IFRS Accounting

FASB | IASB Education Meeting

Date 3 October 2025

Project **Post-implementation Review (PIR) of IFRS 16 *Leases***

Topic **Project update**

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Purpose of this session

- To provide an update on the boards' PIRs of their respective standards for leases.
- To provide both boards with an opportunity to share comments and ask questions about these projects.
- The boards are not being asked to make any decisions.

Contents

What is a post-implementation review?

Post-implementation review (PIR) process—overview

Objective

To assess whether **the effects** of applying IFRS 16 on users of financial statements (users), preparers, auditors and regulators are as intended when the Standard was developed (see Appendix A). The PIR involves assessing whether:

1. IFRS 16 is overall working as intended
2. **benefits** to users are not significantly lower than expected
3. **costs** of application are not significantly greater than expected

Phase 1
Determine the scope of the request for information

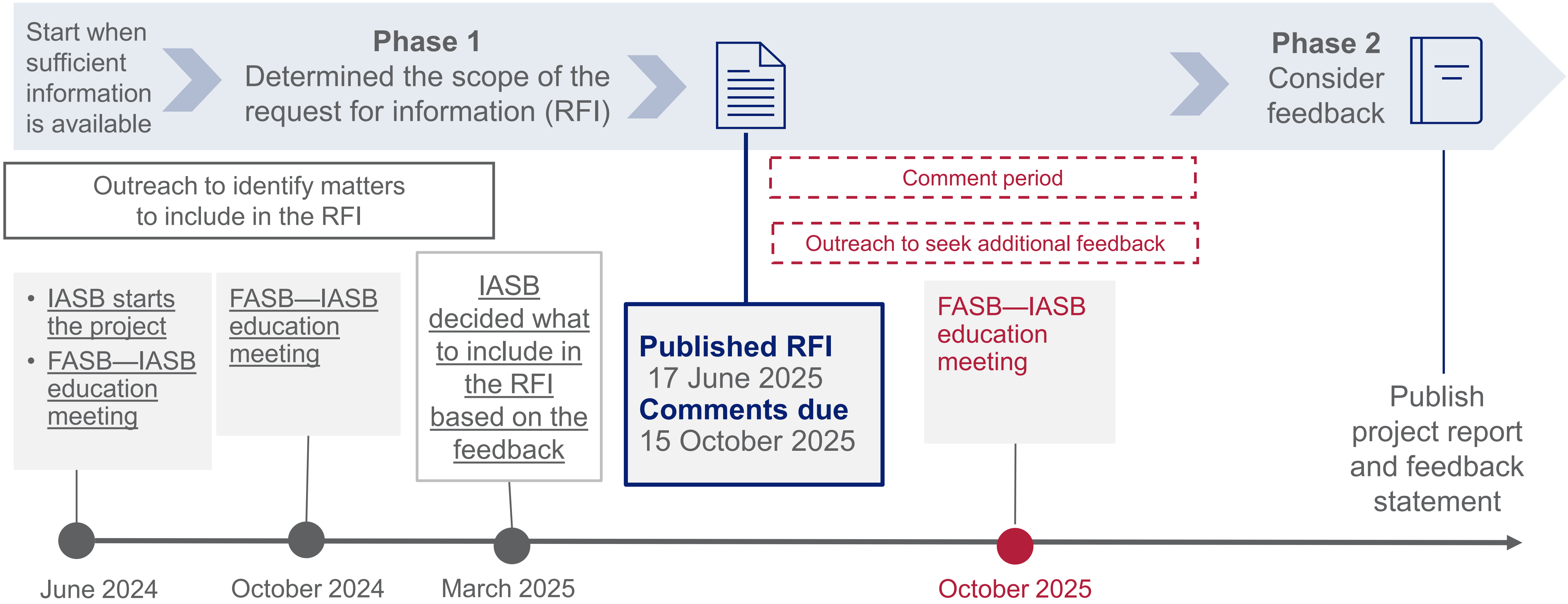
Phase 2
Consider feedback

Start when sufficient information is available

The IASB publishes a **request for information** (RFI). Anyone can respond

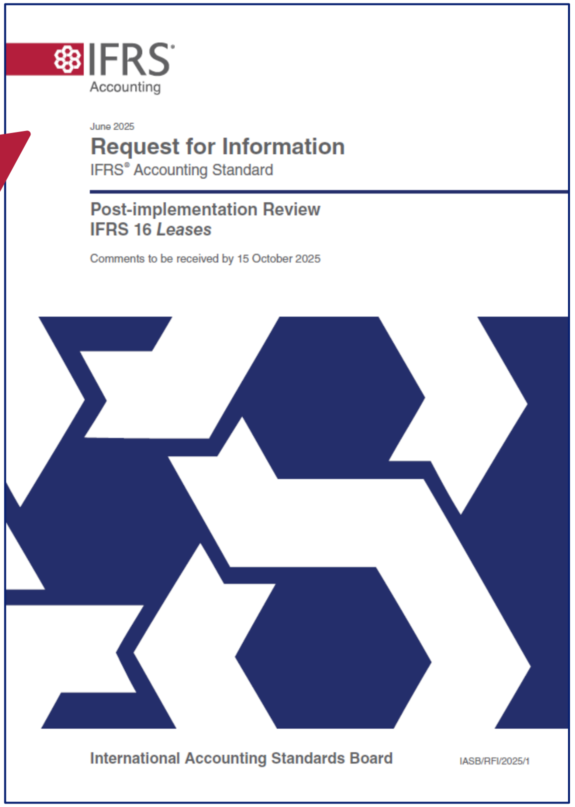
The IASB publishes a **report and feedback statement** summarising its findings and any next steps (see Appendix B for how the IASB makes that assessment)

Project timeline



Request for information

Request for information—overview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June 2025

Request for Information

IFRS® Accounting Standard

Post-implementation Review

IFRS 16 *Leases*

Comments to be received by 15 October 2025

International Accounting Standards Board

IASB/RFI/2025/1

Comment by

15 October 2025

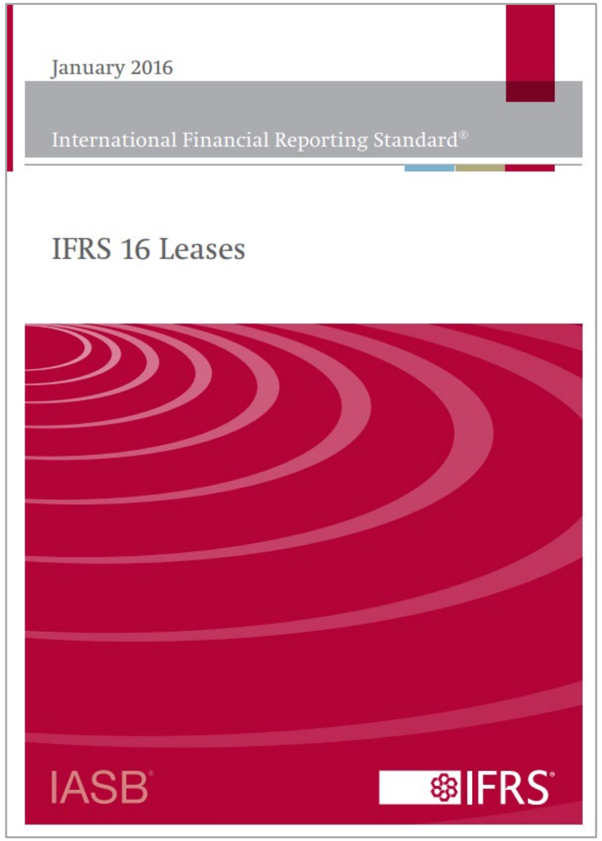
Areas of focus

1. Overall assessment of IFRS 16

Usefulness of information:

2. • resulting from lessees' application of judgement in determining lease term, discount rates and which variable lease payments to include in the measurement of the lease liability
3. • about lessees' lease-related cash flows
4. Ongoing costs of applying the requirements for discount rates and subsequent measurement of the lease liability
5. Potential improvements to future transition requirements
6. Other matters

1 Overall assessment of IFRS 16—background



Objective of the Standard

To ensure that lessees and lessors provide relevant information about their leases in a manner that faithfully represents those transactions. This information gives a basis for users to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

- Replaced IAS 17 *Leases*
- Brings **almost all** leases onto the **balance sheet** of **lessees**
- Significant change for lessees; little change for lessors
- Enhanced disclosure requirements
- Effective from 1 January 2019

1 Overall perspectives on IFRS 16

Users

IFRS 16 is working as intended, has achieved its objective and has improved financial reporting.

Some users said the use of judgement required by IFRS 16 reduces the comparability of reported financial information in some cases.

Most users said IFRS 16 has improved transparency and the quality of financial information.

Some users said they continue to adjust amounts reported in accordance with IFRS 16.

Most users said more detailed information disclosed is a meaningful improvement.

Many users said the differences between the requirements in IFRS 16 and US GAAP reduce the comparability of information.

Some users said information about the cash flows of entities that lease assets and entities that borrow funds to buy assets is not comparable.

Many users said updating their models to analyse and compare entities required significant effort, particularly because of the distortion to historical trends.

1 Overall perspectives on IFRS 16

Preparers
Auditors
Regulators
Standard-setters

Initial feedback from regulators, auditors and standard-setters suggests that IFRS 16 is working as intended, has achieved its objective and has improved financial reporting.

Many preparers said it is unclear whether the Standard has achieved its objective because they incur high ongoing costs to apply IFRS 16 but see limited or no benefits.

Many preparers said the cost of implementing IFRS 16 was high (as expected).

Other preparers said IFRS 16 has improved their entities' internal controls and co-ordination between the accounting and business functions.

Some preparers said their ongoing costs are reasonable. However, many other preparers said they incur higher-than-expected ongoing costs, especially when measuring (or remeasuring) the lease liability.

Many preparers said that for internal management purposes, they adjust financial information in the statements of cash flows and profit or loss to reverse the effects of IFRS 16.

Some preparers said simplifications to some of the requirements in the Standard might improve the cost–benefit balance.

Despite some concerns, most stakeholders expressed no appetite for significant changes to the requirements in IFRS 16.

1 Overall assessment of IFRS 16—questions

Context:
The IASB would like to understand stakeholders' views on and experiences relating to IFRS 16 to assess, *overall*, whether IFRS 16 is working as intended.

RFI questions

- Is IFRS 16 meeting its objective (see slide 8) and are its core principles clear?
- Are the *overall* improvements to the quality and comparability of financial information about leases largely as the IASB expected?
- Are the *overall* ongoing costs of applying the requirements and auditing and enforcing their application largely as the IASB expected?

Appendix A summarises the expected likely effects (benefits and ongoing costs) of IFRS 16.

2 Areas of judgement—background and perspectives

Background

- Lessees need to make judgements to determine the **lease term**, the **discount rate** or which **variable lease payments** to include in the measurement of the lease liability.
- The IASB would like to understand whether the application of judgement affects the usefulness of information to users.
- The IASB would also like to understand whether stakeholders' concerns about comparability are related to the clarity of the requirements (and whether the requirements can be applied consistently) or whether variations in outcomes reflect entities' varying facts and circumstances.

What we have heard

- Determining the lease term involves complex judgements to assess a 'reasonably certain' threshold, to determine enforceable rights and obligations and to decide what constitutes a penalty.
- Determining incremental borrowing rates involves significant judgement, which, if applied inappropriately, can lead to variations in discount rates determined for similar contracts or result in rates that do not reflect entities' borrowing rates.
- In some cases, the use of judgement required to determine discount rates or lease terms reduces the comparability of financial information.

2 Areas of judgement—questions

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RFI questions

- Do you agree that the usefulness of financial information resulting from lessees' application of judgement is largely as the IASB expected?
- Do you agree that the requirements in IFRS 16 provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently?
- If the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, please explain:
  - what amendments the IASB should make to the requirements; or
  - what additional information about lessees' judgements the IASB should require entities to disclose.

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3 Lessee's lease-related cash flows

Background

- Lessees classify cash payments for the principal portion of the lease liability within financing activities; interest paid in either operating or financing activities; and all other lease payments in operating activities.
- IFRS 16 requires lessees to disclose total cash outflow for leases and additional information about its leasing activities to help users to understand the effect of leases on cash flows. IAS 7 includes disclosure requirements for non-cash transactions and changes in liabilities arising from financing transactions.

What we have heard

- The presentation of lease-related cash flows is complex for users to analyse.
- Cash flows of some leases should be presented in operating cash flows.
- Although required by IFRS 16, some entities do not disclose total cash outflow for leases.
- Lessees should disaggregate total cash outflow for leases into principal and interest portions. Lessees should provide information about non-cash transactions related to the initial recognition of leases (to improve comparability with entities that borrow to buy assets).

? RFI question

Do you agree that the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are largely as the IASB expected?

! The IASB might decide the feedback on this matter is better addressed in the project on the Statement of Cash Flows and Related Matters.

4 Ongoing costs

Background

The IASB would like to understand whether the requirements for **discount rates** and the **subsequent measurement of the lease liability** are contributing to ongoing costs that are significantly higher than expected.

What we have heard

- Determining lessee's incremental borrowing rate remains costly due to complexity. Determining revised discount rates when remeasuring lease liabilities contributes to the high ongoing costs.
- Accounting for remeasurements involves a lot of resource and often manual work that cannot be automated. Frequent remeasurements of the lease liability do not improve the transparency of financial information and the resulting information might be immaterial.

? RFI questions

Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected? If your view is that the ongoing costs are significantly higher than expected, please explain:

- why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs; and
- how the IASB should reduce these costs without a significant negative effect on the usefulness of financial information about leases.

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5 Potential improvements to future transition requirements

Background

IFRS 16 permits a lessee to apply the Standard either ‘fully’ retrospectively or retrospectively without restating comparatives (modified retrospective approach). It includes some simplifications and practical expedients to provide cost relief for entities.

What we have heard

- The modified retrospective approach was more commonly used for cost–benefit reasons; entities found the practical expedients helpful.
- Some users said transition options, practical expedients and other simplifications complicated data analyses. But most users said entities provided enough information to allow users to understand the initial effects of IFRS 16.

? RFI question

Would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects?

If so, please explain how your idea would ensure:

- users have enough information to allow them to understand the effect of any new requirements on entities’ financial performance, financial position and cash flows; and
- preparers can appropriately reduce their transition costs when implementing new requirements for the first time.

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6 Applying IFRS 9 and IFRS 16

Background

There are two ways in which a lessee can account for a rent concession in which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract, resulting in partial extinguishment of the lessee's lease liability. The lessee can apply:

- IFRS 9 *Financial Instruments* to the extinguished part of the lease liability; or
- lease modification requirements in IFRS 16.

What we have heard

It is unclear how a lessee distinguishes between a lease modification as defined in IFRS 16 and an extinguishment (or partial extinguishment) of a lease liability accounted for in accordance with IFRS 9.

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RFI questions

- How often have you observed such rent concessions?
- Have you observed diversity in how lessees account for rent concessions?
- If your view is that the IASB should act, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

6 Applying IFRS 15 and IFRS 16

Background

If the transfer of an asset by the seller–lessee in a sale and leaseback transaction is a sale in accordance with IFRS 15, the seller-lessee recognises a gain or loss that relates to the rights transferred to the buyer-lessor (‘partial gain’). Otherwise, the seller-lessee recognises a financial liability equal to the transfer proceeds and applies IFRS 9.

What we have heard

- In some situations, it is difficult to determine whether the transfer of an asset is a sale.
- Partial gain recognition model is inconsistent with the accounting model in IFRS 15 to which the sale and leaseback requirements in IFRS 16 refer.

? RFI questions

- How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- Have you observed diversity in seller–lessees’ assessments of the transfer of control?

- Do you agree that restricting the amount of gain (or loss) a seller-lessee recognises results in useful information?
- What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs and benefits of partial gain or loss recognition requirements differ *significantly* from those expected?

If your view is that the IASB should act, please describe your proposed solution.

6 Other matters

Context:

Anyone can respond to the RFI. Stakeholders can share feedback on other matters relevant to the PIR that are not specifically covered by the other questions in the RFI.

? RFI question

Are there any further matters that the IASB should examine, considering the objective of the PIR of IFRS 16 (see slide 4)?

Appendix A
Expected effects of IFRS 16

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Expected benefits—improved quality

Improved information available to **all** users of financial statements.

Improved quality of financial reporting

More faithful representation of an entity's assets and liabilities and greater **transparency** about the entity's financial leverage and capital employed. Previously only more sophisticated investors and analysts adjusted for off balance sheet leases, while others did not.

Reduced need for investors and analysts to **adjust** amounts reported on a lessee's balance sheet and income statement.

Reduced need for entities to provide **non-GAAP** information* about leases—IFRS 16 provides a richer set of information than was previously available, giving further insight into a lessee's operations and funding.

Improvements in how lessees manage their lease portfolios, and possible improvements in how some lessees finance and operate their **businesses.**

*Also referred to as APMs—alternative performance measures or MPMs—management-defined performance measures.

Expected benefits—improved comparability

Improved comparability between entities

Improved **comparability** between entities that lease assets and entities that borrow to buy assets, while also reflecting the economic differences between these transactions.

Better information about changes in an entity's financial **flexibility** when it extends or shortens the length of its leases.

Reduced opportunities for entities to **structure** leasing transactions to achieve off balance sheet accounting.

Reduced incentive for entities to enter into **sale and leaseback** transactions only for accounting purposes, because of the recognition of assets and liabilities arising from the leaseback and the restriction on any gain recognised on sale of an asset.

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Expected ongoing costs

Except for discount rates, the data required to apply IFRS 16 is similar to that required to apply IAS 17.

Once an entity has updated its systems, the IASB expects costs to be only marginally higher compared to those incurred when applying IAS 17.

- Costs to arise from determining discount rates for each new or modified lease.
- Costs to arise from reassessment of the lease term—and thereby a reassessment of the discount rate and lease payments—after its initial determination when required by IFRS 16.
- Costs of remeasuring lease liabilities in relation to leases that include inflation-linked payments.
- Costs of applying the disclosure requirements in IFRS 16.
- Reduced costs because a lessee is no longer required to classify leases as finance leases or operating leases.

Appendix B
Prioritisation considerations

How does the IASB prioritise identified matters?

The IASB considers whether to take action on identified matters and how to prioritise matters depending on the extent to which:

- the matter has **substantial consequences** (eg widespread diversity in practice materially affects users' ability to analyse trends and compare companies);
- the matter is **pervasive** (eg it affects transactions that occur frequently in various industries and jurisdictions);
- the matter arises from a financial reporting issue that **can be addressed** by the IASB or the IFRS Interpretations Committee (ie a feasible solution is likely to exist); and
- the benefits of any action are expected to **outweigh the costs** (considering the extent of disruption to current practice and operational costs from change in the light of the importance of the matter to users).

The next steps can include referring a matter to the IFRS Interpretations Committee, providing materials to support consistent application of the requirements or considering possible standard-setting. The IASB can also conclude that no action is required.

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