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Chairman

PDC n° 36

Paris, 22 July 2019

**Mrs Lloyd**

IFRS Interpretations Committee Chair

7 Westferry Circus, Canary Wharf

London, UK, E14 4HD

### June 2019 - IFRS-IC tentative agenda decisions

Dear Mrs Lloyd,

*Dear Joe,*

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