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**IASB<sup>®</sup> meeting**

Date **January 2026**

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

Topic **Feedback summary—usefulness of information about lessees’ lease-related cash flows**

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**Purpose and structure of this paper**

1. This paper summarises feedback to Question 3 in the [Request for Information \*Post-implementation Review of IFRS 16 Leases\*](#) (RFI), which asked about the usefulness of information about lessees’ lease-related cash flows.
2. This paper is structured as follows:
  - (a) background information (paragraphs 4–6);
  - (b) key messages (paragraphs 7–8);
  - (c) summary of feedback about the usefulness of information about lessees’ lease-related cash flows (paragraphs 9–19);
  - (d) summary of feedback about distinguishing a lease from an in-substance purchase (paragraphs 20–23);
  - (e) summary of suggestions to improve the usefulness of information about lessees’ lease-related cash flows (paragraphs 24–28); and
  - (f) question for the International Accounting Standards Board (IASB).
3. This paper does not ask the IASB for any decisions.

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## Background information

4. Question 3 in the RFI asked stakeholders about their views on the usefulness of information about lessees' lease-related cash flows.

### Question 3—Usefulness of information about lessees' lease-related cash flows

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? If your view is that the improvements are *significantly lower* than expected, please explain why.

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

5. Question 3 was included in the RFI considering the initial feedback the IASB heard before publishing the RFI. Some stakeholders (including some users of financial statements (users) and preparers) raised concerns about the presentation of lease-related cash flows in the statement of cash flows and the related disclosures. These stakeholders said:
- (a) that the presentation of lease-related cash flows in the statement of cash flows is complex for users to analyse.
  - (b) that although required by IFRS 16, some entities do not disclose the total cash outflow for leases.
6. In their comments, these stakeholders suggested the IASB consider requiring entities:
- (a) to provide information about non-cash transactions related to the initial recognition of leases to improve comparability between entities that lease assets and entities that borrow funds to buy assets.
  - (b) to provide information about the total cash outflow for leases disaggregated into principal and interest portions.
  - (c) to present the cash flows of some leases in operating cash flows to faithfully represent the substance of these transactions.

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## Key messages

7. Many stakeholders commented on the usefulness of information about lessees' lease-related cash flows. Of those stakeholders:
  - (a) many agreed that overall 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; and
  - (b) many either explicitly said that the improvements are lower (or significantly lower) than expected or provided mixed feedback.
8. Some stakeholders commented specifically on the interaction between this Post-implementation Review (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.

## Usefulness of information about lessees' lease-related cash flows

### ***Positive feedback***

9. Of those who commented on Question 3 in the RFI, many stakeholders (including most accountancy bodies, many standard-setters and many accounting firms) provided positive feedback. These stakeholders generally agreed that IFRS 16 results in lessees' presenting and disclosing better-quality information that improves the transparency and comparability of lease-related cash flows, as the IASB expected.
10. However, some stakeholders who provided positive feedback still highlighted areas of complexity and raised some concerns about the quality, granularity or comparability of information.<sup>1</sup> Their comments included (each comment was raised by no more than a few stakeholders):

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<sup>1</sup> These concerns were similar to the concerns of those who provided mixed or negative feedback.

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- (a) it can be complex to analyse lease-related cash flows, because they are presented in different line items in financing and operating activities.
  - (b) recognition exemptions, variable lease payments (not included in the measurement of the lease liability) and optionality in the presentation of interest payments negatively affect comparability of information.
  - (c) the total cash outflow for leases is not always disclosed. Even if lessees provide this information, there are inconsistencies in what this amount represents, because IFRS 16 requirements are unclear in this regard. Some preparers disclose only cash outflows related to the repayment of the lease liability, while others include payments for short-term and low-value leases or include variable lease payments (that are excluded from the measurement of the lease liability). In these stakeholders' view, this diversity hinders comparability.
  - (d) there is insufficient (or a lack of) guidance on, for example, where to present cash flows from lease incentives received or from reimbursements for lessees' expenses related to leasehold improvements.

### ***Negative or mixed feedback***

- 11. Some stakeholders (including most users, some preparers, some standard-setters and a few accountancy bodies), who commented on Question 3 in the RFI, provided negative feedback. These stakeholders said the improvements to the quality and comparability of lease-related cash flow information are lower or significantly lower than the IASB expected and, in some cases, the requirements in IFRS 16 have resulted in a decrease in the usefulness of information in the statement of cash flows.
- 12. Some other stakeholders (including many standard-setters, many preparers, a few accountancy bodies and a few accounting firms), who commented on Question 3 in the RFI, provided mixed feedback. These stakeholders did not explicitly agree or disagree that the improvements to the quality and comparability of financial information about lessees' lease-related cash flows are largely as the IASB expected.

Some of them made positive comments, for example, that a single lessee accounting model enhances the comparability of lease-related information, and the detailed disclosure requirements enhances the transparency and consistency of cash flow information that lessees provide. However, most of these stakeholders (including those that made positive comments) raised some concerns, which are largely similar to comments of those stakeholders who explicitly provided negative feedback and therefore we present these concerns together in paragraphs 14–19. The concerns do differ in the overall context and sentiment that the two groups of stakeholders provide those concerns in.

13. Concerns and comments of stakeholders who provided negative or mixed feedback relate to:
- (a) classification and presentation of lessees' lease-related cash-flows (see paragraphs 14–1515);
  - (b) fragmentation and complexity of cash flow information (see paragraphs 1616–17); and
  - (c) other matters (see paragraphs 1818–19).

*Classification and presentation of lessees' lease-related cash flows*

14. Of the many stakeholders who provided negative or mixed feedback, many raised concerns about the presentation of lessee's lease-related cash flows and said that classifying leases as financing activities:
- (a) does not reflect the operating nature of lease payments, particularly in lease-intensive sectors such as retail, telecommunications or airlines. In some stakeholders' view, some leases are core to operating activities and do not represent a financing decision.
  - (b) is inconsistent with how entities manage and report operating cash flows, including key performance measures, such as free cash flows, or how external stakeholders use information about cash flows (when analysing trends, making credit assessments, valuing entities or monitoring covenants). This leads to

management reporting alternative performance measures and analysts relying on adjusted or non-GAAP information.

- (c) introduces inconsistencies and hinders comparability between entities purchasing assets and leasing assets.
15. A few stakeholders said it is unclear how lessees should classify cash flows related to advance payments (prepaid lease payments) or lease incentives received from lessors. These stakeholders raised concerns about entities classifying and presenting these payments inconsistently in various categories of the statement of cash flows.

*Fragmentation and complexity of cash flow information*

16. Of the many stakeholders who provided negative or mixed feedback, many stakeholders raised concerns about fragmentation and the overall complexity for users to understand and analyse the effect that leases have on historical and future cash flows. Their comments included:
- (a) classifying various lease-related cash flows in operating and financing categories, as well as splitting a single, fixed lease payment between principal and interest components obscures the total cash outflow related to leases.
  - (b) presenting fixed lease payments as financing cash flows and variable lease payments (that do not depend on an index or rate) as operating cash flows hinders comparability across entities and complicates analysis in sectors where variable lease payments are significant (for example, retail). This is because entities report varying proportions of fixed and variable lease payments and their operating cash flows might differ significantly.
  - (c) there is insufficient information to allow users to link lease-related information between the balance sheet, the income statement and the statement of cash flows.
  - (d) the requirement to disclose information about total cash outflow for leases is applied inconsistently.

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17. A standard-setter from Asia-Oceania said that preparers in their jurisdiction said there are operational challenges to allocate lease payments in the period to principal repayments, interest payments, variable lease payments (that are not included in the measurement of the lease liability) and non-lease components (that are accounted for as leases).

### *Other matters*

18. A few stakeholders raised concerns about non-cash movements or transactions, such as:
- (a) insufficient information about non-cash movements related to the initial recognition of leases makes it difficult to compare entities that lease assets and entities the borrow funds to buy assets; and
  - (b) the requirements in IAS 7 *Statement of Cash Flows* for non-cash transactions are unclear or insufficient, so the resulting information is difficult for users to reconcile changes in lease liabilities with the cash flow information.
19. A few stakeholders said disclosures are too onerous (for example, about the lessee's potential exposure to future cash outflows that are not reflected in the measurement of the lease liability). Stakeholders said the IASB should consider specifying the time horizon.

## **Distinguishing a lease from an in-substance purchase**

20. When developing IFRS 16, the IASB decided not to provide requirements in IFRS 16 to distinguish a lease from a purchase of an asset, because there was little support from stakeholders for including such requirements. In addition, the IASB observed that the accounting for leases that are similar to the purchase of the underlying asset would be similar to that for purchases applying the respective requirements of IAS 16 *Property, Plant and Equipment*.<sup>2</sup> However, in response to the RFI, a few stakeholders

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<sup>2</sup> See paragraphs BC138–BC140 of the Basis for Conclusions on IFRS 16.

raised concerns about the lack of clear criteria for distinguishing in-substance (financed) purchases from leases.<sup>3</sup> Stakeholders noted that this lack of clarity has significant consequences in particular for the classification and presentation of related cash flows, because in their view cash flows arising from contracts that in substance represent a financed purchase of an asset should be presented differently than lease-related cash flows.

21. Stakeholders said there are also other differences between the measurement of assets and liabilities arising from leases and those that arise from in-substance purchases (such as, differences in how variable payments linked to an index or rate are accounted for in the cost of an asset on initial recognition and subsequently).
22. Stakeholders said determining whether as a result of a transaction, control of the underlying asset is transferred—rather than only the right to use it—remains challenging in practice, for example, in circumstances when:
  - (a) the lease term covers substantially all of the asset's useful life.
  - (b) the lease payments cover substantially all of the fair value of the underlying asset.
  - (c) the lessee's rights are similar to those typically held by an owner.
  - (d) a purchase option exists and it is reasonably certain to be exercised, especially when the option price is significantly below market value.
  - (e) the transaction is between an entity, a supplier of an asset and a bank, where the bank purchases the asset directly from the supplier based on specific instructions of the entity with a commitment to lease the same asset to the entity. Stakeholders said such transactions are often structured as leases, however the bank usually acts as a paying agent of the entity and does not acquire control of the asset. Therefore, in these stakeholders' view, such arrangements are similar to those in which the entity obtains finance from the bank to directly acquire the asset.

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<sup>3</sup> This includes stakeholders who provided feedback on this topic in response to Question 6.4 of the RFI on other matters.



- (f) the contract is a power purchase agreement or a nature-dependent energy arrangement in which control of the underlying asset is difficult to assess.
23. Stakeholders said that, although paragraph BC139(a) of IFRS 16 states that accounting for in-substance purchases and leases would be similar, this similarity does not extend to the presentation of cash flows because cash flows related to purchases of assets are presented differently from lease-related cash flows.

### **Suggestions to improve the usefulness of information about lessees' lease-related cash flows**

24. 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 holistically in that research project to achieve consistent and principle-based solutions. In particular, stakeholders said the IASB should reconsider the classification of lease-related cash flows and consider what information to require entities to disclose about non-cash changes in right-of-use assets and lease liabilities comprehensively with other similar matters that arise from transactions that are beyond the scope of IFRS 16.
25. Some stakeholders suggested enhancing the disclosures related to lease-related cash flows. Their suggestions included:
- (a) clarifications to the scope of the disclosure requirement about total cash outflow for leases. Stakeholders suggested that the IASB should require disaggregation of this amount into specified components that all entities would be required to disclose, such as principal repayments, interest payments, variable lease payments, payments related to short-term leases and leases of low-value assets and disclose where in the statement of cash flows these cash flows are presented.
  - (b) improvements to the maturity analysis of the lease liability by requiring lessees to determine sufficiently narrow time bands, so that users receive more granular information.

- (c) requiring sensitivity analysis of variable lease payments that are not included in the measurement of the lease liability.
  - (d) requiring reconciliation of lease-related cash flows with lease-related expenses.
26. A few stakeholders said that the IASB should consider developing requirements to distinguish a lease from an in-substance purchase of an asset and for the classification and presentation of related cash flows.
27. A standard-setter from Europe provided more detailed suggestions on how they would present cash flows related to in-substance purchases and leases and described three scenarios:
- (a) in-substance purchase transactions involving three parties: a customer (an entity), a supplier of an asset and a finance provider (for example, a bank or another financial institution). The finance provider pays the supplier upfront on behalf of the entity and the entity obtains a right to control the use of an identified asset for a period of time in exchange for consideration payable to the finance provider. In the stakeholder's view, in such transactions the entity should:
    - (i) gross up cash flows on initial recognition of the asset and related liability and present such cash flows as a financing cash inflow and an investing cash outflow; and
    - (ii) present repayments of the liability to the finance provider as financing cash outflows.
  - (b) in-substance purchase transactions involving two parties: a customer (an entity) and a supplier of an asset. The entity obtains a right to control the use of an identified asset for a period of time (which is for a major, or entire, part of the economic life of the asset) in exchange for consideration. In the stakeholder's view, in such transactions payments to the supplier should be presented as investing cash outflows.

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- (c) for leases in which the entity obtains a right to control the use of an identified asset for a period of time (which is *not* for a major part of the economic life of the asset), the entity should present payments to the supplier as operating cash outflows.
28. A few stakeholders suggested the IASB should clarify the classification and presentation of cash flows related to lease prepayments and lease incentives received from lessors as reimbursement for expenses relating to leasehold improvements.

### Question for the IASB

#### Question for the IASB

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