IFRS Accounting

Staff paper

Agenda reference: 7D

IASB® meeting

Date	**January 2026**
Project	**Post-implementation Review of IFRS 16 *Leases***
Topic	**Feedback summary—ongoing costs for lessees**
Contacts	Rashida Abdryashitova (rabdryashitova@ifrs.org) Raf Markowski (rmarkowski@ifrs.org) Tim Craig (tcraig@ifrs.org)

Purpose and structure of this paper

1. This paper summarises feedback to Question 4 in the Request for Information *Post-implementation Review of IFRS 16* Leases (RFI), which asked about the ongoing costs for lessees of applying the measurement requirements in IFRS 16.

2. This paper is structured as follows:

   (a) background information (paragraphs 4–5);

   (b) overall messages (paragraphs 6–7);

   (c) a summary of comments about lessees' ongoing costs relating to:

      (i) reassessments of the lease liability and lease modifications (paragraphs 8–9);

      (ii) discount rates (paragraphs 10–11);

      (iii) recognition exemptions (paragraphs 12–14);

      (iv) disclosure requirements (paragraph 15);

      (v) IT systems, processes and controls (paragraphs 16–18); and

      (vi) other matters (paragraphs 19–24); 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 4 in the RFI asked about ongoing costs for lessees of applying the measurement requirements in IFRS 16.

> **Question 4—Ongoing costs for lessees of applying the measurement requirements**
>
> (a) 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.
>
> (b) If your view is that the ongoing costs are *significantly higher* than expected, please explain how you propose the IASB reduce these costs without a *significant* negative effect on the usefulness of financial information about leases.
>
> Please refer to **'Guidance for responding to questions'** on pages 7–8.

5. Question 4 was included in the RFI considering the initial feedback and other information received in identifying matters to be examined in the public consultation. The initial feedback suggested that some requirements in IFRS 16 contribute to some stakeholders' concerns about ongoing costs potentially being higher than expected. In particular:

   (a) some preparers and standard-setters said determining discount rates (lessee's incremental borrowing rate) remains costly and challenging due to complexity;

   (b) some stakeholders also said the requirements for lessees to determine revised discount rates when remeasuring lease liabilities contributes to the high ongoing costs of applying IFRS 16; and

   (c) some stakeholders (mostly preparers and standard-setters) expressed concerns about the cost–benefit balance of the requirements for subsequent measurement of the lease liability.

Overall messages

6. Many stakeholders (including almost all standard-setters, many preparers, most accounting firms and many accountancy bodies) commented on ongoing costs for lessees of applying the measurement requirements in IFRS 16. Of those who commented, some stakeholders said ongoing costs are reasonable. However, most stakeholders (including almost all preparers, most standard-setters, most accountancy bodies and many accounting firms), who commented on ongoing costs of applying IFRS 16, expressed concerns about high ongoing costs, with many saying that the costs are significantly higher than the IASB expected. Stakeholders said entities in lease-intensive industries, entities with complex lease portfolios or entities that have to manage leases in multiple subsidiaries or business units are among the most affected.

7. Many stakeholders, who commented on ongoing costs of applying IFRS 16, find many aspects of the Standard very complex to apply, in particular those requiring significant judgements. Therefore, stakeholders said entities incur high costs of continuous training of personnel across different functions and sometimes have to engage external consultants to assist with applying the measurement requirements in IFRS 16.

Summary of comments about lessees' ongoing costs

Reassessments of the lease liability and lease modifications

Feedback

8. Most stakeholders (including almost all accountancy bodies, most accounting firms, many preparers and many standard-setters), who commented on ongoing costs of applying IFRS 16, expressed concerns about the cost-benefit balance of applying the requirements for the reassessments and lease modifications. Their comments included:

    (a) in some industry sectors, such as telecommunications, retail and logistics, events that trigger reassessments of the lease liability (or lease modifications) occur frequently and affect large portfolios of contracts that might have complex terms and conditions. In some circumstances, accounting for the remeasurements requires a lot of time and resources and often involves manual work (such as analysis of frequent and minor changes to contracts) that cannot be automated easily. In the view of a standard-setter, the frequency of changes to the lease, such as changes to the lease term, which trigger the need to revise discount rates, were underestimated in section 5.2 of the *Effects Analysis*.[1]

(b) the requirements are generally complex to understand and apply. For example, it might be difficult:

   (i) to distinguish between a reassessment of the lease liability and a lease modification; and

   (ii) to determine the amount to recognise as an adjustment to the right-of-use asset and in the income statement when a change in the lease term and a lease modification (that decreases the scope of the lease) happen at the same time.

(c) determining revised discount rates is costly (see paragraphs 10–11).

(d) frequent remeasurements of the lease liability are costly but often they result in immaterial information that does not improve transparency of financial information.

(e) accounting for the change in lease payments that depend on an index or a rate (because of the changes in the index or the rate) contributes to high ongoing costs. Stakeholders said the changes might affect multiple accounting records (such as fixed assets ledgers and liabilities registers), affect future depreciation amounts (and result in volatility in income statement when the carrying amount of right-of-use asset is adjusted frequently), and in some cases require complex manual calculations. In jurisdictions where indexes can be very

[1] In section 5.2 of the *Effects Analysis* the IASB expected that 'companies will not need to reassess many lease liabilities'. In addition, the IASB expected that 'changes to the lease term—and thereby a reassessment of the discount rate and lease payments—are expected only in a small number of cases'.

volatile, frequent remeasurements can result in costs significantly exceeding benefits. A few stakeholders also pointed out that in addition to generating excessive costs for preparers, remeasurement of lease liabilities for index-linked payments results in entities not providing useful information when those entities are subject to high inflation or hyperinflation.

Suggestions

9. Many stakeholders (including many preparers, standard-setters, accountancy bodies and accounting firms), who commented on ongoing costs of applying IFRS 16, made suggestions relating to the requirements for remeasurement of lease liabilities, including for leases with payments depending on an index or a rate. The suggestions included:

   (a) permitting an entity to use the originally determined (unrevised) discount rate in accounting for reassessments of the lease liability or lease modifications—some stakeholders suggested this (see also paragraph 11(b));

   (b) adding guidance, decision trees, illustrative examples (including for complex and industry-specific scenarios) or providing educational materials that would clarify the requirements for lease modifications and reassessments—a few stakeholders suggested this;

   (c) reducing the frequency of when the lease liability is required to be remeasured, for example:

      (i) some suggested introducing a practical expedient like the one for covid-19-related rent concessions. This would permit entities not to assess whether certain changes to the original terms and conditions of the lease meet the definition of lease modification and instead to account for any change in the lease payments in the income statement when incurred. Some stakeholders suggested the IASB introduce a quantitative threshold for identifying which lease modifications would qualify for the practical expedient. A few stakeholders from Latin America and a global accounting firm provided an example of a similar threshold—the guidance on accounting for a substantial modification of a financial liability in paragraph B3.3.6 of IFRS 9 *Financial Instruments*.[2]

(ii) a few suggested removing the requirement in paragraph 42 of IFRS 16 to remeasure the lease liability for variable lease payments that depend on an index or a rate each time there is a change in the reference index or rate. These stakeholders said one possible solution would be to align the requirements with the FASB's Topic 842, Leases, which requires entities to remeasure the lease liability only when the lease obligation is remeasured for other reasons (for example, a change in lease term, lease modification, change in assessment of purchase option or the resolution of a contingency of the variable lease payments unrelated to a change in a reference index or rate).[3] One preparer suggested the IASB simply remove the requirement to include indexation of payments in the measurement of the lease liability.

Discount rates

Feedback

10. Many stakeholders (including most standard-setters, most accountancy bodies, many preparers and many accounting firms), who commented on ongoing costs of applying IFRS 16, 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 use of external consultants, in particular for

[2] Paragraph B3.3.6 of IFRS 9 *Financial Instruments* states: 'For the purpose of paragraph 3.3.2, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.'

[3] Appendix B to Agenda Paper 7A for the June 2024 FASB-IASB joint educational meeting summarises key differences between the requirements in IFRS 16 and in Topic 842.

entities with activities in multiple jurisdictions and in volatile markets with frequently changing interest rates.

Suggestions

11. Many stakeholders (including most accountancy bodies, many standard-setters and many preparers), who commented on ongoing costs of applying IFRS 16, made suggestions relating to discount rate requirements. Their suggestions included:

    (a) permitting a lessee to use a risk-free rate, a rate of the parent or an obtainable borrowing rate—some stakeholders suggested this;

    (b) permitting an entity to use an unchanged discount rate when remeasuring lease liabilities for those reassessments and lease modifications that currently require the use of the revised discount rate—some stakeholders suggested this (see also paragraph 9(a));

    (c) removing the requirement to use the interest rate implicit in the lease, because such rates are often not observable, yet preparers need to spend time and effort to prove it to auditors—a few stakeholders suggested this; and

    (d) clarifying guidance and adding illustrative examples for the requirements on determining the discount rate (for example, a flow chart or a decision tree) which would be helpful for determining whether an entity is required to use an unchanged or revised discount rate for remeasuring lease liabilities—a few stakeholders suggested this.

Recognition exemptions

Feedback

12. Some stakeholders (including many preparers and some standard-setters) commented on the recognition exemptions for leases. Most of those who commented on the exemptions raised concerns about the exemptions not being effective at reducing the ongoing costs of applying IFRS 16. Many of those who commented on the

exemptions said they have not benefitted from them as much as the IASB expected. Their comments included:

(a) the existing guidance *lacks clarity*, for example, the threshold of $5,000 in paragraph BC100 of the Basis for Conclusions on IFRS 16[4] and the reference to cars in paragraph B6 of IFRS 16[5] are not helpful. In these stakeholders' view, this leads to diversity in practice, because the relationship between materiality and the threshold is unclear, which complicates discussions about materiality with auditors and generates costs, as well as reduces the comparability of information for users of financial statements (users).

(b) the threshold of $5,000 is *outdated*. It has not been updated for inflation since the Standard was issued 10 years ago and it does not adequately reflect changes in prices and exchange rates, which results in higher-than-expected costs because more items exceed the $5,000 threshold and therefore fall outside the scope of the recognition exemption.

13. In addition to feedback about the effect of the exemptions on ongoing costs, a few stakeholders (mostly standard-setters) said the exemptions create *structuring opportunities* for entities, such as entering into serial short-term leases with automatic renewals or disaggregating contracts into a number of low-value contracts below the threshold to manage balance sheet effects, which reduce the usefulness of information for users.

Suggestions

14. Most stakeholders, who commented on the recognition exemptions, suggested the IASB:

(a) increase the scope of the recognition exemption:

[4] Paragraph BC100 of the Basis for Conclusions on IFRS 16 states: 'At the time of reaching decisions about the exemption in 2015, the IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of US$5,000 or less.'

[5] Paragraph B6 of IFRS 16 states: 'For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.'

(i) by updating the $5,000 threshold on a regular basis in line with changes in market prices.

(ii) by extending the short-term leases exemption to leases with lease terms that are longer than 12 months, for example, a term of three years or a term that is less than half of the useful life of the asset.

(iii) by removing the $5,000 threshold from the Basis for Conclusions on IFRS 16. These stakeholders cautioned against including any specific amounts in future IFRS Accounting Standards. A few suggested removing any quantitative thresholds, including the 12 months for identifying short-term leases, and moving to more principles-based approach to identifying, what they refer to as 'economically insignificant' leases.

(b) simplify and clarify the guidance on identifying leases eligible for the recognition exemptions to reduce diversity in practice.

(c) extend the exemptions to sublease agreements.

Disclosure requirements

15. Some preparers and some standard-setters, who commented on ongoing costs of applying IFRS 16, commented on high costs of disclosing information required in IFRS 16 with little or no observed benefit to users. The stakeholders suggested the IASB consider reducing or simplifying disclosure requirements. They suggested, for example:

(a) removing requirements in paragraph 59(b) of IFRS 16 to disclose future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. A few stakeholders who suggested removing these requirements said the information is costly to prepare and, in their view, is not useful to users. A few stakeholders (mostly standard-setters) said that, based on their experience, users instead are interested in more granular qualitative and quantitative information on actual, rather than future, leaserelated cash flows, such as information on variable lease payments, extension and termination options, as well as a reconciliation of cash flows to IFRS 16-related expenses and disclosure of useful lives of leased assets.

(b) removing requirements in paragraph 53(c)–(e) of IFRS 16 to disclose expenses relating to short-term leases and leases of low-value assets accounted for applying paragraph 6 of IFRS 16, and expenses relating to variable lease payments not included in the measurement of lease liabilities.

(c) allowing entities to apply simplified disclosure requirements if lease assets or liabilities are below a certain threshold.

IT systems, processes and controls

16. Many stakeholders (including almost all accountancy bodies, most preparers and many standard-setters) commented on IT systems. They said large licence fees, customisation costs, ongoing maintenance and the initial absence of fully developed solutions have been drivers of both implementation and ongoing costs. Stakeholders said when systems are not fully developed, manual workarounds increase audit effort and recurring expenses.

17. Some stakeholders also said that even when entities have implemented sophisticated lease accounting software, there is still some manual work required (such as analysis of contract modifications or sale and leaseback transactions) that cannot be fully automated. In the view of a few stakeholders, the application of IFRS 16 resulted in entities generating higher-than-expected IT costs on an ongoing basis, because some requirements of IFRS 16 are particularly complex to model in IT software. For example, the requirements relating to the differentiated treatment of increases and decreases in the scope of a lease, or the need to determine revised discount rates.

18. A few stakeholders said that many IT systems require particularly costly storage space to maintain large volumes of IFRS 16-related information and to manage disclosure preparation on a regular basis, such as disclosure of information that helps users of financial statements to assess future cash outflows as required in paragraph 59(b) of

IFRS 16. For example, stakeholders said to carry out sensitivity analyses on extension and termination options, a preparer needs to acquire additional storage space to replicate the contractual data from its production database and simulate the exercise of options.

Other matters

19. Some stakeholders (including some preparers and standard-setters), who commented on ongoing costs of applying IFRS 16, said that determining *the lease term* involves complex judgements which might lead to diversity in practice and high ongoing costs. Determining what constitutes a ‘reasonably certain’ threshold, whether the contract is enforceable and what constitutes a penalty are among the most challenging judgements that entities need to make. A few preparers suggested the IASB consider simplifying the requirements for determining the lease term and require that the lease term covers only the contractual, non-cancellable term.

20. Some stakeholders, who commented on ongoing costs of applying IFRS 16, commented on costs specifically for *small or medium-sized entities* that are outside of the scope of the *IFRS for SMEs* Accounting Standard and said the requirements of IFRS 16 are particularly burdensome for them because they lack sophisticated IT systems, specialist staff and scale economies. Manual tracking, frequent reassessments of lease terms, determining discount rates and lease modifications that often require involvement of external consultants increase costs materially for these preparers. They argue that there is a cost–benefit imbalance and ask for targeted cost reliefs.

21. A few stakeholders (mostly standard-setters and preparers) said to meet the requirements of their internal and external stakeholders, entities maintain *two sets of books*—one in accordance with IFRS 16 and the other in accordance with IAS 17 *Leases*—because not all users find IFRS 16 information useful. This results in very high costs. Some of those stakeholders suggested that lessees should be permitted not to apply IFRS 16 to some types of leases that are generally viewed as not binding, cancellable or service-like arrangements—for example, leases of retail space or

administrative assets—and instead apply IAS 17 operating lease accounting and disclosure requirements to better reflect the economic substance of the transactions.

22. A few stakeholders said the practical expedient in paragraph B1 of IFRS 16 that allows entities to apply the Standard to a portfolio of leases[6] and that was intended to be useful for lessees with a large number of similar leases, is not working as intended. These stakeholders said the Standard does not provide a clear guidance on how an entity would account for changes to individual leases in a portfolio (such as lease terminations, reassessments and modifications) and they suggested the IASB add guidance on the portfolio application to IFRS 16.

23. A few stakeholders said they incur high ongoing costs of applying IFRS 16 with IFRS 3 *Business Combinations* when acquiring a business that has significant leases. IFRS 3 requires the acquirer to measure the lease liability (for leases in which the acquiree is the lessee) at the present value of the remaining lease payments as if the acquired lease was a new lease at the acquisition date. Entities often need to maintain two sets of accounting records, for example, if the acquiree is required to prepare individual financial statements, in which leases would be reported as if the acquisition had not happened.

24. A few stakeholders said they incur high ongoing costs to maintain dual intragroup lease accounting records for separate (or individual) financial statements prepared in accordance with IFRS Accounting Standards and to eliminate intragroup leases in consolidated financial statements at each reporting date, which is complex. They suggested the IASB develop some practical expedients for intragroup leases or exclude intragroup leases from the scope of IFRS 16.

[6] Paragraph B1 of IFRS 16 states: '[…] as a practical expedient, an entity may apply this Standard to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual leases within that portfolio.'

Question for the IASB

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