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Dear Sir

Preliminary Consultation Document regarding the endorsement of IFRS 16 Leases

This letter sets out the comments of the UK Financial Reporting Council (FRC) on the above Preliminary Consultation Document.

We note that EFRAG has departed from its usual practice of issuing a draft endorsement advice which would include an Invitation to Comment. This would ask, amongst other things, whether or not the respondent agreed with EFRAG's assessments on whether the standard is not contrary to the principle of true and fair view and meets the criteria of understandability, relevance, reliability and comparability. Instead, the Preliminary Consultation Document sets out EFRAG's preliminary assessment on these topics and asks respondents to provide evidence on a variety of issues, but does not directly ask for views on its preliminary assessments.

We have obtained evidence from some UK users on some of these issues and this is set out below. However, firstly, we would like to express our view that we concur with 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;
- Is not contrary to the true and fair view principle;
- Would improve financial reporting, compared to the standard and interpretations it replaces; and
- Would not put European entities at a competitive disadvantage taking into account the lack of convergence with the equivalent US GAAP Standard.

From the feedback we have received from users, almost all consider that the application of IFRS 16 will provide more useful information and will provide a better basis for analysis than the existing requirements. We did not gain any evidence that the application of IFRS 16 will affect the behaviour of users or that it will negatively affect entities' cost of capital, access to

finance or cost of credit. Some users expressed the view that IFRS 16 should not affect entities' use of leasing if management are using leasing as a way to optimise risk-adjusted after-tax cash flows. They considered the use of leases to achieve off-balance sheet presentation to be contrary to this principle.

We note that EFRAG has not yet reached a preliminary conclusion as to whether IFRS 16 reaches an acceptable cost-benefit trade-off. From the feedback we have received from users, a majority consider that, compared to today, costs (or time spent) will be a little more on first-time application and the other users consider that the impact will be neutral. For ongoing costs, some users consider that the impact on costs (or time spent) will be neutral and other users thought the ongoing costs will be a lot less compared to today.

We did not receive much feedback from constituents that are preparers and therefore are unable to provide evidence or information on their views on the costs and benefits of IFRS 16 although, for some entities, the costs would be significant.

If you would like to discuss these comments, please contact me or Anthony Appleton on 020 7492 2432.

Yours sincerely



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