

Mr Alan Beller
Chairman of Due Process Oversight Committee
IFRS Foundation
7 Westferry Circus
Canary Wharf
London, E14 4HD

29 November 2019

Dear Alan Beller,

IFRIC Agenda Decision on Lease Term

I am writing to you on behalf of the 100 Group to express the deep concern we have with a decision taken by the IFRS Interpretation Committee (IFRIC) at the 26 November 2019 meeting. It relates to an interpretation matter concerning lease terms under IFRS 16, a highly complex standard. The extremely controversial agenda decision by the very slenderest of margins (seven voting in favour and six voting against) disregarded the majority of responses submitted which were supportive of an amendment to the standard being made.

In practice, there have been multiple interpretations by large companies with high quality staff and signed off by the leading audit firms. Even if the staff may feel the terminology was clear, the evidence would suggest this is not the case.

In response to the tentative agenda decision, the IFRIC received 31 letters showing very clearly the wide divergence in the understanding of the standard. Of those 31 letters, 22 disagreed with the draft agenda decision regarding lease term and 17 (55% of respondents) indicated that the lack of clarity was so great that a change to the standard was required. In our view, agenda paper 4 prepared for the IFRIC meeting, did not convincingly justify the view that no alternative interpretation of the standard was possible, and that the inclusion of the paper in the agenda under the heading "Agenda decision to finalise" implied the outcome that was desired.

Moreover, having reviewed the materials provided to the Committee, the staff paper did not properly represent the detailed views of respondents, where in most instances more than double the number of paragraphs were used to explain the staff's views than those of the respondents. In our view, this level of imbalance is leading the Committee to a preferred answer before the debate has started. If the agenda decision is upheld, we believe it would result in a change in the standard. Such a fundamental change cannot be addressed through the mechanism of an agenda decision alone.

When considering the standard setting process for IFRS 16, at no stage was it made clear that economic compulsion was intended to override legal form; had that been clearer, then there would have been questions about why this was the case for IFRS 16 but not for IFRS 9 or IFRS 15 and how the three standards could claim to sit within a consistent conceptual framework. Furthermore, at no stage in the standard setting process was there any consideration of what this might mean in practice for companies, audit committees and auditors attempting to make judgements about the economic life of a lease within a very wide range of plausible judgements and how, absent detailed guidance and field testing, this would be likely to lead to divergence rather than convergence of accounting treatments.

The role of the IFRIC is not just to explain why it thinks its interpretation is the only one possible, but also to understand why other preparers and auditors have a different understanding and to explain convincingly why these other interpretations are mistaken. The role of the IASB is to set a standard and to ensure that the standard is understood in the same way by all and can be applied consistently on a global scale. Once it is clear that stakeholders can in good faith have different interpretations of

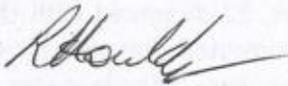
the text of the standard, it is the duty of the standard-setter to modify the text appropriately. Abuse of this process risks bringing it and the IASB into disrepute and risks forcing endorsement bodies around the world to consider changing their terms of reference to cover agenda decisions, since countries will not accept standard changes which have not been properly considered through due processes.

We are aware that this is not the first instance when the decision of the IFRIC changed the meaning of a standard. For example, in 2017, significant concerns were raised in relation to IFRIC 23, "Uncertainty over income Tax Treatments", where a number of large companies and their auditors believed the standard was not so prescriptive as to permit only one interpretation. However, in making the agenda decision that no change to the standard was necessary, the IFRIC removed an accounting option previously considered acceptable by major corporates and leading audit firms.

We urgently request the Due Process Oversight Committee to suspend this agenda decision pending proper consideration and the issue being reintroduced in a standard setting activity. We would also request that you consider the purpose of agenda decisions and how they can be limited to issues which cannot be interpreted as "back door standard setting".

We are more than happy to discuss this matter further with you, and the IFRIC, if this would be of help. Please feel free to contact us through the 100 Group's website, www.the100group.co.uk, should you wish to discuss our comments.

King regards,



Russ Houlden
Chairman
Financial Reporting Committee

Who we are

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers