



European Financial Reporting Advisory Group

35 Square de Meeûs
1000 Brussels
BELGIUM

Paris, 7th of December 2017

Reference : Reply to the Preliminary Consultation Document regarding the endorsement of *IFRS 16 Leases*

Dear Sirs or Madam,

ENGIE welcomes the public consultation on the preliminary consultation document regarding the endorsement of *IFRS 16 Leases*.

We thank you for the opportunity given to share our views on matters that may be relevant to your endorsement advice.

Our answers to the preliminary consultation document are provided in appendix.

In case you would like to obtain further explanations, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Wathelet Lepour".

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Appendix

Answers to the EFRAG Preliminary Consultation Document regarding the endorsement of IFRS 16 Leases

Appendix 1 – Summary of IFRS 16 Leases

1. 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.

As a preparer, we expect to use the exemption for short term leases. Discussions held provide evidence that contracts for some categories of equipment and materials are for a term shorter than one year. This is however to be confirmed by the on-going inventory of contracts. We also expect to use the low-value exemption however it is not possible to quantify the impacts to date.

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

We expect to use the full retrospective approach. Reasons for that are that it:

- allows for comparative information to be presented,
- gives the opportunity to use the implicit rate of the contract where determinable rather than the lessee's incremental borrowing rate.

Appendix 2 – EFRAG's technical assessment of IFRS 16 against the endorsement criteria

3. 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.

Contracts that are service contracts that could be classified as leases under IFRS 16

Analysis are on-going. However some contracts which are service contracts present a risk of being analyzed as lease contracts. This could be the case even though the obligations of the supplier is to sell power produced in future periods in exchange for consideration and not to make available an asset at commencement. In addition, the customer has an unconditional obligation to pay for power only when the supplier has performed. At commencement of the contract, the customer can avoid delivering cash until power is effectively produced.



4. 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.

N/A

Appendix 3 – Assessing whether IFRS 16 is conducive to the European public good

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

Comparison makes no mention of the shift from a risk & reward analysis to a control based analysis which is central.

The recognition of a ROU asset and a liability will not prevent users of financial statements from having to complete the information on balance sheet with information off balance sheet (disclosures on variable payments based on future performance or usage).

The use of the practical expedient where the split between a lease and a service component is complex and will lead to a different presentation of the P&L (greater depreciation of ROU vs. service expense).

Let us also note that the disappearing of the IFRIC 4 criteria of the “fixed price per unit” may lead to an increase in the number of contracts scoped when less where announced by the Board of the IASB.

6. 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:

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

Please provide any available evidence.

Not in a position to comment

7. Do you have views or information on how IFRS 16 might affect entities' use of leasing? For example, do you expect lessees to:

- (i) reduce their use of leases with a corresponding increase in purchases of assets;
- (ii) reduce their use of leases without a corresponding increase in purchases of assets;
- (iii) seek to change the terms of new or existing leases?

Please provide any available evidence.

No formal work performed to date. However, we expect IFRS 16 to lead to a thorough analysis of the costs and benefits of leasing assets vs. purchasing assets (costs of financing, flexibility given by lease contracts...). But difficult to appreciate today, the lease offers may evolve to cope with new environment.



Do you have any additional information or views on how the endorsement of IFRS 16 can be expected to affect the leasing industry in Europe? EFRAG is particularly looking for views from the leasing industry. Please provide any available evidence.

N/A

8. Do you have any information or views on how the endorsement of IFRS 16 can be expected to affect SMEs in Europe? Please provide any available evidence.

N/A

9. Do you have any information or views on whether IFRS 16 is likely to endanger financial stability in Europe? Please provide any available evidence.

We do not have info on whether IFRS 16 is likely to “endanger” financial stability in Europe.

10. 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? Please provide any available evidence

Not concerned by US GAAP. N/A

11. 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).

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.

One-off costs for preparers are expected to be significant:

- **Need for a new IT tool,**
- **Determination of new processes,**
- **Analysis of all contracts if grandfathering option not taken (limited relief where there is a finance lease as the contract will still need to be analyzed in view of the new definition). The volume of leases and the type of leases will affect the level of the costs.**

On-going costs:

- **Need to deal on a recurring basis with intercompany contracts (accounting treatment likely to be complex given the dual model kept between lessor and lessee),**
- **Measurement will required more judgement and more parameters will need to be determined (discount rate, variable lease payments included...).**

12. If you are a user, are you aware of any costs in addition to those identified by EFRAG in paragraphs 116 to 118 of Appendix 3? Please quantify if possible and provide any available evidence.

N/A

13. 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.



Do you agree with the benefits for users and preparers identified above? Are there any additional benefits for users and preparers? Please provide any available evidence.

Will enable to have a more complete view of the lease contracts signed by Group which have many entities in scope. The quality of the information is also likely to be increased.

And finally ...

14. Are there any issues that have not been raised in this Preliminary Consultation Document that should be considered by EFRAG? Please explain your view.

