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Copy Sue Lloyd, IFRIC

16 August 2019

Dear Hans,

Tentative agenda decision—Lease Term and Useful Life of Leasehold Improvements (IFRS 16 and IAS 16)

We are writing to raise concerns about a tentative agenda decision made by the IFRS Interpretations Committee (the “Committee”) in relation to IFRS 16 and IAS 16. In our view, the issue raised, in relation to how to determine the lease term of cancellable, renewable and indefinite life leases, was not clear in the standard and as a result there is now a divergence of practice with legitimate differences in interpretations.

When considering IFRS 15, legal form almost always takes precedence, however in IFRS 16, the interpretation of penalty now proposed in the draft agenda decision suggests that economic substance is intended to override legal form. If this was the intention it should have been explicitly written into the standard together with a clear rationale for the different approach.

The Oxford English dictionary definition of penalty is “a punishment imposed for breaking a law, rule or contract”; if the IASB intends the word to have a different meaning in IFRS16 then it should be defined clearly in IFRS16.

In addition, there appears to be an inconsistency between B34 and BC127 which needs to be eliminated by amending the standard.

Given the ambiguity of the standard, the conceptual issues at stake and the materiality of the matter to many companies, we do not consider an agenda decision to be the appropriate way to correct a standard which has, at least in part, not been well written or the matter sufficiently thought through.

It would be better practice not to use the agenda decision method but to follow the standard amendment process in order to set out more clearly in the standard what is expected. Only in this way will the necessary rigour be applied, including appropriate scrutiny by all relevant stakeholders, including standard endorsement bodies such as EFRAG.

Since an agenda decision does not amend the standard we would predict continued divergence unless the standard amendment process is followed. We therefore strongly encourage the committee to withdraw its tentative agenda decision and to follow the standard amendment process for IFRS 16.

We have seen the response from ACTEO/AFEP/MEDEF dated 30 July 2019 (attached) and support their more detailed analysis of the key issues.

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.

Please contact me at russ.houlden@the100group.co.uk should you wish to discuss our comments.

Yours sincerely,



Russ Houlden

Chairman, Financial Reporting Committee