

08 January 2020



IFRS Foundation

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Dear Mr Houlden,

Re: IFRIC Agenda Decision on Lease Term

I am writing to you in response to your letter dated 29 November 2019 regarding the recent agenda decision on lease term. Your letter raised the following matters to be considered by the Due Process Oversight Committee (DPOC):

- (a) The Interpretations Committee's voting requirement. The approval of the agenda decision by the very slenderest of margins (seven of the 13 members present voting in favour) disregarded the majority of responses received, which were supportive of an amendment being made to the Standards.
- (b) Multiple interpretations in practice, including by large companies, which have been signed off by leading audit firms.
- (c) The staff paper for the November 2019 Interpretations Committee meeting did not properly represent the detailed views of respondents—in most instances, more than double the number of paragraphs were used to explain the staff's views than those of respondents. This level of imbalance is leading to a preferred answer before the debate has started.
- (d) The Agenda Decision would result in a fundamental change to the Standard. At no stage during the development of IFRS 16 was it made clear that economic compulsion was intended to override legal form; in addition, at no stage was there any consideration of what this might mean in practice for entities, audit committees and auditors attempting to make judgements about the economic life of a lease.
- (e) The Agenda Decision on lease term is not the first instance when a decision of the Interpretations Committee changed the meaning of a Standard—an Agenda Decision relating to IFRIC 23 *Uncertainty over Income Tax Treatments* published in 2017 removed an accounting option previously considered acceptable by major companies and leading audit firms.

Your letter also urgently requested the DPOC to suspend this agenda decision pending proper consideration and that the issue be reintroduced in a standard-setting activity.

As a result of your letter and another letter received from ACTEO, AFEP and MEDEF on the same date referring to the same agenda decision, I delayed publication of the November IFRIC Update until the DPOC had had the opportunity to consider the matters raised in the letters. Both letters were published on the IFRS Foundation website, and the letters were sent to DPOC members. Thereafter, the DPOC discussed the matters raised in the letters at a public telephone meeting at which all members of the DPOC except one was present (and was therefore quorate.) The DPOC telephone meeting at which the letters were discussed took place on 16 December 2019, a recording of which is available on the IFRS Foundation website. These procedures follow the requirements of Section 8 of the IFRS Foundation's *Due Process Handbook*.

At its public meeting the members of the DPOC present decided unanimously that the current due process requirements were met in the Interpretations Committee's decision to publish the agenda decision on lease term. The DPOC noted that the Interpretations Committee had been provided with all of the comment letters received and determined that, particularly in light of the availability of the comment letters to the Interpretations Committee, the staff paper was a fair and balanced presentation of the comments received on the tentative agenda decision and the matters before the Interpretations Committee. The DPOC also noted that there had been a lengthy discussion at the November 2019 Interpretations Committee meeting and that the members had fully engaged with the broad array of comments received in reaching their conclusion. The DPOC also made its decision in the context of the impact of the other matters raised in your letter as detailed above. In light of this decision, the DPOC agreed that the November 2019 IFRIC Update including the agenda decision on lease term should be published.

Additionally, on the call on 16 December, in the context of the Review of the *Due Process Handbook*, the DPOC decided to enhance the due process associated with publishing agenda decisions beyond the current requirement of approval by the Interpretations Committee. The DPOC acknowledged the importance of agenda decisions and the increasing number of occasions in which agenda decisions contain explanatory material to further the objective of consistent application of IFRS Standards.

As a result, the DPOC has decided to amend the *Due Process Handbook* to add an additional due process step, which will require Board members to deliberate whether they object to an agenda decision containing explanatory material. An agenda decision will be published only if no more than three Board members object. This deliberation will take place following the decision of the Interpretations Committee to publish an agenda decision and prior to publication. The DPOC also discussed and determined, in light of the addition of the Board deliberation requirement, not to change the simple majority requirement at the Interpretations Committee for publication of an agenda decision.

The additional Board deliberation step in the process will act as an additional opportunity (by the body responsible for standard-setting) for a check that standard-setting is not required and that the explanatory material does not add or change requirements in IFRS Standards. This step is intended to provide stakeholders with greater confidence that, as evidenced by an agenda decision, the Standards provide an adequate basis to determine the required accounting.

I would like to thank you very much for taking the time to engage on the Interpretations Committee's due process. Your correspondence on this matter has contributed to the DPOC's discussions of enhancements of the due process associated with agenda decisions.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alan Beller', written in a cursive style.

Alan Beller

Chair IFRS Foundation Trustees Due Process Oversight Committee