wish to do so*". Under US GAAP it is possible that many entities will not consider liabilities from operating lease as part of their net indebtness. On the other hand it is noted that applying IFRS there is no impediment for the entity to separate such liabilities. However in par. 152 of the DEA it is noted that "*IAS 7 requires a reconciliation of items of the statement of financial position for which cash flows are classified under financing activities which will include lease liability (or liabilities if the lease liability is separated)*". We are worried that, without appropriate clarifications, European entities, even if they separate operating lease liabilities from financing ones, will conclude that the nature of operating lease liabilities is financial since IAS 7 seems to classify cash outflows from all lease contracts within the financial activities and given that in the Basis for Conclusions the IASB seems to consider them all as financial liabilities. In facts IFRS 16 has eliminated the word "finance" from par. 17(e) of IAS 7. If this is the case, contrary to what would happen for American companies, European entities could incorporate such liabilities from operating lease within the net indebtness. We understand that users could be in the conditions of adjust such figures to make it comparable, however we are worried that in many cases it could not happen and therefore European entities may be understated if compared to American ones.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò

(Chairman)