
IASB® meeting

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Project **Post-implementation Review of IFRS 16 Leases**

Topic **Feedback summary—overall assessment of IFRS 16**

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Purpose and structure of this paper

1. This paper summarises responses to Question 1 in the [Request for Information Post-implementation Review of IFRS 16 Leases](#) (RFI), which asked about the overall assessment of IFRS 16.
2. This paper is structured as follows:
 - (a) background information (paragraphs 4–6);
 - (b) key messages (paragraphs 7–10);
 - (c) a summary of:
 - (i) overall views on IFRS 16 (paragraphs 11–17);
 - (ii) comments about overall benefits (paragraphs 18–24);
 - (iii) comments about overall ongoing costs (paragraphs 25–29); and
 - (iv) other comments (paragraphs 30–31); and
 - (d) question for the International Accounting Standards Board (IASB).
3. This paper does not ask the IASB for any decisions.

Background information

4. Question 1 in the RFI asked stakeholders about their overall assessment of IFRS 16.

Question 1—Overall assessment of IFRS 16

- (a) In your view, is IFRS 16 meeting its objective (see page 9) and are its core principles clear? If not, please explain why not.
- (b) In your view, are the *overall* improvements to the quality and comparability of financial information about leases *largely* as the IASB expected? If your view is that the overall improvements are *significantly lower* than expected, please explain why.⁹
- (c) In your view, are the *overall* ongoing costs of applying the requirements and auditing and enforcing their application *largely* as the IASB expected? If your view is that the overall ongoing costs are *significantly higher* than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of IFRS 16.⁹

The [Effects Analysis on IFRS 16](#) describes the expected likely effects of the Standard, including benefits and implementation and ongoing costs.

Please refer to '**Guidance for responding to questions**' on pages 7–8.

5. Question 1 was included in the RFI because the Post-implementation Review (PIR) of IFRS 16 involves assessing whether the Standard is overall working as intended.

6. Initial feedback (received before publishing the RFI) from users of financial statements (users), regulators, auditors and standard-setters suggested that IFRS 16 is working as intended, has achieved its objective and has improved financial reporting. However, 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. However, other preparers said IFRS 16 has improved their entities' internal controls and co-ordination between the accounting and business functions.

Key messages

7. Almost all stakeholders provided their overall views on IFRS 16. Of those stakeholders:

- (a) most said IFRS 16 is meeting (or largely meeting) its objective and its core principles are clear (that is, they provided positive overall feedback);
- (b) some said the Standard is not meeting its objective, because it fails to provide useful information that would faithfully represent the economics of leases (that is, they provided negative overall feedback); and
- (c) some provided mixed overall feedback.

8. Most stakeholders commented on the overall improvements to the quality and comparability of financial information about leases and most of them agreed that the overall improvements are largely as expected. However, most stakeholders (including most that provided positive overall feedback) raised a wide range of concerns (some more significant than others) about the usefulness of information resulting from the application of significant judgement in determining discount rates and lease terms.

9. Many preparers from various regions said it is unclear what the benefits of IFRS 16 are and whether the information is useful.

10. Many stakeholders commented on the overall ongoing costs of applying the requirements in IFRS 16 and auditing their application. Most of them expressed concerns about high ongoing costs, with many saying that they are significantly higher than the IASB expected.

Overall views on IFRS 16

Positive overall feedback

11. Most stakeholders said IFRS 16 is meeting (or largely meeting) its objective and its core principles are clear. These stakeholders include:

- (a) all global accounting firms;
- (b) most standard-setters;
- (c) many users; and

(d) some preparers (mostly preparers from various sectors in Saudi Arabia, a few preparers from the financial services sector, and a few global oil and gas entities).

12. Specifically, these stakeholders said IFRS 16 has improved transparency about lessees' leverage and capital employed by requiring recognition of lease liabilities and right-of-use assets. They said the Standard successfully addresses shortcomings of IAS 17 *Leases* and improves the quality of financial information. In these stakeholders' view, the single lessee classification model eliminates ambiguity between finance and operating leases (that is, off-balance-sheet financing) and ensures faithful representation of lease obligations. Stakeholders said practical implementation demonstrates that the Standard is generally workable across industries.

13. Most stakeholders also said the core principles of IFRS 16 (such as those relating to lease identification, lease term determination, recognition of right-of-use assets) are generally clear and logically coherent. But some stakeholders noted that application of the requirements to some complex scenarios that require use of judgement might lead to diversity in practice and reduce comparability.

14. A few auditors specifically commented on the verifiability (or auditability) of information prepared in accordance with IFRS 16. They said there are no issues with verifiability of the information, but they acknowledged that some areas might be more difficult to audit because of significant judgements involved. They also said that areas that are more difficult to audit might contribute to lessees' high ongoing costs of applying IFRS 16.

Negative overall feedback

15. Some stakeholders (including a few standard-setters from Latin America and Asia-Oceania, some users and many preparers) said IFRS 16 is not meeting its objective, because it fails to provide useful information that would faithfully represent the economics of leases—these stakeholders view leases as operating (rather than debt-like) transactions. Therefore, reporting in accordance with the Standard is perceived

as a compliance obligation without any real benefits to internal or external stakeholders.

16. Stakeholders generally acknowledge the efforts to address off-balance-sheet financing, but they argue that a single lessee accounting model for almost all leases is problematic conceptually and operationally and fails to capture differing economics of various types of leases. Of those who provided negative overall feedback, many stakeholders provided more detailed comments that can be broadly categorised as being related to lease classification, cost-benefit imbalance, operational complexity and burden, and distortions to performance reporting. These comments are discussed in more detail in the overall benefits section (paragraphs 18–24), overall costs section (paragraphs 25–29), and in Agenda Papers 7B–7E for this meeting.

Mixed overall feedback

17. Some other stakeholders (including some preparers and a few accountancy bodies) said it is unclear whether the Standard has achieved its objectives. Or, in these stakeholders' view, the Standard has largely met its objectives, but the nature or the extent of their comments indicates that they disagree with some key concepts and core principles in the Standard, for example:
 - (a) lease classification—stakeholders said decisions to lease property are often operational, not financial, so IFRS 16 fails to capture the substance of leases;
 - (b) complexity and clarity of the requirements—it is unclear whether the lessee model is asset-driven or liability-driven, which affects interpretation and application of the requirements; and
 - (c) usefulness of information—removal of operating lease expense from EBITDA calculation artificially inflates profitability measures and does not provide meaningful information.

Overall benefits

18. Most stakeholders commented on the overall improvements to the quality and comparability of financial information about leases. Of these stakeholders, most agreed that the overall improvements are largely as expected, and the information disclosed by entities is significantly more useful than the information disclosed in accordance with IAS 17. Some stakeholders provided other examples of benefits to users and preparers, and said IFRS 16:
 - (a) leads to centralisation of lease management processes, which results in operational efficiencies;
 - (b) improves internal processes and controls related to lease portfolios;
 - (c) promotes greater collaboration of the business and finance which results in better management decisions; and
 - (d) supports informed credit and investment assessments.
19. However, most stakeholders (including most that provided positive overall feedback) raised a wide range of concerns (some more significant than others) about the usefulness of information resulting from the application of significant judgement in determining discount rates and lease terms.
20. Some stakeholders said IFRS 16 has improved some areas, for example, comparability between balance-sheet information of lessees and entities that borrow to buy assets, but they questioned the usefulness of information presented in other primary financial statements.
21. A few stakeholders disagreed that the overall improvements to the quality and comparability of financial information are largely as the IASB expected. They explained that the main reason for their view is a high degree of judgement involved in determining discount rates or lease terms which has a significant negative effect on the comparability and the overall quality of reported information. Some of them also questioned the usefulness of information presented in income statement or statement of cash flows, which need to be adjusted to meet internal or external stakeholders' information needs. In these stakeholders' view, distorted leverage ratios, liquidity

ratios and performance metrics (such as EBITDA) affect debt covenants, executive compensation, and stakeholder perceptions of a business.

22. Many preparers from various regions said it is unclear what the benefits of IFRS 16 are and whether the information is useful, because preparers receive few questions about leases from users of their financial statements. In addition, these preparers often reverse the effects of IFRS 16 for their internal management purposes or in external market communications, for example, for consistency with their peers (who report EBITDA and cash flows on a pre-IFRS 16 basis) or for banks (who monitor debt covenants on a pre-IFRS 16 basis).

23. For more details about feedback on the usefulness of information resulting from lessees' application of judgement and stakeholders' suggestions on how to enhance this information, see Agenda Paper 7B.

24. Many stakeholders commented on the usefulness of information about lessees' lease-related cash flows. Many of them, regardless of their overall assessment of the Standard, raised various concerns about the usefulness of information about lessees' lease-related cash flows, with some saying that the information is not useful. Some stakeholders commented specifically on the interaction between this PIR and the IASB's research project on the Statement of Cash Flows and Related Matters saying that the IASB should consider their feedback in that research project. For more details, see Agenda Paper 7C.

Overall ongoing costs

25. Many stakeholders commented on the overall ongoing costs of applying the requirements in IFRS 16 and auditing their application. Some of them agreed that ongoing costs are largely as the IASB expected and that the benefits justify these costs.

26. However, most stakeholders (including almost all preparers, most standard-setters, most accountancy bodies and many accounting firms) expressed concerns about high ongoing costs of applying IFRS 16 and auditing its application, with many saying that

the ongoing costs are significantly higher than the IASB expected. Stakeholders pointed to continued heavy workloads from reassessments, frequent lease modifications, maintaining audit trails and governance, and specialist resource needs. Stakeholders acknowledged that experiences differ depending on entity size, sector and complexity of lease portfolio and said that higher-than-expected ongoing costs are prevalent among lessees with large or complex lease portfolios in lease-intensive industries.

27. Many stakeholders, who commented on the overall ongoing costs, identified the requirement to determine discount rates (or revised discount rates) as one of the major ongoing cost drivers. They emphasised that the determination and periodic updates of discount rates are complex, involve significant judgement, and in some cases require the use of external consultants, in particular for entities with activities in multiple jurisdictions and in volatile markets with frequently changing interest rates.
28. Most stakeholders, who commented on the overall ongoing costs, also mentioned the requirements for reassessments of the lease liability and lease modifications as a cause of disproportionately high ongoing costs. They said that frequent minor changes (for example, a lessees' reassessment of the lease term, indexation of variable lease payments, rent concessions) trigger complex accounting and often require recalculating discount rates and remeasuring lease liabilities, contributing to operational and audit burden.
29. For more details about feedback on ongoing costs for lessees of applying the measurement requirements in IFRS 16 and stakeholders' suggestions on how to reduce these costs, see Agenda Paper 7D.

Other comments

30. Consistent with the feedback that we received before publishing the RFI, despite some concerns and differences in how stakeholders assess IFRS 16 as a whole, only a few stakeholders expressed appetite for major changes, such as requiring entities to disclose the total of future minimum lease payments under non-cancellable leases

(similar to the requirement in IAS 17) or the withdrawal of IFRS 16 and reinstatement of IAS 17.

31. Some stakeholders commented on convergence between IFRS 16 and FASB ASC Topic 842, Leases, mainly in the context of sale and leaseback requirements or lessor accounting. For example, stakeholders suggested the IASB consider aligning the requirements in IFRS 16 with those in Topic 842 in areas where there are insufficient (or a lack of) specific requirements in IFRS 16 compared to Topic 842. At a future IASB meeting we will present the summary of feedback on other matters, including lessor accounting and sale and leaseback transactions.

Question for the IASB

Question for the IASB

Do you have any comments or questions about the feedback summary in this agenda paper?