



Tel: +44 20 7893 3300  
Fax: +44 20 7487 3686  
@: abuchanan@bdoifra.com  
www.bdointernational.com

BDO IFR Advisory Limited  
Contact:  
55 Baker Street  
London W1U 7EU  
United Kingdom

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

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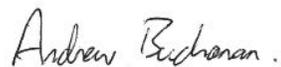
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in the particular jurisdiction (and therefore its economic environment). This view results in the outcome of the application of the definition of the lessee's incremental borrowing rate being consistent with the IASB's explanation in the Basis for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