



Finance & Leasing Association response to the Financial Reporting Council (FRC) Triennial review of UK and Ireland accounting standards: Approach to changes in IFRS

Introduction

1. The Finance & Leasing Association (FLA) represents UK providers of asset finance (leasing and hire purchase). Our members include specialist subsidiaries of banks of all sizes, independent asset finance businesses, and captive finance companies owned by equipment manufacturers. They are a vital source of new finance for SMEs. In 2015, our members provided £29 billion to businesses and the public sector, representing almost 32% of all UK investment in machinery, equipment and purchased software.

FLA Response

2. The FLA welcomes the opportunity to respond to the FRC's triennial review of UK and Ireland Accounting Standards. We have limited our comments to Question 5 which concerns how the requirements of IFRS 16 can be incorporated into a suitable model for entities applying UK GAAP.
3. The FLA's concern with the new international accounting standard, IFRS 16, is that it imposes a significant administrative burden on businesses by introducing complexity to the accounting process, in particular the need to recalculate the accounts whenever changes are made to a lease agreement. This will be extremely challenging, even for large enterprises, and if the requirements of IFRS 16 were incorporated into UK GAAP, then there will be a disproportionate impact on smaller businesses who will be less able to manage this complexity. The FLA believes that any new accounting standard should bring clarity, simplicity and consistency to the rules and it is imperative that accounting rules do not deter businesses from seeking asset finance. It is for these reasons that we believe that IFRS 16, in its current form, should not be aligned to UK GAAP.
4. We note that the European Financial Reporting Advisory Group (EFRAG) is currently consulting stakeholders on whether to endorse IFRS 16. At this stage it is unclear whether EFRAG's response to this consultation will be consistent with the approach outlined by the FRC in the Triennial Review. The FLA would not wish to see UK businesses placed at a disadvantage against other European businesses. We believe that the FRC should ensure that its process for amending UK GAAP does not impede UK businesses by committing to a more stringent approach than that which may be ultimately adopted by others.
5. The FLA also notes that HM Revenue and Customs (HMRC) recently published a discussion paper how to amend the lease taxation regime following the publication of IFRS 16. This included proposals for an 'account based' approach to lease taxation and there will inevitably be some interaction between HMRC's actions to reform the lease taxation regime and the FRC's approach towards



incorporating the requirements of IFRS 16 into UK GAAP. It will clearly be important for the FRC and HMRC to co-ordinate their policy activities and we would encourage both organisations to engage with each other and stakeholders throughout the consultation period on any issues arising from these two work streams.

6. We would encourage the FRC to adopt a proportionate approach when considering how to incorporate the requirements of IFRS 16 into UK GAAP and we welcome the proposal within paragraph 3.40 to delay the effective date until 1 January 2022. This will ensure that users of UK GAAP have sufficient time to assess and implement any changes that may be required to meet the new accounting standard.
7. Determining appropriate values for short life and low value leases will be one of the most effective means of ensuring that users of UK GAAP are not unduly burdened by immaterial reporting requirements. If the short life and low value lease thresholds do not reflect general market practices then lessees will be subjected to unnecessary compliance burdens and undue complexity. We believe that the £5k and 12 month limits that have previously been suggested in relation to IFRS 16 are too low, and that both may need to be increased if they are to be effective. We would welcome further dialogue with the FRC on what might constitute appropriate thresholds for short life and low value leases.

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