

IFRS[®] Interpretations Committee meeting

Project	Lessee's Incremental Borrowing Rate (IFRS 16)		
Paper topic	Comment letters		
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Introduction

1. This paper reproduces comment letters received on the tentative agenda decision published by the IFRS Interpretations Committee in June 2019 on 'Lessee's Incremental Borrowing Rate'.

20 August 2019

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision – Lessee’s incremental borrowing rate (IFRS 16)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee’s publication in the June 2019 IFRIC Update of the tentative decision not to take onto the Committee’s agenda the request for clarification on the determination of a lessee’s incremental borrowing rate.

We do not agree with the Committee’s conclusion that a lessee is not required to determine an incremental borrowing rate that reflects the interest rate in a loan with a similar payment profile to the lease payments. We do not believe that it is appropriate to infer that the reference to “a similar term” should be read as simply meaning over the “lease term” as defined in Appendix A.

The tentative agenda decision observes that “a lessee might often refer as a starting point to a readily observable rate for a loan with a similar payment profile to that of the lease”. We note that in practice a readily observable rate for amortising loans (as this is the typical payment profile of leases) may not always be available and therefore we are concerned that lessees may interpret the lack of observable market data on amortising loans to permit them to default to using the interest rate for a bullet loan. We do not believe that this would be appropriate and there are methods that can be used to estimate the interest rate of amortising loans.

IFRS 16 defines the lessee’s incremental borrowing rate as “the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment”. In determining the rate of interest on any borrowing by a debtor or receivable by a lender, the payment profile (i.e., amount and timing) is always a critical factor. Thus, the reference to what a lessee would have to pay to borrow implicitly encompasses the payment profile of the lease payments. This appears to be consistent with the Board’s objective in specifying the discount rate which was, as noted in BC160, to “specify a rate that reflects how the contract is priced”. For example, the pricing of the contract with a bullet payment on maturity will be different from that of an amortising loan.

We believe that this is also confirmed by the discussion in BC162 that indicates that the definition of the incremental borrowing rate takes into consideration the terms and conditions of the lease. The payment profile is a key term of the lease. Because IFRS 16 is clear that the payment profile is a key term that a lessee must take into consideration to determine its incremental borrowing rate, we believe that the issue could be appropriately addressed through an agenda decision. However, if the Committee does not agree

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with this assessment, we believe that standard setting in the form of an IFRS Interpretation is required. As noted in the staff Agenda Paper 2, “[f]or some leases (and in particular long-term leases), even small changes in the discount rate could result in materially different amounts being recognised as lease liabilities”.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS Leader



Ms Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
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E14 4HD

11 July 2019

Dear Sue,

Tentative agenda decision – IFRS 16 Leases: Lessee’s Incremental Borrowing Rate

We are commenting on the above tentative agenda decision, published in the June 2019 edition of IFRIC Update on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the agenda decision. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the Committee’s conclusion that the definition of a lessee’s incremental borrowing rate in IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments and that an entity applies judgement in determining its incremental borrowing rate. We also agree with the Committee’s decision not to add this issue onto its agenda because the principles and requirements in IFRS 16 provide an adequate basis for a lessee to determine its incremental borrowing rate.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney, PwC Head of Reporting and Chief Accounting (+447841569635) or Jessica Taurae (+447740166459).

Yours sincerely,

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

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20 August 2019

Dear IFRS Interpretations Committee members,

Invitation to comment – Tentative Agenda Decision (TAD): Lessee’s Incremental Borrowing Rate (IFRS 16 Leases)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee (the Committee) published in the June 2019 IFRIC Update.

The Committee discussed the question “whether a lessee’s incremental borrowing rate is required to reflect the interest rate in a loan with both a similar maturity to the lease and a similar payment profile to the lease payments”.

The definition of the incremental borrowing rate refers, amongst others, to the rate of interest the lessee would have to pay to borrow over a similar term. We refer to the objective expressed in paragraphs BC160-BC162 of IFRS 16 to specify a rate that reflects how the contract is priced by taking into account the terms and conditions of the lease. In particular, BC162 states that “the IASB decided to define the lessee’s incremental borrowing rate to take into account the terms and conditions of the lease”. We therefore disagree with the Committee’s narrow interpretation of the phrase ‘term’ as “a similar term to the lease term” as explained in the tentative agenda decision. Instead we interpret the word ‘term’ in the context of the quoted paragraph in the Basis for Conclusions, which implies the consideration of the terms and conditions of the lease. We believe that the application of the definition of incremental borrowing rate should ensure that a lessee applies appropriate judgement to determine the rate that is most appropriate and reflective of the specific circumstances.

However, in the event that the current interpretation of the word ‘term’ is retained by the Committee, we recommend that the meaning be clarified in the definition of the lessee’s incremental borrowing rate in Appendix A of the standard by replacing the word ‘term’ by the word ‘lease term’.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully,

Ernst + Young Global Limited



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Ms Sue Lloyd
International Accounting Standards Board
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Our ref RD/288

19 August 2019

Dear Ms Lloyd

Tentative agenda decision: Lessee's incremental borrowing rate (IFRS 16 Leases)

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (the Committee) tentative agenda decision *Lessee's incremental borrowing rate (IFRS 16 Leases)* (IFRIC Update June 2019). We have consulted with, and this letter represents the views of, the KPMG network.

Overall, we agree with the analysis of the issue in the Committee staff paper. However, we recommend that the wording of the tentative agenda decision be clarified to minimise the risk that it is read to suggest that a lessee has a wholly free choice on this and other issues when determining its incremental borrowing rate, as explained below.

The issue concerns whether a lessee's incremental borrowing rate must reflect the interest rate in a loan with both a similar maturity to the lease and a similar payment profile to the lease payments. This is a common practice question, the answer to which can have a significant impact on the measurement of the lessee's lease liability. For example, using an interest rate from a loan with a bullet repayment to determine the incremental borrowing rate for a lease with periodic payments will result in a higher discount rate and lower lease liability.

The analysis in the Committee staff paper turns on two key observations. The first is that the Board's intention when developing the definition of incremental borrowing rate "was for a lessee to start with the best information available and adjust accordingly" (paragraph 23 of the staff paper, citing IFRS 16.BC162). This suggests that a lessee will often – but not always – seek to reflect the interest rate in a loan that has a similar payment profile to the lease payments (paragraph 24). The second is that the Board decided not to provide application guidance about the lessee's incremental borrowing rate.

Clearly, there is a tension between these two observations. It is this tension that entities are seeking to navigate when determining an incremental borrowing rate. This is the case for the issue currently before the Committee, and for numerous other practice issues associated with determining an incremental borrowing rate – for example, whether to adjust for asset risk, liquidity, loan to value restrictions etc.

We consider that the tentative agenda decision does not capture this tension. In particular, the penultimate paragraph of the tentative agenda decision begins with a statement that there are no explicit requirements in IFRS 16, does not refer to the Board's objective when developing the definition, and states that an entity "may often" refer to a loan with a similar payment profile. We are concerned that this could be misread to suggest that an entity has a wholly free choice on this issue – and, by extension, other practice issues relating to the determination of incremental borrowing rate that IFRS 16 does not address explicitly. There is a risk that the tentative agenda decision as drafted could increase rather than decrease diversity in practice.

We therefore recommend that the paragraph be redrafted to emphasise that an entity seeks to apply the definition of incremental borrowing rate, in light of the Board's objective. We believe that this would be consistent with the analysis in the Committee staff paper and discussion, and reflective of the efforts many entities are making to apply the definition of incremental borrowing rate in practice. This would promote consistency in the application of the definition on this and numerous related issues. It would also be consistent with the Board's objective expressed in IFRS 16.BC160 that the discount rate should reflect how the contract is priced. The appendix to this letter includes a specific drafting suggestion in this regard.

In due course, the question as to whether IFRS 16 contains sufficient guidance to ensure consistency in the determination of the incremental borrowing rate could be a suitable topic for the post-issuance review of the standard.

Please contact Reinhard Dotzlaw or Kimber Bascom on +44 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

Appendix – drafting suggestion

Penultimate paragraph of tentative agenda decision as included in the IFRIC Update

The definition of a lessee's incremental borrowing rate in IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments. Nonetheless, the Committee observed that, in applying judgement in determining its incremental borrowing rate as defined in IFRS 16, a lessee might often refer as a starting point to a readily observable rate for a loan with a similar payment profile to that of the lease.

Proposed alternative

The definition of a lessee's incremental borrowing rate in IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments. ~~Nonetheless,~~ However, the Committee observed that, in applying judgement in determining its incremental borrowing rate as defined in IFRS 16, it would be consistent with the Board's objective when developing the definition of incremental borrowing rate for a lessee to might often refer as a starting point to a readily observable rate for a loan with a similar payment profile to that of the lease.



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20 August 2019

Dear Ms Lloyd

Tentative agenda decision - IFRS 16 - Lessee's incremental borrowing rate

We are pleased to comment on the above tentative agenda decision.

We agree with the IFRS Interpretation Committee's decision not to add this issue to its agenda.

However, we do not agree with the conclusion reached that, when determining its incremental borrowing rate, a lessee can (but is not required to) consider the payment profile of its lease payments.

We note the staff conclusion in paragraphs 28-30 of the June 2019 agenda paper, including that 'IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the payment profile of the lease payments'. This appears to be inconsistent with the Basis for Conclusions paragraph BC160, in which the IASB notes that its '...objective in specifying the discount rate to apply to a lease is to specify a rate that reflects how the contract is priced.' Paragraph BC162 also notes that '...the IASB decided to define the lessee's incremental borrowing rate to take into account the terms and conditions of the lease'. The pricing of a lease will be affected by the timing and amount of the repayment of the capital element of the lease liability (which forms part of the terms and conditions of the lease) with the timing and amount of lease payments determining whether the capital element is amortised over the lease term or is a bullet payment at the end of the lease term.

In our view, the reference to '...a similar economic environment' in IFRS 16's definition of the lessee's incremental borrowing rate is sufficient to require the payment profile of lease payments to be taken into account, because that payment profile will link to interest rates that will vary according to their maturity and be determined by the interest rates that apply

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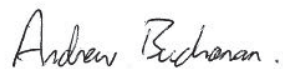
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in the particular jurisdiction (and therefore its economic environment). This view results in the outcome of the application of the definition of the lessee's incremental borrowing rate being consistent with the IASB's explanation in the Basis for Conclusions.

We believe that, if the Committee continues to be of the view that the definition of the lessee's incremental borrowing rate does not require the payment profile of the lease payments to be taken into account, then the issue should be referred to the IASB as it would appear that an amendment needs to be made to IFRS 16 to ensure that its requirements are consistent with IASB's objective.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours faithfully

A handwritten signature in black ink that reads "Andrew Buchanan". The signature is written in a cursive, slightly slanted style.

Andrew Buchanan

Global Head of IFRS

Mrs Sue Lloyd

IFRS Interpretations Committee

Columbus Building,
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Paris, 1 August 2019

Tentative Agenda Decisions – IFRIC Update November 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee Tentative Agenda Decisions published in the June 2019 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We would like to draw your attention to three issues that we think are worth considering:

- The Tentative Agenda Decision on the Lessee’s Incremental Borrowing Rate is not conclusive as to whether IBR should reflect the payment profile of the lease. We believe that sufficient guidance exists in the standard and the basis for conclusions for the Committee to reach the conclusion that IBR should be consistent with the payment profile of the lease.
- ~~The assessment of the lease term is the most important area of judgement in applying IFRS 16, and we observe that significant diversity exists in practice on that matter. This is a strong indicator that the standard needs clarifications, and we believe these clarifications cannot be provided through a simple agenda decision considering the interactions of the different paragraphs of the standard and inconsistencies between the standard itself and the corresponding basis for conclusions. That is why we urge~~

~~the Committee and/or the Board to undertake a narrow-scope standard-setting project on the lease term. In the meantime, we believe the Committee should not issue any agenda decision because its conclusions would preempt the outcome of the debate to be held during the standard-setting process.~~

- ~~– By not considering the question of whether the amount of airline compensation for delays or cancellations recognised as a reduction of revenue should be limited to reducing the transaction price to nil, the Committee fails to address an area of significant diversity in practice. A conclusion on that issue would be of great help.~~

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully



Michel Barbet-Massin



Edouard Fossat

Financial Reporting Advisory

Appendix 3

Lessee's Incremental Borrowing Rate (IFRS 16 Leases) — Agenda Paper 2

While we agree with the developments made in paragraph 2 and 3 of the tentative agenda decision, and in particular with the quote from BC162 that states that the lessee's incremental borrowing rate is defined *"to take into account the terms and conditions of the lease"*, we disagree with the absence of conclusion reached by the Committee.

When observing that *"in applying judgement in determining its incremental borrowing rate as defined in IFRS 16, a lessee might often refer as a starting point to a readily observable rate for a loan with a similar payment profile to that of the lease."*, the Committee seems to ignore that readily observable interest rates are often available only for loans with final repayment, i.e. with a payment profile that is not similar to that of the lease.

We would have expected the Committee to conclude that, in order *"to take into account the terms and conditions of the lease"* as explained in BC162, a lessee that refers as a starting point to a readily observable rate for a loan with a dissimilar payment profile should then adjust that observable rate for the differences in the payment profiles.

We strongly believe that:

- this matter is an area of diversity in practice,
- the incremental borrowing rate should be consistent with the payment profile of the lease, and
- there is sufficient guidance in the standard and the basis for conclusions for the Committee to reach that conclusion.

**Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD
United Kingdom**

Ref: The IFRS Interpretations Committee's June 2019 tentative agenda decisions

Dear Mrs Lloyd,

The European Securities and Markets Authority (ESMA) would like to thank you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication of three tentative agenda decisions in the June 2019 IFRIC Update. One relates to the application of IFRS 15 *Revenue from Contracts with Customers* and two to IFRS 16 *Leases*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

Compensation for Delays and Cancellations – IFRS 15

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify how an airline accounts for its obligation to compensate customers for delayed or cancelled flights through lump-sum payments. ESMA notes that the IFRS IC concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for such obligation. ESMA agrees with the Committee's conclusion that the compensation for delays or cancellations described in the request is a variable consideration. Consequently, entities need to apply paragraphs 50–59 of IFRS 15 when accounting for its obligation related to such compensation.

However, ESMA regrets that the Committee did not consider the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil. ESMA notes that this was one aspect of its submission to the IFRS IC¹ and would have expected that the IFRS IC considered this question and documented its discussion in the agenda decision.

¹ Letter, Agenda Item Request: Presentation of lump-sum compensation payments in the airline industry (IFRS 15), ESMA32-63-711, 17 April 2019, (cf paragraph 10 of the Appendix)

~~While ESMA understands that this aspect might relate to fundamental aspects of application of IFRS and thus IFRS IC might not be able to address the issue, ESMA would have expected that the IFRS IC considered the issue, e.g. by referring this matter to the Board in order to be addressed in the future post-implementation review of IFRS 15. Therefore, ESMA suggests that the final agenda decision mentions how the IFRS IC considered the issue.~~

Lessee's Incremental Borrowing Rate – IFRS 16

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify the definition of a lessee's incremental borrowing rate in IFRS 16. ESMA notes that the IFRS IC concluded that the principles and requirements in IFRS 16 provide an adequate basis for a lessee to determine its incremental borrowing rate.

While ESMA acknowledges that the definition of a lessee's incremental borrowing rate in IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments, ESMA considers that the underlying economic principles on which the IFRS 16 model is based would require the presence of such similarity.

From its initial observation of the implementation activity, ESMA notes that most issuers reflect the payment profile of the cash flows in the determination of the incremental borrowing rate. This is because they consider that the proper reflection of the payment profile is necessary to faithfully represent the economic characteristics of the lease contract. Furthermore, they argue that this is in accordance with the Board's decision to take into account the terms and conditions of the lease to define the lessee's incremental borrowing rate (paragraph BC 162 to IFRS 16).

Additionally, ESMA notes that the objective of IFRS 16 is to ensure that lessees provide relevant information in a manner that faithfully represent lease transactions (paragraph 1 of IFRS 16). ESMA considers that from this perspective, the agenda decision might lead to a conceptual flaw in the application of the standard. Indeed, it appears inconsistent to require the use of the rate implicit in the lease which reflects the payment profile of the lease payments, while, if that rate cannot be readily determined, to allow the use of an incremental borrowing rate without the need to consider the payment profile of the lease payments.

Furthermore, ESMA notes that the US Financial Accounting Standards Board (FASB) reached the conclusion under the US GAAP that payment profile of the cash flows need to be considered when determining the incremental borrowing rate. As such, ESMA considers that it would be unfortunate that an unnecessary future divergence between IFRS and US GAAP would be introduced in this area.

Consequently, ESMA considers that the IFRS IC could have gone further in the agenda decision by explaining that readily observable rate for a loan with a similar payment profile to that of the lease need to be considered in the determination of the incremental borrowing rate rather than stating that '*a lessee might often refer [to such rate] as a starting point*'.

Should the IFRS IC believe that reaching such conclusion in the agenda decision is impossible without undertaking a standard-setting activity, ESMA considers that the IFRS IC should recommend to the Board to amend the standard in this respect and explicitly require consideration of the payment profile in the definition of a lessee's incremental borrowing rate. ESMA considers that such conclusion is necessary to prevent diversity in practice and ensure consistent application and enforceability of IFRS 16 requirements.

If the IFRS IC or the Board maintain the current position, ESMA encourages the Board to reach out to the FASB to understand why different conclusions have been reached on a part of the standard previously considered as converged.

Lease term and useful life of leasehold improvements – IFRS 16

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify how to determine the lease term of a cancellable lease or a renewable lease. Specifically, the request asked whether, when applying paragraph B34 of IFRS 16 and assessing 'no more than an insignificant penalty', an entity considers the broader economics of the contract, and not only contractual termination payments.

ESMA agrees with the conclusion reached by the IFRS IC that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine the lease term of cancellable and renewable leases. Especially, ESMA agrees that in determining the lease term and assessing the length of the non-cancellable period of a lease (including cancellable or tacitly renewable leases), paragraph B34 of IFRS 16 requires an entity to determine the period for which the contract is enforceable. ESMA welcomes the emphasis in the agenda decision that if only one party has the right to terminate the lease without the permission of the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party.

ESMA equally welcomes the conclusion that in applying paragraph B34 and determining the enforceable period of the lease, an entity considers the broader economics of the contract, and not only contractual termination payments.

However, ESMA considers that the Committee could have further explained in the agenda decision what is meant by 'more than an insignificant penalty'. This would be consistent with the insight on the application of IFRS 16 requirements on lease term provided by the October 2017 IASB webcast.² Consequently, in order to improve consistent application and enforceability of IFRS 16, ESMA considers that the IFRS IC could include in the final agenda decision specific explanations and considerations that were included in the webcast.³

² Webcast, Lease term Q&A by Darell Scott (Board member), October 2017, <https://www.ifrs.org/webcast/?webcastid=1163617>. See also Letter, Agenda Item Request: Determination of the lease term, ESMA32-63-697, 29 March 2019, https://www.esma.europa.eu/sites/default/files/library/esma32-63-697_ifrs_ic_on_ifrs_16_lease_term_cancellable_lease.pdf.

³ These might include examples of possible economic outflows related to termination that need to be assessed as well as other considerations to be taken into account where relevant (such as past practice in using the termination (or extension) options).

Finally, ESMA also welcomes and agrees with the conclusion made by the Committee on the useful life of the non-removable leasehold improvements stating that the useful life of the non-removable leasehold improvements is the same as the lease term if the entity does not expect to use the leasehold improvements beyond the lease term.

In case you have any questions or comments regarding this letter, please do not hesitate to contact me or Evert van Walsum, Head of the Investors and Issuers Department (Evert.vanWalsum@esma.europa.eu).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'S/M' with a flourish.

Steven Maijor



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Chairman

PDC n° 36

Paris, 22 July 2019

Mrs Lloyd

IFRS Interpretations Committee Chair

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June 2019 - IFRS-IC tentative agenda decisions

Dear Mrs Lloyd,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on IFRS-IC tentative decisions published in June 2019 Update regarding IFRS 16.

Lessee's incremental borrowing rate

ANC agrees that "the definition of a lessee's incremental borrowing rate in IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments". Therefore, in order to prevent diversity in practice, we suggest considering issuing a narrow scope amendment in order to set into the standard the methodology that best reflects the economics of such a borrowing.

Lease term and useful life of leasehold improvements

ANC acknowledges that the Committee has observed diversity in interpretation and wishes to solve this matter urgently. Nevertheless, we think that this matter cannot be solved by issuing an agenda decision and should be dealt with through standard-setting activity using a proper due process.

The submission highlights substantial differences in interpretation linked to the core principles of IFRS 16. These differences of views are mainly due to the references made to the term "enforceable" that is commonly understood as reflecting solely the rights and obligations as expressed in IFRS 16.BC127 whereas an economic feature is additionally introduced by IFRS 16.B34.

We further note that the “penalty” referred to in IFRS 16.B34 is not defined in the standard and remains subject to various interpretations. The Committee has reached the conclusion that a penalty has to be assessed considering the broader economics and not solely the contractual terms. This is in part based on IFRS 16.B37 (“all relevant facts and circumstances that create an economic incentive”), while the linkage with the “penalty” mentioned in IFRS 16.B34 is not clearly stated in the standard. ANC therefore believes that defining the penalty requires standard-setting.

Please do not hesitate to contact us should you want to discuss any aspect of our letter.

Yours sincerely,



Patrick de Cambourg

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6 August 2019

Chair of the IFRS Interpretations Committee
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Dear Ms. Sue Lloyd:

The Korea Accounting Standards Board (KASB) greatly appreciate the efforts of the IFRS Interpretations Committee to reach out to diverse constituents around the globe and reflect their opinions in IFRSs.

The KASB sends its comments on the tentative agenda decision on *Lease term and useful life of leasehold improvements* and the tentative agenda decision on *Lessee's incremental borrowing rate*.

The enclosed comments represent official positions of the KASB after extensive due process and deliberation.

Please do not hesitate to contact us if you have any questions regarding our comments. You may direct your inquiries either to me (ehkim@kasb.or.kr) or to Jungah Yang, (yja518@kasb.or.kr), Director of KASB.

Best regards,



Eui-Hyung Kim
Chair, Korea Accounting Standards Board

Cc: Se-hwan Park, Vice-Chair, Korea Accounting Standards Board
Hyun-duck Choi, Director, Korea Accounting Standards Board

Comments on the Tentative Agenda Decision Relating to Lessee's Incremental borrowing rates

1. The Korea Accounting Standards Board (hereinafter referred to as the 'KASB' or 'we') ask for a clearer explanation of the intent of the tentative agenda decision. The underlined parts of the following sentences are confusing to understand its intent.

The definition of a lessee's incremental borrowing rate in IFRS 16 **does not explicitly require** a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments. **Nonetheless, the Committee observed that,** in applying judgement in determining its incremental borrowing rate as defined in IFRS 16, a lessee **might often** refer as a starting point to a readily observable rate for a loan with a similar payment profile to that of the lease.

2. After applying IFRS 16, the lessee's incremental borrowing rates are required for all leases. Because the definition of the incremental borrowing rate in IFRS 16 is partly different from that in IAS 17, there are a lot of difficulties in calculating the rates in practice. In addition to the issue addressed in the tentative agenda decision, the following issues have been discussed in practice: We therefore request that the IASB provide educational materials on the lessee's incremental borrowing rate.
 - ✓ *What is the meaning of similar security? (According to IAS 17, only the finance leases needed discount rates and the lessees would have considered the underlying assets as security. But according to IFRS 16, should the lessees also see underlying assets as security or right-of-use assets as security?)*
 - ✓ *The value of the right-of-use asset can only be calculated once the discount rate has been determined. How can we calculate the value of the right-of-use asset before a discount rate is determined?*
3. We are pleased to comment on the tentative agenda decision on *Lessee's Incremental borrowing rates*, and we hope our comments are useful for the IFRS Interpretations Committee and the IASB.



ASCG • Zimmerstr. 30 • 10969 Berlin

Sue Lloyd
Chair of the IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH

United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 19 August 2019

Dear Sue,

IFRS IC's tentative agenda decisions in its June 2019 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the June 2019 *IFRIC Update*.

We agree with most of the tentative agenda decisions. However, we do not agree with the conclusion and/or the reasons behind three of these.

Please find our specific comments in the appendix to this letter. If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

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President:
Prof. Dr. Andreas Barckow
Executive Director:
Prof. Dr. Sven Morich

Appendix – Detailed Comments

Tentative decision on IFRS 9 – Fair value hedge of FX risk on non-financial assets

We are not convinced that the IFRS IC's discussion and its findings help appropriately addressing the questions raised.

We have concerns with the IFRS IC's description where the FX volatility arises from in the different fact patterns (PPE, inventory, etc.). As per the tentative agenda decision, the (potentially designated) FX risk arises from pricing a non-financial asset "in one particular currency at a global level". In contrast, as per the Agenda Paper the non-financial assets are "routinely [be] denominated in a particular currency" or "purchased in an established market". As these are different, nonetheless precise, descriptions of FX market circumstances under which assets are to be translated into the functional currency, it remains unclear whether the condition in IFRS 9.6.5.2(a) is considered met under any of these circumstances. Depending on this, the wording might inadvertently narrow the fact patterns to which the IFRS IC's tentative decision would apply.

Tentative decision on IFRS 15 – Compensation for delays or cancellations

We do not fully agree with the tentative decision and conclusion in respect of the submitted fact pattern. Specifically, we would have appreciated a more holistic discussion that included variations of the fact pattern submitted or modified circumstances in order to better distinguish between situations where something is indeed a reduction of the selling price per IFRS 15 or separate obligations provided for under IAS 37. Without this, the tentative decision is not as helpful as it could be, as it does not illustrate potential legal or contractual rights and obligations that could distinguish between (a) compensations "still" being a variable consideration of the very same performance obligation and (b) those being a separate obligation, thus in the scope of IAS 37. Examples are distinguishing primary services vs. collateral services/obligations, low or non-performance vs. (penalty for) harm/damage, legal warranties vs. contractual guarantees, service-type warranties, product liabilities, etc. This said, we suggest the IFRS IC extend its discussion in this regard. This is of particular interest, as an agenda decision by the IFRS IC could affect service contracts in many different industries and not merely affect the airline sector concerned in the specific agenda item request.

Further, we question the appropriateness of not addressing the very important question of how to account for compensations that exceed the transaction price as we do believe this to be important in the fact patterns concerned, which is why it should not be ignored. Therefore, we request the IFRS IC to continue its discussion by considering and answering this follow-up question.

Given the broad relevance and complexity of this issue, we also suggest the IFRS IC re-consider whether clarifying IFRS 15 by way of an agenda decision is appropriate, esp. against the proposals in the revised Due Process Handbook.

Tentative decision on IFRS 16 – Lessee's incremental borrowing rate

We believe that the tentative decision and the explanation should be clarified. As the IFRS IC only states that "IFRS 16 does not **explicitly** require..." to determine the implicit borrowing rate based on a loan with a similar payment profile, it remains unclear whether, or under which circumstances, this is still implicitly required or not.

Since we understand IFRS 16 not to require an entity to revert to a loan with a similar payment profile, and in this respect agree with the tentative decision, we suggest that the word "explicitly" in the agenda's wording be deleted.

20 August 2019

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the Tentative Agenda Decisions published in IFRIC Update June 2019.

Our detailed responses are enclosed in the Appendix to this letter.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director

Compensation for Delays or Cancellations (IFRS 15 Revenue from Contracts with Customers) - Agenda Paper 8

We agree with the Interpretations Committee's conclusion that compensation for delays or cancellations, as described in the request, is a variable consideration and an entity applies IFRS 15 paragraphs 50-59 accordingly.

However, we would like to request the Interpretations Committee to clarify whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil. Without such clarification an accounting policy would have to be developed for compensation exceeding the consideration received, either as reduction of revenue or separate expense. In this regard, the clarification would improve financial reporting as entities would be applying the requirement consistently and therefore comparable financial results are provided to users of financial statements.

-
- **Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets (IFRS 9 Financial Instruments) - Agenda Paper 4**
 - **Lessee's Incremental Borrowing Rate (IFRS 16 Leases) - Agenda Paper 2**
 - **Lease Term and Useful Life of Leasehold Improvements (IFRS 16 Leases and IAS 16 Property, Plant and Equipment) - Agenda Paper 3**
 - **Presentation of Liabilities or Assets Related to Uncertain Tax Treatments (IAS 1 Presentation of Financial Statements) - Agenda Paper 7**
 - **Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7 Statement of Cash Flows) - Agenda Paper 5-5A**
 - **Subsequent Expenditure on Biological Assets (IAS 41 Agriculture) - Agenda Paper 9**

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decision for not adding these items onto its agenda.



IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)

Nomor : 1283/DSAK/IAI/VIII/2019

Jakarta, 20 August 2019

International Financial Reporting Standards Interpretations Committee
Columbus Building, 7 Westferry Circus
Canary Wharf, London
E14 4HD

Ref: Invitation to comment – Tentative Agenda Decision (TAD): Lessee’s Incremental Borrowing Rate (IFRS 16 Leases) – Agenda Paper 2

Dear IFRS Interpretations Committee members,

Dewan Standar Akuntansi Keuangan (DSAK) - The Indonesian Financial Accounting Standards Board, as part of Ikatan Akuntan Indonesia (IAI) - the Institute of Indonesia Chartered Accountants, is the national accounting standard-setter in Indonesia.

On behalf of DSAK IAI, I am writing to respond regarding on the TAD: Lessee’s Incremental Borrowing Rate (IFRS 16).

Our detailed responses to the questions are attached in the Appendix to this letter below.

We hope that our responses could contribute to the Interpretation Committee’s future deliberations. Should you have further concerns regarding our responses, please do not hesitate to contact us at dsak@iaiglobal.or.id.

Yours sincerely,

Djohan Pinnarwan

Chairman
The Indonesian Financial Accounting Standards Board
Institute of Indonesia Chartered Accountants



IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)

DSAK IAI RESPONSE

We agree with the Committee's analysis that the definition of a lessee's incremental borrowing rate in IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments, although a lessee might often refer as a starting point to a readily observable rate for a loan with a similar payment profile to that of the lease. We also agree with the Committee's conclusion that the principles and requirements in IFRS 16 provide an adequate basis for a lessee to determine its incremental borrowing rate.



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
(Established by Act of Parliament No. 15 of 1965)

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Registrar/Chief Executive
JOHN I. EVBODAGHE, MBA, FCA

19 August 2019

ICAN/ED/R&T/AUG/2019

IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
London E14 4HD
United Kingdom

Dear Sir,

**RE: IFRS INTERPRETATIONS COMMITTEE TENTATIVE AGENDA
DECISION**

The Institute of Chartered Accountants of Nigeria (ICAN) has considered the above requests for comments on the Tentative Agenda Decisions and hereby submit comments as follows:

**Presentation of Liabilities or Assets related to Uncertain Tax Treatments
(IAS 1)**

We agree with the position of the Committee not to make the presentation of liabilities or assets related to uncertain tax treatments a standard-setting agenda. The provisions of par. 54 (n) and 54 (o) as considered, are adequate guidance on their presentation. However, the committee may need to emphasize that entities clarify their presentation in their accounting policy.

Lease Term and Useful Life of Leasehold Improvements (IFRS 16 and IAS 16)

Adequate Provisions are already made in the standards and the Committee's decision not to add the matter to its standard-setting agenda is supported but to include more illustrative examples on the determination of lease term of cancellable and renewable leases.

Disclosure of Changes in Liabilities arising from Financing Activities (IAS 7)

We agree with the decision of the Committee that the disclosure requirements in Par. 44B-44E of IAS 7, together with the requirements in IAS 1 are adequate to meet the information needs of investors.

Subsequent Expenditure on Biological Assets (IAS 41)

We agree with the Committee's decision not to make subsequent expenditure on biological assets a matter to its standard-setting agenda. As relied upon by the Committee, Par. B62 of IAS 41 and the clarity in applying Par. 117-124 of IAS 1 are adequate on the reporting to by an entity.

Compensation for Delays or Cancellations (IFRS 15)

We agree with the position of the Committee that the principles and requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for obligations to compensate customers for delays or cancellations. However, we believe that the Committee should provide necessary guidance where the variable compensation (example- penalty imposed by legislation with respect to the contract) is higher than the purchase consideration or price.

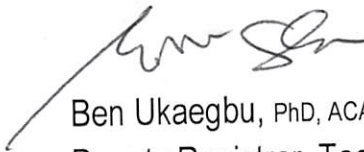


Lessee's Incremental Borrowing Rate (IFRS 16)

We agree with the position of the Committee not to include the determination of incremental borrowing rate to its standard-setting agenda because the principles and requirements for this item are adequately spelt out in IFRS 16.

Yours faithfully,

for: Registrar/Chief Executive



Ben Ukaegbu, PhD, ACA
Deputy Registrar, Technical Services



Rio de Janeiro, August 20, 2019

CONTRIB 0058/2019

Ms Lloyd, Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, United Kingdom

Subject: Lessees's Incremental Borrowing Rate (IFRS 16)

Reference: Tentative Agenda Decision

Dear Ms Lloyd,

Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's Tentative Agenda Decision - Lessees's Incremental Borrowing Rate. We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

Taking into account that IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments and the fact that the lessee should apply judgement considering all facts and circumstances relevant in determining its incremental borrowing, we suggest that IFRS 16 should be amended setting out explicitly the payment profile should also be considered by the lessee in determining its incremental borrowing rate, in order to prevent diversity in interpretation and consequently diversity in practice.

Thus, we do not agree that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine its incremental borrowing rate and we believe the matter should be added to the standard-setting agenda.

If you have any questions in relation to the content of this letter, please do not hesitate to contact us (contrib@petrobras.com.br).

Respectfully,

/s/ Luis Eduardo Queiroz Castello

By Rodrigo Araujo Alves
Chief Accountant and Tax Officer

PO Box 1411
Beenleigh QLD 4207
16 August 2019

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: <https://www.ifrs.org/projects/work-plan/lessees-incremental-borrowing-rate-ifrs-16/comment-letters-projects/tad-lessees-incremental-borrowing-rate/>

Dear Sue

Tentative agenda decision—Lessee’s Incremental Borrowing Rate (IFRS 16)

I am pleased to make this submission on the Tentative Agenda Decision — Lessee’s Incremental Borrowing Rate (IFRS 16).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

General

The Tentative Agenda Decision does not provide sufficient explanatory guidance in answering similar issues raised in practice. I am pleased that the draft adopts an approach along the lines of that you may choose to adjust for this characteristic (amortising loan rather than bullet payment), but you do not have to. However, the draft does not provide sufficient guidance as to what adjustments you do have to make.

Other characteristics that have been raised in practice as requiring adjustment include:

- Security – the lease “borrowing” is secured 100% against the associated asset, but regular borrowings often have a loan to value ratio of less than 100% (for example 80%).
- A lease rental that is fixed (or with fixed increases) will have different risk characteristics to a lease with CPI (Consumer Price Indexes) increases.

The underlying problem

The common operating leases I come across that will now be on balance sheet are for property leases. I find the underlying problem is that people do not regard property leases as borrowings for the right to use the office building for a few years. They also do not assess the decision as a rent / lease or buy decision, particularly for office and retail space. The decision is often one of location, and is linked to market rentals, not borrowing costs. Therefore, the pricing is not set by the lessor and linked to pricing of lending, but is set by the markets.

Consequently, people are finding it difficult to identify what adjustments need to be made beyond matching terms and currency, Making matters even more difficult is that the quantum of the adjustments are not observable, raising issues as to how much those adjustments should be. In the absence of the quantum of the adjustments, an assessment of materiality is difficult.

Taking the Tentative Agenda Decision to the extreme, then preparers may choose to make the adjustments, but do not have to. I am happy with that outcome, of not having to make any of these type of adjustments, and I would like the Committee to confirm such an approach.

Behaviour of the big 4 accounting firms

I believe that the behaviour of the big 4 accounting firms is contributing to the problems. Their guidance appears to indicate that a variety of adjustments need to be made, beyond matching terms and currency, yet for the most part fail to explain what adjustments are needed, or the quantum of such adjustments.

The main adjustment identified in guidance from the big 4 accounting firms, and how to make the adjustment relates to the different loan to value security of leases versus regular borrowings. This relates to determining a blended or weighted discount rate based on an interest rate for (say) 80% of the borrowings and 20% of the funds from other sources.

Given this guidance, it is little wonder why people are searching for, or being told to search for, adjustments with such a level of precision - such as the possible adjustment for amortising versus bullet payments.

Guidance I have identified includes lengthy publications and podcasts / webinars on determining the discount rate:

Deloitte

32 pages - A guide to the incremental borrowing rate — Assessing the impact of IFRS 16 'Leases'

<https://www.iasplus.com/en/publications/global/guides/ifrs-16-discount-rates>
https://www.iasplus.com/en/publications/global/guides/ifrs-16-discount-rates/at_download/file/IFRS%2016%20discount%20rates.pdf

57 minute webinar (no longer available) - IFRS 16 - The Discount Rate Challenge

<https://www.iasplus.com/en/publications/global/guides/ifrs-16-discount-rates>

EY

20 minutes of podcasts across 5 episodes

<https://player.fm/series/ey-ifs-podcast-series/ey-ifs-podcast-episode-1>

KPMG

41 pages including lessee and lessor - Leases: Discount rates

<https://home.kpmg/xx/en/home/insights/2017/09/leases-discount-rate-transition-lessee-ifs-16-120917.html>

<https://home.kpmg/content/dam/kpmg/xx/pdf/2017/09/leases-discount-rate.pdf>

PwC

15 minutes of vide

8 minute video - Analysing IFRS 16, 'Leases' - Discount rates

7 minute video - How to apply IFRS 16 - Discount Rates

<https://www.pwc.com.au/ifs/new-standard-lease-accounting/step-6-discount-rate-methodology.html>

The Australian Financial Reporting Update included approximately a 10 minute discussion from 21:39 (registration required)

<https://www.pwc.com.au/ifs/events.html>

Guidance sought

I would like the Committee's final decision to provide sufficient guidance for determining what adjustments are required, and the extent of effort required by preparers.

Based on some work I undertook around five or so years ago, I estimated that approximately half of the Australian listed companies had a market capitalisation of less than AUD \$20 million (currently less than USD \$15 million). Australia also applies IFRSs to not-for-profit entities which number in the thousands. Not-for-profit entities are often starting in a difficult position as they often do not have any significant borrowings that they can use as a starting point.

So there are many entities affected by IFRS 16 who do not understand what is required of them, and who do not want to spend money on having to pay outside experts to determine these adjustments. Clarification of what is required would be appreciated.

Yours sincerely,

David Hardidge

<https://www.linkedin.com/in/davidhardidge/>