



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



IASB
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May 2, 2016

Dear Mr. Hoogervorst,

We are writing to express our concerns relating to the proposed transition in the new standard IFRS 16.

Under the transition provisions, preparers have the choice between two methods: a full retrospective application in accordance with IAS 8, with no practical expedients, and a modified retrospective approach providing practical expedients but only applicable at the date of initial application.

IFRS 16 is likely to impact significantly the financial statements of many entities as has been demonstrated in your effects analysis document. For the sake of good financial communication, it is to all intents and purposes impossible for those affected not to provide two comparable years of data. If the entity wishes to make the task of understanding the effect of the new standard as simple as possible it will choose to do this in the primary financial statements. The alternative of using a separate « pro-forma » approach to displaying the information in our view makes the information less accessible and less useful than the presentation of two comparable years in the primary financial statements.

The only choice will thus be to adopt the full retrospective approach with no practical expedients, and this could be very costly because of the volume of contracts and the historical data that needs to be determined (such as, for example, the incremental borrowing rate at the date of each lease inception). As the Board's paper of February 2015 stated: "A fully retrospective approach would require entities

to calculate the carrying amounts of all outstanding leases at the earliest comparative period as if those leases had always been accounted for in accordance with the new leases standard. That could be impracticable for entities that have thousands of leases.”

On the other hand, the modified retrospective approach represents a significant relief from the full retrospective application. If the entity chooses for reasons of practicality and cost to make use of the practical expedients currently available, it will nonetheless in many cases still be compelled to provide comparable figures using the same method for the earlier periods presented in order to assist both management and users to understand and compare trends. The comparable figures would therefore have to be presented outside the primary financial statements in a pro-forma information package, thus both causing additional effort for the entity and making the users’ task less straightforward.

We therefore suggest that the Board amend the standard to provide a third transition method similar to the solution initially proposed in ED 2013, which was the following: “In the financial statements in which an entity first applies the [draft] Standard, the entity shall recognise and measure leases within the scope of the [draft] Standard that exist **at the beginning of the earliest comparative** period presented, using the approach described in paragraphs C7–C24”.

As we indicated in our response to the 2013 ED, we were content with these transitional provisions. We were slightly surprised by the decision taken at the February 2013 Board meeting to modify them but, as always, it is not easy to judge the full import of the reported tentative decisions made by the Board in isolation from the full text of the future standard. It was only when our members were able to start preparing for implementation by examining the complete text in detail that the full significance of this change in the decision and the wording became clear. It is for this reason that we are bringing this matter to the Board’s attention at this late stage.

In short, we request that the practical expedients as currently proposed in IFRS 16 should also be permitted to be used at the beginning of the earliest comparative period presented. Indeed, if the use of such expedients is acceptable at the date of initial application, we think that it should *a fortiori* be acceptable at the date of the beginning of the earliest period presented.

We believe that such method will enhance comparability in two ways:

- Comparability within a same entity : two years of comparable data, even using practical expedients, are always better than only one year presented on the new basis
- Comparability with US entities which will present two comparative periods, also measured using practical expedients.

We understand that the Board may be reluctant to change a standard after its publication, and recognise the effort it has made to facilitate transition for entities by providing a number of expedients and exemptions. However, we think that permitting this further expedient as an alternative would not only assist entities in the transition but would also encourage more entities to provide comparable figures, thus helping users’ comprehension of the impact of the new standard.

We remain at your disposal should you need further clarification or background information.

Yours sincerely,

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