Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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IFRS-FA – öffentliche SITZUNGSUNTERLAGE

Sitzung:	**53. IFRS-FA / 10.10.2016 / 14:30 – 17:00 Uhr**
TOP:	**04 – Leasingverhältnisse**
Thema:	**Begleitung der EFRAG-Indossierungsempfehlung**
Unterlage:	**53_04b_IFRS-FA_Leasing_Extrakt**

Vorbemerkung

1 Diese Unterlage stellt eine Zusammenfassung der wesentlichen Aussagen des von EFRAG erstellten (Entwurfs des) *Preliminary Consultation Documents* (PCD, vgl. Unterlage 53_04a) dar.

2 Diese Unterlage könnte zudem als Basis für eine zusätzliche Information der deutschen Konstituenten dienen, insofern sich der IFRS-FA für die Kommentierung des PCD durch das DRSC und die Einbindung der deutschen Konstituenten ausspricht.

Wesentliche Aussagen des *Preliminary Consultation Documents*

Appendix 1 – Summary of IFRS 16 Leases

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

Summary

3 This Appendix contains EFRAG's assessment of IFRS 16 Leases against the technical endorsement criteria. In summary, EFRAG's overall assessment is that IFRS 16 meets the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, and leads to prudent accounting.

4 EFRAG has identified areas in which limitations exist to relevance and reliability (in relation to the scope and recognition exceptions) and to comparability (in relation to the transition requirements and to the scope and recognition exemptions). However none of the limitations

identified impedes IFRS 16 from meeting each of the criteria and from delivering prudent accounting.

5 EFRAG assesses that IFRS 16 is not contrary to the true and fair view principle, in that it:

(a) meets the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, and leads to prudent accounting;

(b) does not create any negative interactions with other IFRS (it is specifically designed to complement IFRS 15 Revenue from Contracts with Customers) and does not lead to unavoidable distortions or significant omissions of information that would be contrary to the true and fair view principle; and

(c) requires appropriate disclosures that provide a complete and reliable depiction of an entity's assets, liabilities, financial position, profit or loss and cash flows.

6 As a result, EFRAG concludes that IFRS 16 meets the technical criteria for endorsement.

Relevance

Definition of a lease

7 During the development of IFRS 16, concerns were raised that the definition of a lease might incorrectly scope services into the definition of a lease or exclude contracts that are leases from the scope of the Standard. The definitions of a lease in IFRS 16 and IAS 17 are similar, and EFRAG is not aware of any contracts that would be inappropriately classified, given the similarities in the definitions.

8 EFRAG acknowledges that, in certain cases, judgement will be required to assess if the customer has obtained control over an identified asset. Such judgements are not dissimilar from those required by other IFRS Standards and the limited outreach conducted by EFRAG has not identified that the judgement required in this area is more complex than judgements required by other IFRS Standards. EFRAG notes that the articulation of the principles in IFRS 16 Appendix B *Application Guidance* will assist in the exercise of judgement.

Exemptions and practical expedients on recognition

9 EFRAG observes that the disclosures will enable users to understand some of the effects of use of the exemptions for short-term leases and leases of low-value assets. However, EFRAG notes that no disclosure is required about future lease commitments for leases of low-value assets. Although leases of low-value assets are likely to be immaterial in many cases, the disclosure of the related expense may not mitigate in all circumstances the lack of recognition when leases of low-value assets are significant in aggregate. This may limit the ability of users to understand the impact of this exemption in cases where leases of low-value assets are significant in aggregate.

10 EFRAG also observes that no disclosures are specifically required when a lessee uses the accounting policy election not to separate lease and non-lease components contained in a lease contract. Even though IAS 1 requires disclosure of this accounting policy election when it is relevant to understanding the lessee's financial statements, the usefulness of the information may be limited as the relative effects of the lease and non-lease components may not be identifiable.

11 Overall, despite the limitations described, EFRAG assesses that the disclosures required by IFRS 16 will generally provide users with sufficient information to understand how the recognition exemptions and practical expedients affect a lessee's financial statements.

Initial measurement of the right-of-use asset and the lease liability

12 Variable lease payments that are linked to future performance or use of an underlying asset are not included in the initial measurement of the lease liability. EFRAG has considered whether this requirement would result in the omission of relevant information, taking into account the predictability of the cash outflows. EFRAG observes that it may be difficult to accurately estimate these variable lease payments (i.e. that there is a high level of measurement uncertainty).

13 Some might consider that a comparable level of uncertainty exists in assessing whether renewal or termination options will be exercised, and under IFRS 16 this does not prevent such options from being considered when they are 'reasonably certain' to be exercised (see paragraphs 40 and following). EFRAG considers that there is a higher level of measurement uncertainty in assessing variable lease payments based on usage or performance as the assessment depends on the future activity of the lessee and may require consideration of a range of possible outcomes and their probabilities.

14 EFRAG retains the view in its comment letter to the IASB on the 2013 ED that the usefulness of information is decreased when it is subject to frequent reversals and adjustments as a result of changes in estimates and, as a consequence, there is a trade-off to consider between the relevance and the reliability of the information.

15 On that basis, EFRAG assesses that these requirements of IFRS 16 would generally provide relevant information. However, EFRAG also acknowledges there might be situations whereby a lessee can predict with 'reasonable certainty' the level of usage or performance of a leased asset and under such circumstances the exclusion of variable payments might decrease the relevance of information.

16 Finally, EFRAG observes that additional disclosures are required for payments that are not included the measurement of the lease liability, in particular:

(a) the expense for the period relating to variable lease payments not included in the measurement of lease liabilities; and

(b) the future cash outflows to which the lessee is potentially exposed that have not been reflected in the measurement of lease liabilities (when required to meet the disclosure objective).

17 EFRAG assesses that these disclosures will provide useful information to users about the effect of variable lease payments.

Subsequent measurement of the right-of-use asset and the lease liability

18 EFRAG acknowledges that, in principle, users of financial statements receive more relevant information if lessees reassess the use of extension, termination and purchase options on a regular basis. This is because the reassessment would reflect current economic conditions. However, EFRAG also acknowledges that requiring reassessment at each reporting date would be costly for an entity with many leases that include options.

19 EFRAG considers that an appropriate balance has been achieved between relevance and cost and complexity by requiring reassessment only upon the occurrence of a significant event or change in circumstances, that is within the control of the lessee, affecting whether the lessee is reasonably certain to exercise, or not to exercise, an option to extend a lease, to terminate a lease or to purchase an underlying asset.

Overall conclusion on relevance

20 EFRAG's overall assessment is that the requirements in IFRS 16, especially the recognition of assets and liabilities by lessees for all leases (with limited exceptions) will result in relevant information. Recognition of an asset over which the entity has obtained control has predictive value in that it assists users to assess the entity's ability to generate future cash inflows through the use of the underlying assets and enhances transparency about the capital employed. Recognition of a lease liability provides information about obligations to make future cash outflows and, hence, enhances transparency about an entity's financial leverage.

21 EFRAG has however identified certain limitations to relevance, including the optional recognition exemption for leases of low-value assets, the practical expedient to not separate non-lease components from lease components; the exclusion of variable lease payments based on usage or performance and the determination of the lease term, in particular the subsequent reassessment of extension, termination and purchase options. However, these limitations have been assessed as contributing to an acceptable trade-off between the cost and complexity of implementing IFRS 16, on the one hand, and the relevance of the information on the other hand.

Reliability

Exemptions and practical expedients on recognition

22 The optional recognition exemptions for short-term leases and leases of low-value assets have the potential to affect the completeness of information as their application results in the non-recognition of right-of-use assets and lease liabilities. Although leases of low-value assets are likely to be immaterial, the disclosure of the related expense may not mitigate the lack of recognition when leases of low-value assets are significant in aggregate, as no disclosure is required about the future lease commitments.

23 The practical expedient permitting a lessee not to separate non-lease components from lease components may decrease the faithful representation of leases in a lessee's financial statements because the measurement of a right-of-use asset and associated lease liability may include amounts that do not arise from a lease. However, this practical expedient was introduced to help reduce complexity and costs for preparers. Disclosure of the application of this accounting policy option, without disclosure of the impact, will highlight to users that this practical expedient is being applied, without requiring the impact of applying this practical expedient and, consequently, negating the benefit inherent in it.

Subsequent measurement of the right-of-use asset

24 Lessees are required to reassess options to extend, or terminate a lease or to purchase an underlying asset; only upon the occurrence of a significant event or a significant change in circumstances, that is within their control and that affects whether the lessee is reasonably certain to exercise, or not to exercise, these options.

25 EFRAG acknowledges that, in principle, information on leases more faithfully represents the changes in economic conditions when extension, termination and purchase options are reassessed on a regular basis. However, EFRAG considers that requiring a lessee to reassess options in response to market-based events or changes that are not within its control would be unnecessarily costly and the resulting volatility would not always provide reliable information

26 Overall EFRAG considers that an appropriate balance has been achieved between reliability and the cost and complexity by requiring reassessment only upon the occurrence of a significant event or a significant change in circumstances that is within its control of the lessee.

Overall conclusion on reliability

27 EFRAG's assessment is that IFRS 16 leads to the provision of reliable information. Limitations to reliability have been identified in particular relating to the recognition exemptions and to the determination of lease term. However, those requirements have been assessed to provide an acceptable trade-off between the cost and complexity of implementing IFRS 16, on the one hand, and the completeness and faithful representation of the information provided to users.

Comparability

Determining whether a contract contains a lease

28 EFRAG has carried out specific field test with a number of preparers, across 13 industries and 9 jurisdictions, on the complexity of determining whether a contract is a lease. Although EFRAG has heard that, in some industries, the assessment may require a greater degree of judgement for certain types of contracts; especially when both the customer and the supplier make decisions about the use of an item, no situations were identified in which the application would be 'overly complex' and beyond the level of judgement required by a principles-based standard.

Presentation

29 EFRAG notes that separating interest and depreciation in the lessee's statement of profit or loss improves cohesion between the financial statements by presenting separately the interest expense arising from the lease liability and the depreciation expense related to the right-of-use asset. EFRAG acknowledges that this would also create greater comparability, in particular in reflecting the effects of a lease in profit or loss, between entities that borrow to buy assets and those that lease similar assets.

30 EFRAG understands that the approach for classifying lease payments in the statement of cash flows is aimed at obtaining a cohesive presentation of lease contracts in the financial statements. However, EFRAG assesses that making the decision on the grounds of cohesiveness limits the comparability between cash flows of repayments of principal for leased assets, which would be classified as financing cash flows and payments for assets purchased on deferred payment terms which would be classified as investing cash flows. This, in EFRAG's view, could impose limitations to comparability of financial information for economically similar transactions both within an entity and between entities.

Does IFRS 16 include exemptions and practical expedients that could impair comparability?

31 For comparability purposes, the use of exemptions and practical expedients (the optional recognition exemption for short-term leases and leases of low-value assets, and the practical expedient to not separate non-lease components from lease components) results in like items being accounted for differently. Because IFRS 16 does not limit the use of these exemptions and practical expedients to situations where the impact would not be material, it may limit comparability. However, participants in EFRAG's 2014 limited survey on simplifications to the lessee accounting model identified that exemptions and practical expedients were necessary to reduce complexity and implementation costs.

32 EFRAG also observes that the IASB has conducted fieldwork to assess the effect that low-value asset leases would have if the right-of-use assets and lease liabilities were recognised in the financial statements of lessees and concluded that, in most cases, assets and liabilities arising from leases within the scope of the exemption would not be material, even in aggregate.

33 Finally, EFRAG notes that IFRS 16 requires disclosures when these exemptions and practical expedients are used which may mitigate, in part, the loss of comparability. As a result, EFRAG assesses that the operational benefits provide an adequate offset to the possible limitations in comparability.

Transition requirements

34 Comparability, both between entities and over time within an entity, could be limited by the following transition requirements:

(a) permitting entities not to reassess whether a contract is, or contains, a lease for both:

(i) contracts that were previously identified as leases; and

(ii) contracts that were not previously identified as containing a lease.

(b) permitting a modified retrospective application; and

(c) prohibiting an entity from reassessing sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale.

35 EFRAG assesses that not all leases as of the effective date of IFRS 16 would be accounted for similarly on an ongoing basis. The period during which comparability might be reduced could extend over a long period of time.

36 EFRAG also observes that the modified retrospective transition method results in consistent presentation of leases under previous IFRS in the comparative years but not between comparative and current periods as entities applying this approach are prevented from restating comparative information. EFRAG however notes that, when the modified retrospective transition method is used, additional disclosures are required to help users of financial statements understand the effect on trend information.

Overall conclusion on comparability

37 IFRS 16 requires the exercise of judgement in many areas (including the disclosure requirements). Judgements are unavoidable in principles-based standards and may be necessary in order to achieve comparability rather than uniformity (which in some instances disregards the substance of a transaction or event). However, EFRAG considers that the level of judgement required by IFRS 16 is not so exceptional that it would generally result in information that is not comparable.

38 EFRAG's overall assessment is that the requirements in IFRS 16 will result in comparable information. Limitations to comparability have however been identified in relation to (a) the presentation of cash payments by a lessee in the statement of cash flows; (b) the optional recognition exemption for leases of low-value assets, and the practical expedient to not separate non-lease components from lease components; and (c) the transition period and the immediately following periods, caused by the different transition options permitted.

39 These limitations to comparability are however balanced against the overall relevance of the resulting information and the reduced cost and complexity for preparers.

Understandability

Overall conclusion on understandability

40 EFRAG has assessed that the requirements in IFRS 16 result in understandable information even if IFRS 16 introduces some new concepts (such as right-of-use assets or in-substance fixed payments) and includes a number of exceptions to the general principles and practical expedients available both upon transition and on an ongoing basis. However, EFRAG has assessed that these exceptions and practical expedients would not impair understandability.

41 Therefore, EFRAG's overall assessment is that IFRS 16 satisfies the understandability criterion in all material respects.

Prudence

Overall conclusion on prudence

42 EFRAG has concluded that:

(a) the recognition of liabilities arising from all lease contracts (with limited exceptions) is consistent with the concept of prudence;

(b) the measurement of these lease liabilities leads to prudent accounting in that all payments that are not avoidable are included; regardless of whether they are fixed, in-substance fixed or variable lease payments that depend on an index or a rate;

(c) the requirement to measure right-of use assets at cost less accumulated depreciation and impairment (with some exceptions) is aligned with the requirement applicable to owned property, plant and equipment, which have been assessed to lead to prudent accounting;

(d) the use of fair value as the measurement basis for rights to use investment property and property, plant and equipment does not raise concerns about prudence; and

(e) for sale and leaseback transactions, IFRS 16 ensures that gains on sale and leaseback are only recognised, by the seller-lessee when a sale is realised whereas negative value adjustments are immediately provided for and that the carrying amount of the asset is not misstated by the buyer-lessor.

43 Consequently, EFRAG has concluded that the application of IFRS 16 would lead to prudent accounting.

True and fair view principle

44 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) requires appropriate all disclosures that provide a complete and reliable depiction of an entity's assets, liabilities, financial position, profit or loss and cash flows.

45 EFRAG assesses that, on a stand-alone basis, IFRS 16 provides relevant, reliable, comparable and understandable information and leads to prudent accounting. That is, the application of IFRS 16 provides information that is useful for decision-making and for assessing the stewardship of management.

46 EFRAG also assesses that IFRS 16 does not create any negative interactions with other IFRS and is specifically designed to complement IFRS 15. Accordingly, EFRAG assesses that IFRS 16 does not lead to unavoidable distortions or significant omissions and therefore it does not impede financial statements from providing a true and fair view.

47 EFRAG also concludes that IFRS 16 requires the appropriate disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

48 As a result, EFRAG concludes that the application of IFRS 16 would not lead to information that would be contrary to the true and fair view principle.

Overall Conclusion

49 Accordingly, for the reasons set out above, EFRAG's assessment is that IFRS 16 meets the technical requirements for EU endorsement as set out in the IAS Regulation.

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

50 EFRAG has commissioned a study by an economic consultancy as an input to the final endorsement advice to the European Commission. This study is not complete at the time of publication of this Preliminary Consultation Document. When complete this study is expected to provide significant input into EFRAG's analysis of the impact of IFRS 16.

51 For this reason, this Appendix 3 does not provide an overall preliminary conclusion on EFRAG's assessment of European public good. Preliminary conclusions of certain aspects of the assessment are provided in areas where EFRAG has completed its preliminary assessment.

Is the financial reporting required by IFRS 16 an improvement over that required by IAS 17?

52 EFRAG has focused its assessment of whether the financial reporting required by IFRS 16 is an improvement over that required by IAS 17 *Leases* on the areas of change it considers most significant.

Adequacy of the guidance on all significant matters within its scope

53 IFRS 16 provides guidance on all of the most important issues covered in the previous guidance on leases and, in addition, provides extended application guidance on areas where the IAS 17 guidance was considered to be inadequate, including the definition of a lease; separating components of a contract; accounting for contract modifications; and variable consideration.

54 EFRAG assesses this to be an improvement that should result in IFRS 16 being applied more consistently than IAS 17.

Key changes that may not be useful for users

55 IFRS 16 introduces two optional recognition exemptions for short-term leases and leases of low-value assets. The use of these exemptions may limit the relevance of information because, in these cases, some lease assets and lease liabilities will not be recognised. There might also be some negative effect on comparability given that the use of the exemptions is optional.

56 EFRAG however assesses that most short-term leases are likely to have been classified as operating leases under IAS 17 and therefore, the exemption is not deemed to result in a loss of information for users. The optional exclusion for leases of low-value assets has the potential to result in a loss of information, compared to IAS 17, when such leases are material in aggregate and were classified as finance leases under IAS 17.

57 EFRAG acknowledges that these exemptions have been introduced to reduce the complexity and cost of IFRS 16 for lessees. To compensate for the lack of completeness in recognition, IFRS 16 requires the amount of expense to be disclosed.

Conclusion

58 Based on the above analysis, EFRAG is of the view that IFRS 16 brings a significant improvement to the reporting of leases when compared with IAS 17.

Potential effects on stakeholders' behaviours

59 EFRAG is expecting to receive significant additional input into its assessment of the potential effects of IFRS 16 on stakeholders' behaviours. EFRAG's preliminary assessment is therefore incomplete and no preliminary conclusion is provided.

Impact of IFRS 16 on the leasing industry

60 EFRAG is expecting to receive significant additional input into its assessment of the Impact of IFRS 16 on the leasing industry. EFRAG's preliminary assessment is therefore incomplete and no preliminary conclusion is provided.

Impact of IFRS 16 on SMEs

61 EFRAG is expecting to receive significant additional input into its assessment of the potential effects of IFRS 16 on SMEs. EFRAG's preliminary assessment is therefore incomplete and no preliminary conclusion is provided.

Is IFRS 16 is likely to endanger financial stability in Europe?

62 EFRAG is expecting to receive significant additional input into its assessment of the whether IFRS 16 is likely to endanger financial stability in Europe on stakeholders' behaviours. EFRAG's preliminary assessment is therefore incomplete and no preliminary conclusion is provided.

Potential effects on competitiveness

63 The impact of applying IFRS 16 or Topic 842 on financial position and performance is mixed. EFRAG's analysis is that implementation costs may be slightly lower for IFRS preparers in some areas and slightly higher in others, but that the overall new difference should not be significant. Overall EFRAG does not consider that the lack of full convergence between the two Standards will put IFRS preparers at a competitive disadvantage.

Costs and benefits of applying IFRS 16

64 EFRAG is expecting to receive significant additional input into its assessment of the costs and benefits of applying IFRS 16. EFRAG's preliminary assessment is therefore incomplete and no preliminary conclusion is provided.

Costs for preparers

65 EFRAG's assessment is that the cost of implementing IFRS 16 is likely to be more significant for lessees with a significant number of operating leases under IAS 17. However, the significance of the cost will vary depending on the size of an entity's lease portfolio, the terms and conditions of those leases and the systems already in place to account for leases applying IAS 17. As noted above, EFRAG does not expect lessors to incur significant costs.

Benefits for preparers

66 Overall, EFRAG's assessment is that preparers are likely to benefit from IFRS 16, which result in more relevant and reliable information, improved comparability and transparency about the effects of leases and therefore more level playing field. Preparers may also benefit from better economic decision-making resulting from improved financial reporting and better insight into

how their financial leverage (in particular for lessees in which the leasing activity is decentralised).