
IASB® meeting

Date	June 2026
Project	Post-implementation Review of IFRS 16 Leases
Topic	Effects of applying IFRS 16 with other IFRS Accounting Standards
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Purpose and structure of this paper

1. At its meeting in February 2026, the International Accounting Standards Board (IASB) discussed [the summary of stakeholders' feedback](#) to Question 6 in the [Request for Information Post-implementation Review of IFRS 16 Leases](#) (RFI), which sought information about other matters relevant to the assessment of the effects of IFRS 16, including the effects of applying IFRS 16 with other IFRS Accounting Standards.
2. At this meeting, the IASB will discuss our analysis of the feedback on applying IFRS 16 with other IFRS Accounting Standards and decide how to respond to that feedback. In developing our recommendations, we applied a framework for responding to the matters identified in a post-implementation review (PIR), published on the IASB's website: [IASB post-implementation reviews](#).
3. This paper is structured as follows:
 - (a) summary of staff recommendations (paragraph 4);
 - (b) introduction to staff analysis (paragraphs 5–8);

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- (c) applying IFRS 16 with IFRS 9 *Financial Instruments* to rent concessions (paragraphs 9–49);¹
 - (d) applying IFRS 16 with IFRS 15 *Revenue from Contracts with Customers* when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale (paragraphs 50–84);
 - (e) applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction (paragraphs 85–109);
 - (f) applying IFRS 16 with IFRS 10 *Consolidated Financial Statements* to corporate wrappers (paragraphs 110–128);
 - (g) applying IFRS 16 with IAS 38 *Intangible Assets* (paragraphs 129–136);
 - (h) [Appendix A](#)—Other matters related to the effects of applying IFRS 16 with other IFRS Accounting Standards; and
 - (i) [Appendix B](#)—Extracts from the Financial Accounting Standards Board’s (FASB’s) Accounting Standards Codification Topic 842, Leases.

Summary of staff recommendations

4. Based on our analysis in this paper, we recommend:
- (a) in relation to the effects of applying the requirements in IFRS 16 and IFRS 9 to account for rent concessions (in which the only change to the lease contract is the lessor’s forgiveness of lease payments due from the lessee under that contract), that the IASB:
 - (i) add a narrow-scope project to its project pipeline to clarify how a lessee applies the requirements in IFRS 16 and IFRS 9 to account for a rent concession; and

¹ Consistent with Spotlight 6.1 in the RFI, throughout this paper, any reference to a rent concession is a reference to 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.

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- (ii) keep the project in paragraph 4(a)(i) separate from the research project on cost-reduction measures that the IASB tentatively decided to undertake in response to stakeholders' feedback on the PIR of IFRS 16 (see the [IASB Update March 2026](#) for the IASB's tentative decisions);
 - (b) in relation to the effects of applying the requirements in IFRS 16 and IFRS 10 to account for the [Sale and Leaseback of an Asset in a Single-asset Entity](#) (currently in the [maintenance project pipeline](#)), that the IASB:
 - (i) consider the priority of this particular corporate wrapper matter together with other corporate wrapper matters in its next agenda consultation; and
 - (ii) remove the specific matter [Sale and Leaseback of an Asset in a Single-asset Entity](#) from the project pipeline; and
 - (c) that the IASB take no action in response to stakeholders' feedback on the effects of applying IFRS 16 with:
 - (i) IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale;
 - (ii) IFRS 15 to gain or loss recognition in a sale and leaseback transaction;
 - (iii) IAS 38 to identify leases; and
 - (iv) other IFRS Accounting Standards raised by no more than a few stakeholders (see Appendix A).

Introduction to staff analysis

5. As set out in the description of PIRs in paragraphs 6.52–6.65 of the [Due Process Handbook](#), the objective of a PIR is to assess whether the effects of applying the requirements of a new Standard on users of general purpose financial reports, preparers, auditors and securities regulators are as intended when the new requirements were developed. The basis for such an assessment is the objective of the Standard and the effects analysis of the likely benefits and initial and ongoing costs arising from the new requirements that a board publishes when it issues the new

requirements. A PIR involves a board assessing whether the new requirements are overall working as intended, that is:

- (a) the benefits to users of general purpose financial reports of the information arising from applying the new requirements are not significantly lower than was expected; and
 - (b) the costs of applying the requirements and auditing and enforcing their application are not significantly greater than was expected.
6. Respondents to the RFI commented most on the effects of applying IFRS 16 with:
- (a) IFRS 9 to rent concessions;
 - (b) IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale;
 - (c) IFRS 15 to gain or loss recognition in a sale and leaseback transaction;
 - (d) IFRS 10 to corporate wrappers; and
 - (e) IAS 38 to identify leases.
7. Stakeholders' feedback on the relationship between the requirements in IFRS 16 and other IFRS Accounting Standards (see the feedback summary in [Agenda Paper 7B](#) for the February 2026 IASB meeting) identified some application matters that, in the view of these stakeholders, contribute to high ongoing costs or result in information that is not useful. In the remainder of this paper we use the prioritisation framework (see the webpage [IASB post-implementation reviews](#)) to help us conclude whether to take any action on matters identified in the PIR and how to prioritise those matters depending on the extent to which evidence gathered during the PIR indicates that:
- (a) the matter has *substantial consequences* (for example, widespread diversity in practice materially affects users of financial statements' (users') ability to analyse trends and compare entities);
 - (b) the matter is *pervasive* (for example, it affects transactions that occur frequently in various industries and jurisdictions);

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- (c) the matter arises from a financial reporting issue that *can be addressed* by the IASB or the IFRS Interpretations Committee (Committee)—that is, a feasible solution is likely to exist; and
 - (d) 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).
8. Appendix A—Other matters related to the effects of applying IFRS 16 with other IFRS Accounting Standards summarises feedback raised by more than one but no more than a few respondents. We do not recommend taking action on any of these matters because the feedback does not provide evidence of the matters meeting the criteria in paragraph 7(a)–(d). In particular, the feedback does not suggest that the matters are pervasive, have substantial consequences or that the benefits of any action would justify the costs.

Applying IFRS 16 with IFRS 9 to rent concessions

Background information

9. The Committee’s previous discussions (see [IFRIC Update March 2022](#)) highlighted that a lessee could apply either IFRS 9 or IFRS 16 to 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. In March 2022 the Committee recommended the IASB consider undertaking a narrow-scope standard-setting project—potentially as an annual improvement—to address a lessee’s accounting for such a rent concession.
10. In March 2023 the Committee discussed a potential annual improvement to amend the definition of a lease modification in IFRS 16 ([Agenda Paper 6A](#) for the March 2023 Committee meeting). The staff proposed to add to the definition of a lease modification: ‘For a lessee, a change that results solely in a lease liability (or a part of it) being extinguished in accordance with IFRS 9 is not a lease modification’. Most

Committee members disagreed with the staff recommendation saying that the proposed change to the definition of lease modification does not resolve the question of how a lessee determines whether a rent concession is a lease modification or an extinguishment of a lease liability. Some said the question is more complex than one that could be resolved as part of the annual improvements cycle, because it requires more holistic research and standard-setting on what constitutes a full or partial extinguishment of a lease liability and how it is different from a lease modification, as well as consideration of other aspects, such as accounting for more complex changes to leases alongside the rent concessions and addressing the risk of structuring opportunities. Many Committee members said the staff's suggestion to move the narrow-type rent concessions in scope of IFRS 9 could also be read as contradicting Illustrative Example 19 accompanying IFRS 16 which illustrates a lease modification that is a change in consideration only.

11. The staff summarised the Committee's comments on the staff's recommendation to amend the definition of the lease modification in IFRS 16 (see Appendix B to [Agenda Paper 12A](#) for the May 2023 IASB meeting) for the IASB's consideration at its May 2023 meeting. The staff recommended not further pursuing that amendment as an annual improvement. The staff thought the IASB could consider this matter as part of a future project related to IFRS 9 or the PIR of IFRS 16.
12. Question 6.1 in the RFI asked stakeholders about their views on the matter. Specifically, this question sought to understand how often stakeholders have observed the type of rent concession described in paragraph 9 and whether there is diversity in accounting.

What do IFRS Accounting Standards require?

13. Appendix A to IFRS 16 defines a lease modification as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual term).

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14. For a lease modification that is not accounted for as a separate lease, IFRS 16 requires the lessee to remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The lessee accounts for the remeasurement of the lease liability by:
- (a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.
 - (b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.
15. Paragraph 2.1(b)(ii) of IFRS 9 states that ‘lease liabilities recognised by a lessee are subject to the derecognition requirements in paragraphs 3.3.1 and 3.3.3 of this Standard’.
16. Paragraph 3.3.1 of IFRS 9 states that ‘an entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—that is, when the obligation specified in the contract is discharged or cancelled or expires.’
17. Paragraph 3.3.3 of IFRS 9 states that the ‘difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss’.

What do stakeholders say?

18. Many stakeholders responded to Question 6.1 in the RFI. Most of those who commented on Question 6.1, which represents many of all stakeholders who provided feedback in this PIR (including most standard-setters, most accounting bodies, many accounting firms and some preparers), said there is still a lack of clarity about the interaction between IFRS 16 and IFRS 9 when a lessee accounts for a rent concession.

They said the IASB should clarify the relationship between the requirements in the two Standards.

19. Many stakeholders said they observed diversity in practice resulting from the lack of clarity, with some entities accounting for rent concessions as a lease modification and some as an extinguishment of the lease liability.
20. Stakeholders provided mixed messages about the frequency of rent concessions, however most of them suggested the IASB provide guidance on accounting for rent concessions because, even if not common now, such concessions might become common in the future. A few stakeholders in this PIR specifically said the clarification would reduce the effort in resolving the differences in views with auditors and, as a result, would reduce ongoing costs.
21. Only a few users commented on the application of IFRS 16 with IFRS 9 to rent concessions described in the RFI. One user said rent concessions were prevalent during the covid-19 pandemic. Another user suggested the IASB provide clarifications, but the user did not provide further details.
22. For more detailed feedback see paragraphs 6–11 of [Agenda Paper 7B](#) for the February 2026 IASB meeting.

Staff analysis

Does the matter have substantial consequences?

23. Feedback from many stakeholders who responded to the RFI suggests that there is diversity in practice resulting from the lack of clarity about which IFRS Accounting Standard applies to rent concessions. In these stakeholders' view, the matter has substantial consequences, because lessees recognise the effect of forgiven lease payments in profit or loss (if accounted for as an extinguishment of a lease liability applying IFRS 9) or adjust the carrying amount of the right-of-use asset (if accounted for as a lease modification applying IFRS 16). The feedback is largely consistent with the staff's conclusion summarised in paragraphs 68–69 of [Agenda Paper 4](#) for the March 2022 Committee meeting. However, based on the limited user feedback it is

unclear whether the matter has substantial consequences for them. We think, on balance the criterion in paragraph 7(a) is met.

Is the matter pervasive?

24. Many stakeholders, measured as a proportion of all respondents to the consultation, (including most standard-setters, most accounting firms, many accountancy bodies and some preparers from all the regions) expressed concerns about the lack of clarity on whether IFRS 9 or IFRS 16 applies to rent concessions and observed diversity in practice (see paragraphs 18–19). However, stakeholders provided mixed messages about the frequency of rent concessions, for example:
- (a) some stakeholders (mostly standard-setters and accounting bodies from Asia-Oceania and Europe, and global accounting firms) said rent concessions have been observed frequently, particularly in retail and aviation industries and especially during the covid-19 pandemic. An accounting firm provided an example from the retail industry, with lessors granting rent concessions to their shopping centre tenants as a compensation for disturbance during renovation works.
 - (b) some stakeholders (mostly preparers from Latin America and Asia-Oceania, and global accounting firms) said rent concessions were common during the covid-19 pandemic and since then are observed less frequently but are still a feature of economies.
 - (c) many stakeholders (mostly preparers and standard-setters from Asia-Oceania and Europe) said they either rarely observed rent concessions described in Spotlight 6.1 of the RFI, if at all, or found that the rent concessions were common during the covid-19 pandemic, but not after that—those stakeholders are split between those who consider the matter a low priority and those who still suggest the IASB provide application guidance.
25. Considering stakeholders’ feedback, which is largely consistent with the outreach feedback summarised in paragraph 74 of [Agenda Paper 4](#) for the March 2022 Committee meeting, the matter is *pervasive* or has a high potential of becoming

pervasive (criterion in paragraph 7(b) is met). We acknowledge that rent concessions (in which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract) might be more pervasive in some jurisdictions (or regions) than others at times of social unrest, military conflicts or adverse economic conditions, or might be pervasive periodically across jurisdictions (or regions) during more widespread events like a global pandemic or a global financial crisis.

26. Our AI-assisted review of financial statements (see paragraphs 26–28 of [Agenda Paper 7C](#) for the March 2026 IASB meeting) found that approximately 20% of 753 screened entities reported some kind of a lease liability remeasurement (reassessment or modification or both) and no entity explicitly disclosed forgiveness of lease payments, extinguishment or partial extinguishment of lease liabilities. We note, however, that there was no screen for how material information about these events was for all entities in the sample and whether the remaining entities should have disclosed any related information in accordance with IFRS Accounting Standards. Therefore, it is not possible to determine whether the remaining entities did not have lease remeasurements (or rent concessions) in the period or did have them, but the related information was determined to be immaterial.

Can the issue be addressed and will the benefits of the change outweigh the costs?

27. Most of those who commented on the matter suggested the IASB provide guidance that would reduce diversity in practice. Some stakeholders shared their existing practice in accounting for rent concessions or expressed their views on what the correct accounting should be. Similar to the views expressed previously by Committee members (see paragraphs 9–10), stakeholders identified two ways in which to account for a rent concession (in which the only change to the contract is lessor's forgiveness of lease payments):
- (a) some stakeholders, who commented on Question 6.1 in the RFI, that is a few of all stakeholders who provided feedback in this PIR, said a lessee should

apply lease modification requirements in IFRS 16 (see paragraphs 32–40 of this paper). The approach is based on the view that the rent concession meets the definition of a lease modification in IFRS 16 as ‘a change to the consideration for the lease’.

- (b) a few stakeholders said a lessee should apply the requirements in IFRS 9 and account for a rent concession as an extinguishment of the lease liability (see paragraphs 41–45 of this paper). The approach is based on the view that paragraph 2.1(b)(ii) of IFRS 9 outlining the scope of IFRS 9 for lease liabilities takes precedence. However, the stakeholders who suggested this approach said that if, in addition to a rent concession, there are other changes to the lease, an entity should apply the lease modification requirements in IFRS 16, because it would be impracticable to try and split the effect of changes between the derecognition of a financial liability and other modifications to the lease contract.

- 28. We note that some Committee members who spoke at the Committee’s March 2023 meeting expressed preference for either the lease modification or the liability extinguishment approach; other members said a clarification is necessary but did not express a particular view (see paragraph 10).
- 29. Many stakeholders said the IASB should clarify the relationship between the requirements in the two Standards to reduce the diversity in practice. However, we observe that users in this PIR did not raise concerns about the information relating to rent concessions. Therefore, in our view, it is not clear whether the benefits of any action would justify the costs of changes and disruption to practice.
- 30. In our view, diversity in accounting for rent concessions that stakeholders raised in this PIR (see paragraph 19) might be driven not only by the lack of clarity in the Standards, but also because of the differences in how stakeholders see the rights and obligations arising from lease contracts:
 - (a) some stakeholders might consider that IFRS 16 accounting provides more useful information because in their view a lessor’s decision to forgive lease

payments is ultimately linked to the continuation of an ongoing lease and the related right-of-use asset.

- (b) some stakeholders might consider that IFRS 9 accounting provides more useful information because in their view a rent concession does not affect the scope of the lease (the related right-of-use assets) but affects only the lease liability. Therefore, in these stakeholders' view recognising the effect of a rent concession in profit or loss better reflects the underlying economics.
31. We think whichever solution the IASB would develop (that is, an IFRS 9-based or an IFRS 16-based approach), there could be a more than an insignificant number of stakeholders that would not accept the proposed solution because, in their view, it might conflict with the principles of a Standard (whether it be IFRS 9 or IFRS 16) or it would not provide useful information reflecting the underlying economics of the rent concession. In paragraphs 32–45 we analyse the two approaches to accounting for rent concessions discussed in paragraph 27 and some of the challenges that the IASB would need to consider if it decided to take any action.

Applying IFRS 16 to all changes to lease contracts (including rent concessions)

32. Some stakeholders who commented on Question 6.1, that is a few of those who provided feedback in this PIR, said they either apply this approach in practice or would prefer this approach because it would be consistent with subsequent measurement requirements in IFRS 16 and easy to understand and apply.
33. An accounting body from Asia-Oceania said the rationale for this approach is that a lessor's decision to forgive lease payments is ultimately linked to the continuation of an ongoing leasing transaction (contractual relationship). Therefore, in the view of this stakeholder, accounting for such rent concessions as lease modifications applying IFRS 16 (rather than as extinguishments of lease liabilities applying IFRS 9) would better reflect the underlying economics of a contractual relationship.
34. In paragraph 74 of [Agenda Paper 4](#) for the March 2022 Committee meeting the staff expressed the view that the rent concession in the submitted fact pattern meets the definition of a lease modification in IFRS 16 because it is 'a change to the

consideration for the lease...that was not part of the original terms and conditions of the lease’.

35. In our view, if the IASB decided to require entities to apply lease modification requirements to account for a rent concession resulting in extinguishment (or partial extinguishment) of the lease liability, it would need to consider what changes are necessary to the requirements in IFRS 9. Paragraph 2.1(b)(ii) of IFRS 9 states:

This Standard shall be applied by all entities to all types of financial instruments except:

(a) [...]

(b) rights and obligations under leases to which IFRS 16 Leases applies. However:

(i) [...]

(ii) lease liabilities recognised by a lessee are subject to the derecognition requirements in paragraphs 3.3.1 and 3.3.3 of this Standard; [...]

36. In amending IFRS 9, the IASB would need to consider any potential unintended consequences of removing lease liabilities from paragraph 2.1 of IFRS 9 that sets out the scope of the Standard.
37. An approach that would require lessees to apply lease modification requirements to *all* lease modifications (including forgiveness of lease payments resulting in extinguishment of lease liability) would have some potentially positive effects compared to the approach discussed in paragraphs 41–45 that would require lessees to apply IFRS 9 to some changes to lease contracts (and IFRS 16 to all the other lease modifications). These potential positive effects include:
- (a) lessees would not need to assess which changes to a lease should be accounted for applying IFRS 9, because *all* changes to lease contracts would be accounted for applying IFRS 16. This lack of a need for assessment could result in some cost savings.

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- (b) the approach could reduce the risk of some types of structuring of leases. For example, some stakeholders raised concerns about a lessor (i) providing a rent concession in one period that would be accounted for by the lessee as an IFRS 9 extinguishment with immediate gain recognition, and then (ii) increasing lease payments in later periods that would be accounted for by the lessee as an IFRS 16 lease modification, with the effect of the change recognised over time.
- (c) the IASB would likely *not* need to amend Illustrative Example 19 accompanying IFRS 16, which illustrates a lease modification that is a change in consideration only.
- (d) greater convergence between IFRS 16 and FASB ASC Topic 842, Leases (Topic 842) because FASB ASC paragraph 842-10-25-11 requires contract modifications (including rent concessions that change only the consideration in the contract and are not stipulated in the original contract), to be accounted for as lease modifications.
38. However, we think that requiring all changes to contracts (including those that result in extinguishment of lease liability) to be accounted for applying the modification requirements in IFRS 16 would likely increase stakeholders' concerns about high ongoing costs of applying remeasurement requirements in IFRS 16, including the costs of revising the discount rates (see paragraphs 23–25 of March 2026 [Agenda Paper 7A](#) for feedback on ongoing costs of remeasurement of the lease liability).
39. We observe that some lease contracts include terms that require the lessor to provide lease concessions if certain conditions that are outside control of the parties are met (for example, the existence of force majeure). We acknowledge the difficulty that lessees might have in assessing whether rent concessions are consistent with the original terms of the contract and, therefore, are variable lease payments not dependent on an index or a rate, or are lease modifications accounted for applying lease modification requirements in IFRS 16, given the unprecedented nature of some events, such as a global pandemic.

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40. The IASB would need to consider these potential effects of applying IFRS 16 to all lease modifications if it were to clarify the accounting for rent concessions in this way.

Applying IFRS 9 to rent concessions (and IFRS 16 to all other changes to lease contracts)

41. A few stakeholders who commented on Question 6.1 said they either apply this approach in practice or would prefer this approach.
42. Proponents of this approach think that paragraph 2.1(b)(ii) of IFRS 9 (which refers lessees to the derecognition requirements in paragraph 3.3.3 of IFRS 9) takes priority in accounting for rent concessions.
43. We think that the approach to require lessees to account for rent concessions applying the requirements in IFRS 9 for extinguishment of financial liabilities would potentially have some positive effects compared to the IFRS 16-only approach (discussed in paragraphs 32–40), including that it would:
- (a) reduce ongoing costs for lessees because the lessees would not be required to remeasure lease liabilities applying IFRS 16 lease modification requirements (for example, they would not be required to determine revised discount rates) or to determine whether rent concessions are changes to contracts (for example, if a contract includes force majeure clauses and it is unclear whether a rent concession is granted in response to force majeure). Instead, the effect of forgiven lease payments would be recognised in profit or loss, which generally is considered to be a simpler approach and a relief.
 - (b) faithfully represent the effect of rent concessions on a lessee's financial performance. Because rent concessions are often granted in times of economic downturn when entities' revenues drop, some think that matching the lower cost of rent (by recognising the effect of the rent concession in profit or loss) in a similar period to the period an entity's revenues are lower, better reflects the economics of a rent concession.

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- (c) require consistent accounting for extinguishment of *all* financial liabilities, including lease liabilities.
44. However, we also observe that the IFRS 9-based approach to rent concessions would diverge from similar requirements in Topic 842 and would likely require ‘bright-line’ changes to IFRS 16, so that a modification to a lease contract that is a change in consideration only is explicitly scoped out of the requirements in IFRS 16. In our view, this approach:
- (a) would introduce a rule-based exception to the principles-based requirements for lease modifications in IFRS 16.
- (b) would require not only changes to the definition of a lease modification but also changes to other parts of the lease modification requirements, for example, clarifying the reference to partial termination of the lease in paragraph 46(a) of IFRS 16 and how it would differ from the extinguishment of the lease liability that would be accounted for (as an exception to lease modifications) applying IFRS 9.
- (c) would likely require changes to Illustrative Example 19 accompanying IFRS 16.
45. The IASB would need to consider these potential effects of applying IFRS 9 to rent concessions if it decided to take further action in response to the feedback.

Staff recommendation and question for the IASB

46. As discussed in paragraphs 23–45, we note that users did not express concerns about the accounting for rent concessions, therefore it is not clear whether the benefits for users would justify the costs of changes and disruption to practice. However, we note that many stakeholders said they observed diversity in practice and that the IASB should clarify the relationship between the requirements in the two Standards (IFRS 16 and IFRS 9) to reduce that diversity in practice. The Committee recommended a narrow-scope project in March 2022, and stakeholders’ feedback to the RFI indicates that the matter is still important to them, especially in times of

economically or politically unstable situations, when rent concessions might be granted to lessees more often. Although, as discussed in paragraphs 27–45, there are different views of what the potential solution should be and each has its challenges, on balance we think the criteria in paragraph 7(c)–(d) are met and there is a merit for the IASB to research potential narrow-scope amendments to the Standards that would clarify the accounting for rent concessions.

47. A few stakeholders in this PIR specifically said the clarification would reduce the effort in resolving the differences in views with auditors and, as a result, would reduce ongoing costs. Therefore, a research project on rent concessions could be performed as part of the project exploring cost-reduction measures (see the [IASB Update March 2026](#) for the IASB’s tentative decisions). However, as we discussed in paragraphs 27–45, there is not a single view on how to resolve the matter, therefore the project is likely to require more than an insignificant amount of time and effort from the IASB and its stakeholders and at this stage it is unclear what amendments the IASB would need to make to the Standards and how quickly this project would progress. We think researching the matter of rent concessions in a separate narrow-scope project (and to separately progress the research on cost-reduction measures) would be a more efficient approach. This would provide the IASB with more flexibility in planning and resourcing, and would also benefit stakeholders, because it would allow the IASB to assign different priorities to these different topics.
48. Considering the Committee’s previous discussions on the matter, stakeholders’ feedback on this matter in the RFI and our analysis of pros and cons of potential solutions, on balance, we recommend that the IASB should add a narrow-scope project to its project pipeline to clarify how a lessee applies the requirements in IFRS 16 and in IFRS 9 to 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).
49. We recommend that this project is undertaken separately from the IASB’s research project on cost-reduction measures that the IASB tentatively decided to undertake in

response to stakeholders' feedback on the PIR of IFRS 16 (see the [IASB Update March 2026](#) for the IASB's tentative decisions).

Question 1 for the IASB

Do IASB members agree with the staff recommendation in paragraphs 48–49 of this paper?

Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale

Background information

50. In the PIR of IFRS 15, some stakeholders asked for additional guidance or examples on how to assess whether the transfer of an asset in a sale and leaseback transaction is a sale in accordance with IFRS 15. The IASB decided to gather further evidence on this matter in the PIR of IFRS 16.
51. Question 6.2 in the RFI asked stakeholders about their views on the matter. Specifically, this question sought to understand how often stakeholders have observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale and whether there is diversity in seller-lessees' assessment of the transfer of control.

What do IFRS Accounting Standards require?

52. Paragraph 99 of IFRS 16 requires an entity to apply the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset. Paragraphs BC261–BC264 of the Basis for Conclusions on IFRS 16 include the IASB's rationale. Paragraph BC261 states that 'in the IASB's view, applying the recognition requirements of IFRS 15 to sale and leaseback transactions will be beneficial for both preparers and

users of financial statements because it will increase comparability between sales entered into as part of sale and leaseback transactions and all other sales.’

53. Paragraph 31 of IFRS 15 states that ‘an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.’ Paragraph 33 of IFRS 15 states that ‘control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.’ Paragraph 34 of IFRS 15 states that ‘when evaluating whether a customer obtains control of an asset, an entity shall consider any agreement to repurchase the asset (see paragraphs B64–B76 of IFRS 15).’
54. Paragraphs B46–B47 of IFRS 16 explain that if the lessee controls (or obtains control of) the underlying asset before that asset is transferred to the lessor, the transaction is a sale and leaseback transaction that is accounted for applying paragraphs 98–103 of IFRS 16. Otherwise, the transaction is not a sale and leaseback transaction.

What do stakeholders say?

55. Many stakeholders (many standard-setters and some accounting bodies, preparers and accounting firms) responded to Question 6.2 and commented on the assessment of whether the transfer of an asset in a sale and leaseback transaction is a sale under IFRS 15. Of these stakeholders:
- (a) many stakeholders (mostly standard-setters, accounting bodies and accounting firms from almost all regions), which represents some of all stakeholders who provided feedback in this PIR, said the assessment is often difficult. Some said requirements in IFRS 15 were not intended to be applied to a sale and leaseback transaction and the lack of specific requirements and clarity cause application issues.

- (b) some stakeholders (mostly preparers from Asia-Oceania and Latin America), which represents some of all stakeholders who provided feedback in this PIR, said they have not encountered difficulties in the assessment, saying that sale and leaseback transactions are not frequent in their jurisdictions or sectors or that IFRS Accounting Standards provide sufficient guidance.
56. Many of those who responded to Question 6.2 (which represents some of all stakeholders who provided feedback in this PIR) reported diversity in how a seller-lessee makes judgements in assessing the transfer of control in sale and leaseback transactions in specific circumstances (see paragraph 57).
57. Consistent with the feedback that the IASB received (a) in the PIR of IFRS 15; and (b) before publishing the RFI on this PIR, many stakeholders that responded to Question 6.2 in the RFI said that difficulties in the assessment of the transfer of control might arise in particular circumstances. They provided various examples of specific fact patterns, including:
- (a) situations (or indicators of situations) that would normally lead to a lease being classified by a lessor as a finance lease (paragraph 58).
 - (b) arrangements that involve constructing the underlying asset (paragraph 59).
 - (c) the seller-lessee selling an asset (for example, a building) and leasing back only a part of an asset (for example, a single floor)—some stakeholders (mostly standard-setters from Europe, Asia-Oceania and Africa), who responded to Question 6.2 of the RFI, which also represents some of all stakeholders who provided feedback in this PIR, provided this example.
58. Many stakeholders, who responded to Question 6.2 of the RFI (mostly standard-setters from Asia-Oceania, Europe, Latin America and Africa), which represents some of all stakeholders who provided feedback in this PIR, said the assessment of the transfer of control is particularly difficult when the leaseback transfers substantially all the risks and rewards incidental to ownership of an underlying asset or, in other words, has indicators of a finance lease. A few stakeholders referred to the guidance in FASB ASC paragraph 842-40-25-2 that specifically precludes sale and leaseback

accounting when the leaseback is classified as a finance lease and suggested the IASB provide similar clarifications (see paragraph B1 of Appendix B). Examples of situations in which it might be challenging for a seller-lessee to assess whether the transfer of the asset is a sale, because the situations would normally lead to a lease being classified by a lessor as a finance lease applying paragraphs 63–65 of IFRS 16, included:

- (a) a seller-lessee’s renewal option in a leaseback covers substantially all of the remaining economic life of the underlying asset—many stakeholders (mostly standard-setters from almost all regions) provided this example. They said it is unclear whether the seller-lessee is economically in a similar position to a lessee that has an option to purchase the underlying asset that precludes accounting for the transaction as a sale.
- (b) a seller-lessee has a substantive repurchase option—some stakeholders (mostly standard-setters from Asia-Oceania and Latin America) said it is sometimes difficult to assess whether a seller-lessee has a substantive repurchase option that precludes it from accounting for the transfer of the asset as a sale applying IFRS 15, in particular, for complex arrangements. We note that the FASB provided additional guidance in paragraph 842-40-25-3 which specifies when a repurchase option does *not* preclude the transfer of control (see paragraph B2 of Appendix B). In addition, a few stakeholders (mostly standard-setters from Asia-Oceania) suggested the IASB provide guidance, similar to that in FASB ASC paragraph 842-40-55-36, which illustrates the accounting when a repurchase option that precluded sale and leaseback accounting lapses unexercised (see paragraph B4 of Appendix B).
- (c) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications—a few stakeholders provided this example.

59. Examples of arrangements that involve constructing the underlying asset (in relation to which some stakeholders of all who provided feedback in this PIR said it might be challenging for a seller-lessee to assess whether there is a sale in a sale and leaseback transaction) included:

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- (a) a lessee, alongside the lessor or a third party, is involved in an asset being constructed before it starts leasing the asset—some stakeholders from Asia-Oceania and Europe, who responded to Question 6.2, which represents a few of all stakeholders who provided feedback in this PIR, said it is often difficult to determine whether the lessee controls the asset before the lease commencement date and, therefore, applying paragraph B46 of IFRS 16, accounts for the transaction as a sale and leaseback. They suggested the IASB provide guidance, similar to that in FASB ASC paragraph 842-40-55-5, which lists examples of circumstances in which a lessee controls an underlying asset that is under construction before the commencement date (see paragraph B3 of Appendix B).
- (b) a seller-lessee sells an unrenovated asset (or an asset under construction for which the seller-lessee started the construction) and leases back a renovated (or completed asset for which the buyer-lessor completed the construction), that is the seller-lessee sells a different asset from the asset it leases back—a few stakeholders provided this example.
- (c) a seller-lessee recognises revenue from sale of the asset over time—a few stakeholders provided this example.
60. Some users commented on sale and leaseback transactions. Most of them either said these transactions are not prevalent (a user from Asia-Oceania and a user organisation from Europe said this) or the information about the gain or loss recognised on a sale and leaseback transaction is not relevant to them as they reverse the gain or loss from the income statement for their valuation models (two credit rating agencies said this). One user said sale and leaseback transactions are common in the telecommunications sector and there seems to be structuring opportunities for entities.

Staff analysis*Does the matter have substantial consequences?*

61. Feedback in paragraph 56 indicates that some stakeholders (of all stakeholders who provided feedback in this PIR) observe diversity in practice resulting from, in their view, the lack of clarity in the Standards for assessing whether a transfer of an asset in a sale and leaseback transaction is a sale. Stakeholders said when sale and leaseback transactions occur, they often relate to high-value items of property, plant and equipment with long economic lives and the accounting for such transactions could have a long-term material effect on the financial statements of a seller-lessee.
62. We think that the risk of significant misstatement of the financial statements from a seller-lessee misapplying the judgement on whether a sale has occurred when a lease has indicators of a finance lease (see paragraph 58) is reduced because of the ‘partial gain or loss’ recognition model for sale and leaseback transactions in IFRS 16 (see paragraphs 71–73). We acknowledge that the consequences of applying the sale and leaseback accounting to fact patterns in paragraphs 57(c) and paragraph 59 might be more significant than in situation when a lease has indicators of a finance lease. We also observe that whether or not the asset is transferred might affect how the related cash flows are presented, which is important information for users. However, we note that users expressed little concern over sale and leaseback transactions overall because the transactions are infrequent or the gain or loss from those transactions is of limited relevance to users who reverse the amounts for their valuation models.
63. Therefore, in our view, based on the feedback it is unclear whether the criterion in paragraph 7(a)—the matter has *substantial consequences*—is met.

Is the matter pervasive?

64. Many stakeholders (which represents some of all stakeholders who provided feedback in this PIR) expressed concerns about the lack of clarity in the Standards in response to Question 6.2, with some of them saying that sale and leaseback transactions are infrequent and some others saying that they are frequent.

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65. As part of our AI-assisted review of consolidated financial statements of approximately 750 global entities that contain disclosures about leases for the reporting year ended in 2024, we found that only 32 entities (4%) reported having sale and leaseback transactions during that reporting period. Our sample included global entities which are among the largest entities in terms of market capitalisation (see [Agenda Paper 7C](#) for the March 2026 IASB meeting for more details of the work performed).
66. Therefore, there is mixed feedback on how frequent these transactions are—we think there are indications that they are not frequent but could be frequent in some industries or jurisdictions. The concerns that stakeholders highlighted affect particular sales and leaseback transactions that have particular facts and circumstances. Considering this feedback and that overall, only some stakeholders expressed concerns about the lack of clarity in the Standards, in our view, the matter (assessing whether the transfer of an asset in a sale and leaseback transaction is a sale) is *not pervasive* (criterion in paragraph 7(b) is not met).

Can the issue be addressed and will the benefits of the change outweigh the costs?

67. Based on the feedback, we identified three types of fact patterns, in which it is most challenging for entities to assess whether the transfer of an asset in a sale and leaseback transaction is a sale. These are:
- (a) the leaseback has indicators of a finance lease (paragraphs 68–73);
 - (b) the arrangement involves constructing the underlying asset (paragraphs 74–77); and
 - (c) a seller-lessee leases back only a part of the asset sold (paragraphs 78–79);

The leaseback has indicators of a finance lease

68. We note that IFRS 15 includes requirements (including application guidance on repurchase agreements in paragraphs B64–B76 of the Standard) relating to the satisfaction of performance obligations, which are applicable to sale and leaseback

transactions. In developing IFRS 16, the IASB considered whether to include additional application guidance in IFRS 16 regarding the determination of whether there is a sale in a sale and leaseback transaction. Such guidance would be intended to help entities to apply the IFRS 15 requirements relating to the satisfaction of performance obligations to sale and leaseback transactions. However, the IASB concluded that this was not necessary because, in its view, the principles in IFRS 15 can be applied appropriately and consistently to sale and leaseback transactions without any further guidance (see paragraph BC264 of the Basis for Conclusions on IFRS 16). Considering the feedback received in this PIR (only some stakeholders in this PIR encountered difficulties with determining whether there is a sale—see paragraph 55 and we assessed the matter as being not pervasive—see paragraphs 64–66), in our view, we think there is not sufficient new evidence for the IASB to reconsider its previous decisions.

69. We note that a few stakeholders referred to the guidance in FASB ASC paragraph 842-40-25-2 that specifically precludes sale and leaseback accounting when the leaseback is classified as a finance lease and suggested the IASB provide similar clarifications (see paragraph B1 of Appendix B).
70. Applying the requirements for lessors in paragraphs 63–65 of IFRS 16, scenarios listed in paragraph 58 could indicate that a lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee (that is, from the perspective of the buyer-lessor the lease might be classified as a finance lease). Paragraph 99 of IFRS 16 requires an entity to apply the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset. For example, paragraph 38(d) of IFRS 15 states that obtaining the significant risks and rewards of ownership of the asset could be an indicator of the transfer of control. We think that the guidance is sufficient for an entity to assess whether the transfer of an asset in a sale and leaseback with indicators of a finance lease is a sale. We acknowledge that the use of judgement is still required to apply this principle-based guidance to complex fact patterns. However, in our view, the benefits of providing additional application

guidance (for what typically is a highly-structured and non-routine transaction) that might help only some (but not all) stakeholders would not justify the costs (of changes and disruption in practice).

71. We also note that the IFRS 16 sale and leaseback model requires partial gain or loss recognition. Because of this, for example, in the scenario summarised in paragraph 58(a), the IFRS 16 model reduces the risk of misstatement of the income statement from an inappropriate application of judgement about whether the sale has occurred, compared to a ‘full gain or loss’ model. This is because:
- (a) applying the lease term requirements in paragraphs 18–21 of IFRS 16 the seller-lessee could determine the lease term to approximate the useful life of the underlying asset.
 - (b) applying the sale and leaseback requirements in IFRS 16, the seller-lessee would measure the right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by the seller-lessee. Considering that the lease term approximates the useful life of the asset, the right-of-use asset would approximate the carrying amount of the transferred asset.
 - (c) as a result of (a) and (b), the gain or loss to be recognised at the date of the transfer relating to the rights transferred to the buyer-lessor would be close to zero (see Illustrative Example 24 accompanying IFRS 16 that illustrates a possible calculation of the amounts of the sale and leaseback journal entries, including the proportion of the previous carrying amount of the building that relates to the right of use retained by seller-lessee²).
72. The effect on the balance sheet from any potential diversity in assessing whether a sale has or has not occurred in the scenario in paragraph 58(a), would be the presentation of the carrying amount of the asset as a right-of-use asset—if sale has

² IFRS 16 does not prescribe a method for determining the proportion of the retained carrying amount of the asset. In the Illustrative Example the proportion of the retained carrying amount of the asset is calculated as the carrying amount of the asset multiplied by the discounted lease payments for the lease term and divided by the fair value of the asset. As lease term approaches the useful life of the asset, the discounted lease payments for the lease term approach the fair value of the asset.

occurred—or as another asset applying applicable IFRS Accounting Standards (for example, IAS 16 *Property, Plant and Equipment*) if sale has not occurred. We acknowledge that there could be differences in the presentation of related cash flows, depending on the seller-lessee’s assessment of whether or not the transfer of the asset is a sale.

73. In our view, the same effect as described in paragraph 71 is likely to arise for leases classified as finance leases based on other indicators in paragraph 63 of IFRS 16. This is because when a lease transfers substantially all the risks and rewards incidental to ownership of an asset, the lease is likely to be priced in such a way that the present value of lease payments approximates the fair value of the underlying asset.

The arrangement involves construction of the underlying asset

74. Stakeholders raised various concerns about assessing whether there is a sale in a sale and leaseback transaction when the arrangements involve construction of the underlying asset (see paragraph 59). The most frequently mentioned scenario, that was mentioned by some stakeholders who responded to Question 6.2 in the RFI, that is a few stakeholders of those who provided feedback in this PIR, was the one summarised in paragraph 59(a), in which a seller-lessee is involved in the asset under construction before lease commences. These stakeholders suggested the IASB provide guidance on how the lessee determines whether it controls the asset while it is being constructed and, therefore, whether it accounts for the transaction as a sale and leaseback applying paragraph B46 of IFRS 16.
75. We note that paragraphs B43–B47 of IFRS 16 provide guidance on a lessee’s involvement with the underlying asset before the commencement date. Some stakeholders have found helpful indicators of control in FASB ASC paragraph 842-40-55-5 (see paragraph B3 of Appendix B for further details).
76. We observe that in the PIR of Topic 842 stakeholders particularly supported the changes relating to the guidance on lessee’s involvement in the asset before the lease (the FASB’s Report on Post-Implementation Review of Topic 842 refers to it as ‘the built-to-suit requirements’). However, stakeholders observed that substantial

judgement is often still necessary in evaluating this guidance. Stakeholders also provided feedback about certain specific transactions and scenarios in which sale and leaseback accounting is complex. Additionally, the FASB staff's discussions with stakeholders indicate that practice has developed related to the sale and leaseback guidance, including the built-to-suit requirements (see the FASB's [Report on Post-Implementation Review: Leases \(Topic 842\)](#)).

77. In our view, the challenges with control assessment that stakeholders raise involve complex and highly structured arrangements. Therefore, any additional guidance is unlikely to be applicable to a broader range of facts and circumstances, and it is unlikely to help many stakeholders. Considering this particular issue was raised by only a few stakeholders out of all those who provided feedback in this PIR, in our view, the benefits of adding guidance on the matter are unlikely to outweigh the costs.

A seller-lessee leases back only a part of the asset sold

78. Paragraphs 99–103 of IFRS 16 describe a transaction that involves selling and leasing back the same asset. Paragraph BC260 of the Basis for Conclusions on IFRS 16 states that ‘in a sale and leaseback transaction, one entity (the seller-lessee) transfers an asset to another party (the buyer-lessor) and leases back that same asset’.
79. We acknowledge concerns of some stakeholders who responded to Question 6.2 in the RFI and suggested the IASB add guidance when a seller-lessee leases back only part of the asset sold. However, we observe that the Committee did not receive questions about the application of the requirements in IFRS 16 in situations when the asset leased back is only a part of the asset sold. Considering also that the matter was raised by only some stakeholders in this PIR, we think that most entities are likely to have developed their approach to the accounting and practice has settled. In our view, the benefits of any action to users are unlikely to justify the costs of disruption.

Staff recommendation and question for the IASB

80. Based on our analysis, the matter of assessing whether the transfer of the asset in a sale and leaseback transaction is a sale, is not pervasive and it is unclear whether it has substantial consequences for users.

81. We acknowledge some stakeholders' concerns, but in our view, concerns about the lack of guidance or clarity of some requirements stem from the fact that application of judgement is challenging, especially for sale and leaseback transactions, which are typically complex and highly structured. However, the nature of stakeholders' comments and concerns does not indicate that there are fundamental flaws in the requirements.
82. We note that stakeholders' concerns focus on specific scenarios. In our view, additional guidance or illustrative examples for specific complex fact patterns would be unlikely to help many stakeholders—the outcome for other entities might be different depending on seemingly minor variations in sale and leaseback transactions and entity-specific circumstances. In addition, judgements are inevitable, in particular, for complex fact patterns, when applying principles-based IFRS Accounting Standards.
83. In our view, additional illustrative examples or guidance could also lead to disruption in practice and additional costs because many entities would need to review their current accounting practices to determine whether they are affected by any new guidance or examples. Therefore, we think that the benefits of providing additional application guidance or illustrative examples that might help only some (but not all) stakeholders would not justify the costs (of changes and disruption in practice), so the criteria in paragraph 7(c)–(d) are not met.
84. For the reasons discussed in paragraphs 61–83, we recommend the IASB take no action in response to stakeholders' feedback on the effects of applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

Question 2 for the IASB

Do IASB members agree with the staff recommendations in paragraph 84 of this paper?

Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction

Background information

85. Question 6.3 in the RFI asked stakeholders about their views on the usefulness of information resulting from application of the partial gain or loss recognition requirements in a sale and leaseback transaction.

What does IFRS 16 require?

86. IFRS 16 requires entities to apply the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of the asset is accounted for as a sale of that asset. If the transfer of the asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset, the seller-lessee recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor ('partial' gain recognition). The seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee (see paragraph 100(a) of IFRS 16).
87. Agenda Decision [Sale and Leaseback with Variable Payments \(IFRS 16\)](#) published by the Committee in June 2020 explains that the seller-lessee recognises a liability at the date of the transaction, even if all the payments for the lease are variable and do not depend on an index or rate.
88. We note that Topic 842 requires a seller-lessee to account for any gain or loss on sale consistently with the guidance that would apply to any other sale of an asset (see paragraph BC306 of the Basis for Conclusions on IFRS 16) ('full' gain recognition).

What do stakeholders say?

89. Many stakeholders (many standard-setters, accounting bodies, preparers and accounting firms) responded to Question 6.3 in the RFI. Of these stakeholders:

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- (a) most said restricting the gain or loss in a sale and leaseback transaction provides useful information; and
 - (b) some (mostly stakeholders from Asia-Oceania, including a user organisation) disagreed with restricting the amount of gain or loss in a sale and leaseback transaction.
90. Stakeholders who disagreed with the partial gain or loss recognition model in IFRS 16 said the IASB should consider adopting the accounting approach in Topic 842, because, in their view, this model provides more useful information:
- (a) gains or losses are recognised in full, consistent with the requirements for the sale of any other asset; and
 - (b) variable lease payments (that do not depend on an index or a rate) are excluded from the measurement of the lease liability, consistent with the requirements for leases that are not part of sale and leaseback transactions.
91. Many stakeholders who responded to Question 6.3 in the RFI, which represents some of all stakeholders who provided feedback in this PIR, (including those who agreed and those who disagreed with the partial gain or loss recognition model in IFRS 16) said that calculations are complex and the requirements are often unclear, including those for leasebacks with variable lease payments that do not depend on an index or a rate. Therefore, the application of the requirements is costly.
92. Some of those that agreed with the partial gain or loss recognition requirements made suggestions for reducing costs and improving usefulness of information—each suggestion was made by a few stakeholders:
- (a) to provide specific guidance or illustrative examples on calculating partial gains or losses, including for leasebacks with variable lease payments that do not depend on an index or a rate. A few standard-setters from Europe and Asia-Oceania and a global accounting firm suggested the IASB also clarify whether future increases of variable lease payments that depend on an index or a rate are considered in the measurement of the lease liability.

- (b) to reconsider the inconsistency in accounting for variable lease payments (that do not depend on an index or a rate) in leases and leasebacks.
 - (c) to provide practical expedients for entities not to apply the sale and leaseback requirements if the leaseback covers less than a certain threshold (for example, 20–25% of the asset’s economic life).
93. Some users commented on sale and leaseback transactions. Most of them either said these transactions are not prevalent (a user from Asia-Oceania and a user organisation from Europe said this) or of limited relevance (see paragraph 95). One user said sale and leaseback transactions are common in the telecommunications sector.
94. A user organisation from Asia-Oceania suggested that the IASB should consider aligning the gain or loss recognition requirements for sale and leaseback transactions in IFRS 16 with the requirements in Topic 842. In the user’s view, the requirements in Topic 842 are easier to understand and apply than those in IFRS 16 and result in more consistent application.
95. Both credit rating agencies we spoke with agreed with the partial gain or loss recognition requirements conceptually. However, they said gains or losses recognised on sale and leaseback transactions normally have little importance for their analyses, because: (a) they reverse non-recurring items of income and expense when assessing entities’ credit ratings; or (b) the information about the related cash flows and the debt arising from a leaseback is more relevant to them. The two credit rating agencies did not raise any concerns about the quality of information about sale and leaseback transactions that entities provide.

Staff analysis

Does the matter have substantial consequences?

96. Stakeholders said when sale and leaseback transactions occur, they often involve the sale of high-value items of property, plant and equipment with long economic lives and the accounting for such transactions could have a long-term material effect on the financial statements of a seller-lessee.

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97. We observe, however, that users expressed limited to no concerns about sale and leaseback transactions overall because the transactions are infrequent or the gain or loss from those transactions is of limited relevance to users who reverse the non-recurring gains or losses for their valuation purposes. Therefore, although the consequences could be significant, it is unclear whether they have substantial consequences for users. Some stakeholders (of all stakeholders who provided feedback in this PIR) said that they find the requirements complex and costly to apply. This could contribute to higher-than-expected ongoing costs of applying the measurement requirements of IFRS 16 discussed in Agenda Paper 7A for the March 2026 IASB meeting. However, sale and leaseback transactions are not routine transactions and with only some stakeholders raising concerns about the costs of applying the partial gain or loss requirements this matter is possibly not a significant contributor to higher-than-expected ongoing costs for lessees.
98. Overall, we think that it is unclear whether the criterion in paragraph 7(a)—the matter has *substantial consequences* —is met.

Is the matter pervasive?

99. Some of those who responded to Question 6.3 in the RFI, or a few if measured as a proportion of all respondents in this PIR, disagreed with restricting the amount of gain or loss in a sale and leaseback transaction. However, most of those who responded to the question, which represents many of all stakeholders who provided feedback in this PIR, agreed with restricting the amount of gain or loss (see paragraph 89). Also, considering our assessment in paragraphs 64–66, it is possible that sale and leaseback transactions generally do not occur frequently. Therefore, we think the matter of applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction is *not pervasive* (the criterion in paragraph 7(b) is not met).

Can the issue be addressed and will the benefits of the change outweigh the costs?

100. We note that, in developing IFRS 16, the IASB decided that the gain or loss recognised by a seller-lessee on a completed sale in a sale and leaseback transaction should reflect the amount that relates to the rights transferred to the buyer-lessor. In reaching this decision, the IASB considered requiring the sale element of the transaction (that is, the sale of the underlying asset) to be accounted for applying IFRS 15 because, from a legal standpoint, the seller-lessee will often have sold the entire underlying asset to the buyer-lessor. However, from an economic standpoint, the seller-lessee has sold only its interest in the value of the underlying asset at the end of the leaseback—it has retained its right to use the asset for the duration of the leaseback. Accordingly, in the IASB’s view, recognising the gain that relates to the rights transferred to the buyer-lessor appropriately reflects the economics of the transaction (see paragraph BC266 of the Basis for Conclusions on IFRS 16).
101. We also note that when developing Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 issued in September 2022), the IASB considered, but ultimately rejected, an approach that would change the existing sale and leaseback requirements to initially measure the right-of-use asset and lease liability arising from a leaseback similarly to right-of-use assets and lease liabilities unrelated to a sale and leaseback transaction. Applying this approach, a seller-lessee would recognise a deferred gain for the amount of any gain that relates to the right of use it retains. However, such an approach would require the reconsideration of the sale and leaseback requirements in IFRS 16 (see paragraph BC267ZF of the Basis for Conclusions on IFRS 16).
102. Considering that most stakeholders, including some users, who responded to Question 6.3 in the RFI, said they support the partial gain or loss recognition or do not disagree with it, in our view, there is not enough new evidence to reconsider the IASB’s previous decisions.
103. We note that many stakeholders of those who responded to Question 6.3 in the RFI, which represents some of all stakeholders who provided feedback in this PIR,

(including those who agreed and those who disagreed with the partial gain or loss recognition model in IFRS 16) said that calculations are complex, therefore, the application of the requirements is costly (see paragraph 91). The most efficient cost-reduction measure would be not to apply the partial gain or loss recognition model, however, as discussed in paragraph 102, most stakeholders support the current model. Other cost-reduction measures (suggested by a few stakeholders each) in paragraph 92 are discussed in paragraphs 104–107.

104. A few stakeholders suggested providing specific guidance or illustrative examples on calculating partial gains or losses (see paragraph 92(a)). We note that in developing requirements in paragraph 102A of IFRS 16 (which requires the seller-lessee to apply subsequent measurement requirements in paragraphs 29–46 of IFRS 16 in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee) the IASB decided not to prescribe specific measurement requirements for lease liabilities arising from a leaseback, considering stakeholders' feedback on the exposed draft amendments (see paragraphs BC267ZB–BC267ZC of the Basis for Conclusions on IFRS 16). Examples 24–25, accompanying IFRS 16, illustrate a possible application of the requirements in IFRS 16 to sale and leaseback transactions (including with variable lease payments that do not depend on an index or a rate). In our view, additional illustrative examples or guidance could lead to disruption in practice and additional costs because many entities would need to review their current accounting practices to determine whether they are affected by any new guidance or examples. Therefore, we think that the benefits of providing additional application guidance or illustrative examples that might help only a few (but not all) stakeholders would not justify the costs (of changes and disruption in practice).
105. Only a few stakeholders suggested the IASB clarify whether future increases of variable lease payments that depend on an index or a rate are considered in the measurement of the lease liability (see paragraph 92(a)), therefore, in our view, the benefits of any action are unlikely to outweigh the costs.

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106. Only a few stakeholders suggested the IASB make the requirements for variable lease payments that do not depend on an index or a rate consistent, regardless of whether they arise in a sale and leaseback transaction or in ‘vanilla’ leases (see paragraph 92(b)). We note that the objective of the requirements for sale and leaseback transactions in IFRS 16 is for a seller-lessee not to recognise any amount of the gain or loss that relates to the right of use it retains (see paragraphs 100(a) and 102A of IFRS 16). Without including variable lease payments in measurement of lease liabilities, a seller-lessee could have recognised a gain or loss on the right of use it retains.
107. Only a few stakeholders (see paragraph 92(c)) suggested the IASB provide a practical expedient for entities not to apply the sale and leaseback requirements to insignificant transactions, therefore, in our view, the benefits of any action are unlikely to outweigh the costs.
108. Based on our analysis in paragraphs 103–107, we, think that there is not a feasible solution that could significantly reduce the cost for those stakeholders who raised concerns about the costs and complexity of the requirements without a fundamental change to the sale and leaseback model, which currently is accepted by most. Also, considering that only some stakeholders in this PIR raised concerns about the cost and complexity of accounting for sale and leaseback transactions which are not routine transactions, in our view, sale and leaseback transactions are not a significant enough contributor to the higher-than-expected ongoing costs for lessees of applying the measurement requirements in IFRS 16 to justify inclusion in the project exploring cost-reduction measures (see the [IASB Update March 2026](#) for the IASB’s tentative decisions). Therefore, in our view, the criteria in paragraph 7(c)–(d) are not met.

Staff recommendation and question for the IASB

109. For the reasons discussed in paragraphs 96–108, we recommend the IASB take no action on the effects of applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction.

Question 3 for the IASB

Do IASB members agree with the staff recommendation in paragraph 109 of this paper?

Applying IFRS 16 with IFRS 10 to corporate wrappers

Background information

Committee discussions

110. At its [September 2020](#) meeting, the Committee discussed a submission about the applicability of the sale and leaseback requirements in IFRS 16 to a transaction in which an entity sells its equity interest in a subsidiary that holds only a real estate asset (a single-asset entity) and then leases that real estate asset back. The request asked whether the entity in its consolidated financial statements applies the sale and leaseback requirements in IFRS 16 and therefore recognises only the amount of the gain that relates to the rights transferred to the third party.
111. The Committee tentatively concluded that, in the transaction described in the request:
- (a) the entity applies paragraphs 25 and B97–B99 of IFRS 10 to account for the loss of control of the subsidiary.
 - (b) the transfer of the building satisfies the requirements in IFRS 15 to be accounted for as a sale of the building (paragraph 99 of IFRS 16)—the entity therefore applies paragraph 100(a) of IFRS 16. Consequently, the gain the entity recognises on the transaction reflects the requirements in paragraph 100(a) of IFRS 16 (partial gain).
112. At its February 2021 meeting, the Committee discussed feedback on the [tentative agenda decision](#). Most Committee members agreed with the technical analysis and outcome but recommended narrow-scope standard-setting because, in their view, finalising an agenda decision would:

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- (a) add a principle rather than explain how the applicable principles and requirements in IFRS Standards apply to the transaction, which is outside the Committee's scope of work;
- (b) be misinterpreted as setting a hierarchy of IFRS Accounting Standards;
- (c) not resolve the inconsistency between IFRS 10 and IAS 16, IAS 38 and IAS 40 because paragraphs 68–69 of IAS 16, paragraphs 113–114 of IAS 38 and paragraphs 67 and 69 of IAS 40 *Investment Property* contain cross-references to IFRS 16 and IFRS 10 does not³; and
- (d) have limited utility because it applies to a narrow and unrealistic fact pattern.
113. The Committee recommended that the IASB undertake narrow-scope standard-setting to address this and similar transactions. The Committee discussed that the IASB would need to decide on the scope of the standard-setting project when and if it decides to proceed with the project, because the transaction described in the submission is narrow, specific, unusual and relatively simple compared to the more complex sale and leaseback transactions (involving corporate wrappers) seen in practice (see paragraph 35 of [Agenda Paper 2](#) for the February 2021 Committee meeting for the examples of variations of the transaction). The matter ([Sale and Leaseback of an Asset in a Single-asset Entity](#)) is included in the IASB's [Maintenance project pipeline](#).
- Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*
114. Respondents to the RFI on the PIR of IFRS 10, IFRS 11 and IFRS 12 (see [Report and Feedback Statement: Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12](#) issued in June 2022) asked if the accounting outcome for transactions that are

³ Paragraph 68 of IAS 16, paragraph 113 of IAS 38 and paragraph 69 of IAS 40 effectively state that the gain or loss arising from the derecognition of an item of property, plant and equipment (or an intangible asset or an investment property, respectively) shall be included in profit or loss when the item is derecognised (unless IFRS 16 requires otherwise on a sale and leaseback).

structured through corporate wrappers to achieve particular purposes—for example, tax, legal or regulatory purposes—should differ from the accounting outcome for similar transactions that are structured without corporate wrappers. In response to that feedback, the IASB observed that:

- (a) it might not be able to successfully resolve this matter within the scope of IFRS 10. For example, the matter might also affect IFRS 15 or IFRS 16.
- (b) the structure of corporate wrappers also depends on jurisdictional laws and/or regulations. Therefore, identifying matters to be addressed by the IASB could require substantial resources for both the IASB and its stakeholders.
- (c) if identified as a priority in the next agenda consultation (that is, [Fourth Agenda Consultation](#)), the IASB could either:
 - (i) research whether it is appropriate and, if so, whether it is possible to develop a principle for transactions that involve corporate wrappers; or
 - (ii) focus only on particular transactions that involve corporate wrappers.

Post-implementation Review of IFRS 15

115. In September 2024 the IASB concluded the PIR of IFRS 15, in which it decided to consider the corporate wrapper matter (that is the question about how an entity accounts for sale of an asset by selling an equity interest in a single-asset entity that is a subsidiary) in its next agenda consultation, instead of as part of the PIR of IFRS 15. The [Project Summary and Feedback Statement on the Post-implementation Review of IFRS 15](#) observes that developing a comprehensive solution for corporate wrappers would be complex and could affect several IFRS Accounting Standards and require significant resources.

Post-implementation Review of IFRS 16

116. At the IASB's March 2025 meeting, many IASB members expressed the view that accounting for corporate wrappers is a broader matter and not only a question about the application of IFRS 16, and therefore this matter should be considered in the

Fourth Agenda Consultation rather than the PIR of IFRS 16. Therefore, the IASB decided not to include a question in the RFI about relevant market developments since February 2021 when the Committee deliberated the feedback on its tentative agenda decision relating to the application of IFRS 10 alongside IFRS 16 to the [Sale and Leaseback of an Asset in a Single-asset Entity](#).

Fourth Agenda Consultation

117. At its March 2025 meeting (see [Agenda Paper 24](#) for that meeting), the IASB discussed staff's proposed approach to the IASB's next agenda consultation. Agenda Paper 24 included a tentative list of projects to describe in the request for information on the Fourth Agenda Consultation, which included the cross-cutting issue of corporate wrappers. The IASB was not asked to make any decisions.
118. At its meeting in September 2025, the IASB decided to revise its approach to the Fourth Agenda Consultation. The IASB decided to defer its plans to publish a request for information to 2027, to allow the IASB and the International Sustainability Standards Board to conduct concurrent agenda consultations.

What do stakeholders say?

119. Some stakeholders (including some standard-setters and accountancy bodies from Asia-Oceania and Europe, and some global accounting firms) suggested the IASB clarify accounting for the sale of a subsidiary and the leaseback of one of its assets (or its only asset). Specifically, the stakeholders said it is not clear:
- (a) whether the entity applies IFRS 10 or—in accordance with paragraph 99 of IFRS 16—IFRS 15 to determine whether it transferred control of the asset and needs to derecognise the asset; and
 - (b) whether it applies requirements for sale and leaseback accounting in paragraphs 100–102A of IFRS 16 and recognises a 'partial gain' on the sale of the asset or applies paragraphs 25 and B97–B99 of IFRS 10 and recognises the 'full gain' on the sale of the subsidiary, if the entity determines that it transferred control of the subsidiary.

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120. A few stakeholders noted that the matter ([Sale and Leaseback of an Asset in a Single-asset Entity](#)) is included in the IASB's [Maintenance project pipeline](#). Most of them suggested that, in addition to clarifying the interaction between IFRS 16 and IFRS 10 in accounting for sale and leaseback of an asset in a corporate wrapper, the IASB should undertake a broader project to clarify the interaction between IFRS 10 and other IFRS Accounting Standards in accounting for corporate wrappers in general. Many of them also urged the IASB to take action sooner than in the Fourth Agenda Consultation (most as part of a broader project on applying IFRS 10 with other Accounting Standards and some as a narrow-scope project on applying IFRS 16 with IFRS 10) because the matter is widespread and results in significant diversity in practice. Many others agreed with considering the matter of Sale and Leaseback of an Asset in a Single-asset Entity within a broader project as part of the IASB's next agenda consultation.
121. A few standard-setters provided their views on accounting for the transaction. One accounting firm said, in accordance with their guidance, an entity is allowed to choose as its accounting policy either IFRS 16 or IFRS 10 to account for transactions involving corporate wrappers.
122. For more detailed feedback, see paragraphs 34–38 of [Agenda Paper 7B](#) for the February 2026 IASB meeting.

Staff analysis

Does the matter have substantial consequences?

123. Feedback in paragraph 119 indicates that some stakeholders observe diversity in practice resulting from the lack of clarity in the Standards on how a lessee accounts for a sale and leaseback of an asset in a single-asset entity. These stakeholders said the matter has substantial consequences, because it determines whether the seller-lessee recognises a partial gain or loss on the sale of the assets or recognises the full gain or loss on the sale of the subsidiary. Therefore, in our view, the criterion in paragraph 7(a)—the matter has *substantial consequences*—is met.

Is the matter pervasive?

124. Some stakeholders suggested the IASB clarify the accounting for the sale of a subsidiary and the leaseback of one of its assets (or its only asset). Our analysis in paragraphs 64–66 indicates that it is possible that sale and leaseback transactions generally do not occur frequently. Sale and leaseback transactions involving a corporate wrapper would likely be even less frequent. When the Committee received and analysed the submission in 2020 (see paragraph 110) IFRS 16 had only been effective for one year. Evidence obtained in this PIR also indicates that users have limited interest in sale and leaseback transactions (see paragraph 60). Therefore, on balance, we think that the narrow matter of how to account for a sale and leaseback of an asset in a single-asset entity is *not pervasive* (the criterion in paragraph 7(b) is not met).

Can the issue be addressed and will the benefits of the change outweigh the costs?

125. In the PIR of IFRS 10, IFRS 11 and IFRS 12 (see paragraph 114) and in the PIR of IFRS 15 (see paragraph 115), the IASB concluded that developing a comprehensive solution for corporate wrappers would be complex and could affect several IFRS Accounting Standards and require significant resources. In 2020–2021, the Committee discussed that it might not be effective to clarify the accounting for the sale and leaseback of an asset in a single-asset entity described in the submission without a broader consideration of more complex fact patterns (see paragraph 113). We observe that transactions involving corporate wrappers are typically structured to manage risks, taxes or operations more effectively. Therefore, we think it would not be cost-effective (and there would be limited benefits, if any) if the IASB focused on a relationship between only some IFRS Accounting Standards, without a consideration of how requirements in other Standards interplay with each other (for example, IFRS 10, IFRS 11, IFRS 15, IFRS 16 and IAS 12 *Income Taxes*).
126. In our view, it would be appropriate to consider corporate wrappers holistically in the IASB’s next agenda consultation because developing a comprehensive solution for

corporate wrappers would be complex and could affect several IFRS Accounting Standards, which aligns with the broader project on corporate wrappers that was on the list of potential projects for the Fourth Agenda Consultation initially considered by the IASB (see paragraph 117).

127. If the IASB agrees with our view that it would be more appropriate to consider corporate wrappers more broadly rather than to address the specific matter [Sale and Leaseback of an Asset in a Single-asset Entity](#) on the maintenance project pipeline, we think it would be appropriate to remove that project from the maintenance project pipeline. The Committee recommended the IASB undertake narrow-scope standard-setting for this specific corporate wrapper matter. Although we think the project should be removed from the maintenance project pipeline, we expect that this particular matter (together with the feedback the Committee gathered and the feedback we have gathered in this PIR) would be considered in a broader project on corporate wrappers.

Staff recommendation and question for the IASB

128. For the reasons discussed in paragraphs 123–126, in relation to the effects of applying the requirements in IFRS 16 and IFRS 10 to account for the [Sale and Leaseback of an Asset in a Single-asset Entity](#) (currently in the [maintenance project pipeline](#)), we recommend that the IASB:
- (a) consider the priority of this particular corporate wrapper matter together with other corporate wrapper matters in its next agenda consultation; and
 - (b) remove the specific matter [Sale and Leaseback of an Asset in a Single-asset Entity](#) from the project pipeline.

Question 4 for the IASB

Do IASB members agree with the staff recommendation in paragraph 128 of this paper?

Applying IFRS 16 with IAS 38

What do IFRS Accounting Standards require?

129. IFRS 16 applies to all leases, including leases of right-of-use assets in a sublease, except for, among others:
- (a) licences of intellectual property granted by a lessor within the scope of IFRS 15; and
 - (b) rights held by a lessee under licensing agreements within the scope of IAS 38 for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights. A lessee may, but is not required to, apply IFRS 16 to leases of intangible assets other than those listed in this subparagraph (see paragraphs 3–4 of IFRS 16).
130. Paragraph 6 of IAS 38 states: ‘Rights held by a lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are within the scope of this Standard and are excluded from the scope of IFRS 16.’

What do stakeholders say?

131. Some stakeholders (mostly standard-setters and preparers from Asia-Oceania, Europe and Latin America, global accounting firms and a user group) said it is unclear whether some arrangements, such as ‘Software as a Service’ cloud computing arrangements (in which the customer contracts to pay a fee in exchange for a right to receive access to the supplier’s application software for a specified term) or some digital infrastructure (such as indefeasible rights of use in the telecommunications industry), are within the scope of IFRS 16, IAS 38 or are a service contract within the scope of another IFRS Accounting Standard.
132. A few stakeholders said that the Agenda Decision [*Customer’s Right to Receive Access to the Supplier’s Software Hosted on the Cloud \(IAS 38\)*](#) published by the Committee in March 2019 has not resolved the diversity in practice with some entities applying

IFRS 16, some applying IAS 38 and some applying other IFRS Accounting Standards to similar arrangements as the one described in that Agenda Decision.

Staff analysis

133. In April 2024, the IASB started a project on [Intangible Assets](#) in response to the feedback on its Third Agenda Consultation that identified the project as high priority. The IASB aims to comprehensively review IAS 38 and has started its review in a focused way. In one of two workstreams the IASB is considering whether to update some aspects of the definition of an intangible asset, associated guidance and the recognition criteria, by initially using, as test cases, application issues related to newer types of intangible assets and new ways of using them; and then considering the effects of any potential amendments on the broader population of intangible assets.
134. We note that at its meeting in January 2026, the IASB discussed the selection of test cases for the workstream that explores potential changes to some aspects of the definition of ‘intangible asset’ and recognition requirements for intangible assets. Cloud computing arrangements (including software as a service) were one of the discussed test cases. For more details, see [Agenda Paper 17B](#) for the January 2026 IASB meeting.
135. We note that paragraphs BC70–BC71 of the Basis for Conclusions on IFRS 16 acknowledge that there is no conceptual basis for excluding leases of intangible assets from the scope of IFRS 16 for leases. However, the IASB concluded that a separate and comprehensive review of the accounting for intangible assets should be performed before requiring leases of intangible assets to be accounted for applying the requirements of IFRS 16. The outcome of this issue depends on the definition of an intangible asset and the analysis of the related rights and obligations in contracts. The IASB is already exploring this topic in the ongoing project on Intangible Assets. Once the IASB completes that work, it will be able to consider whether any changes to IFRS 16 might be needed.

Staff recommendation and question for the IASB

136. For the reasons discussed in paragraphs 133–135, we recommend the IASB take no action on the effects of applying IFRS 16 and IAS 38 to identify leases.

Question 5 for the IASB

Do IASB members agree with the staff recommendation in paragraph 136 of this paper?

Question 6 for the IASB

The staff recommends no action in response to stakeholders' feedback on the effects of applying IFRS 16 with other IFRS Accounting Standards raised by no more than a few stakeholders summarised in [Appendix A](#).

Do IASB members agree with the staff recommendation?

Appendix A—Other matters related to the effects of applying IFRS 16 with other IFRS Accounting Standards

- A1. This appendix summarises comments and suggestions for the IASB to consider raised by more than one but no more than a few respondents. We do not recommend acting on any of these matters because the feedback does not provide evidence of the matters meeting the criteria in paragraph 7(a)–(d). In particular, the feedback does not suggest that the matters are pervasive, have substantial consequences or that the benefits of any action would justify the costs.
- A2. For ease of reference, this appendix summarises matters relating to the interaction between the requirements (for both, lessors and lessees) in IFRS 16 and other IFRS Accounting Standards. Our discussion of other matters not involving interactions between IFRS 16 and other IFRS Accounting Standards is included in Agenda Paper 7B for this meeting.

Matter raised by stakeholders on applying IFRS 16 with ...

1. ... IFRS 3 *Business Combinations*

Acquired lease liabilities

A few stakeholders (mostly preparers and standard-setters from Europe) said they incur high ongoing costs of applying IFRS 16 with IFRS 3 when acquiring a business that has significant leases. They said entities often need to maintain two sets of accounting records, for example, if the acquiree is required to prepare individual (or separate) financial statements, in which leases are reported as if the acquisition had not happened. A preparer suggested, for example, that it might be more practical if the IASB allowed the acquirer to retain the lease balances as previously determined by the acquiree under IFRS 16 while still adjusting the right-of-use asset to reflect favourable or unfavourable terms of the lease when compared with market terms.

Acquired finance lease receivables

A standard-setter from Asia-Oceania and a global accounting firm suggested the IASB should make consistent the measurement requirements in IFRS 3 for acquired lease

Matter raised by stakeholders on applying IFRS 16 with ...

liabilities (which are measured as if the acquired lease was a new lease at the acquisition date) and acquired finance lease receivables (which are measured at fair value). These stakeholders noted that fair value of acquired finance lease receivables includes variable lease payments that do not depend on an index or a rate, whereas the measurement of acquired lease liabilities with the same lease payments does not.

2. ... IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

A standard-setter and a preparer group from Europe suggested the IASB clarify whether an entity that sells a business through a sale of assets, including some right-of-use assets, applies IFRS 5 to the disposal group or IFRS 16 lease modification requirements to account for the disposal of the right-of-use asset and the lease liability.

3. ... IFRS 9 *Financial Instruments**Lessor accounting—unguaranteed residual value*

Paragraph 77 of IFRS 16 states that a lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued. Paragraph 80(b) of IFRS 16 requires lessors in a finance lease to account for a modification applying the requirements in IFRS 9 if particular criteria are met. A few stakeholders asked the IASB to clarify how a lessor applies IFRS 9 impairment and modification requirements to net investment in the lease that includes an unguaranteed residual value—for example, when the unguaranteed residual value increases or when the lessor reassesses lease extension or termination options. See also paragraph A5 in the [Agenda Paper 27C for the April 2024 IASB meeting](#).

Lessor accounting—finance leases—impairment

A few stakeholders (mostly standard-setters from Asia-Oceania) suggested the IASB clarify how:

Matter raised by stakeholders on applying IFRS 16 with ...

- (a) to apply IFRS 9 modification and impairment requirements to credit-impaired finance leases when contractual cash flows are modified without derecognition of the financial asset; and
- (b) to determine the credit-adjusted effective interest rate for purchased and originated credit-impaired receivables.

Lessor accounting—operating leases—impairment

A few stakeholders (mostly standard-setters from Asia-Oceania) suggested the IASB clarify:

- (a) the accounting for operating lease income when collectability is uncertain. The stakeholders said IFRS 15 allows revenue to be recognised only if it is recoverable, while IFRS 16 does not include such a requirement. Therefore, some entities apply IFRS 15 collectability requirements by analogy, while other entities recognise income and apply IFRS 9 impairment requirements to the lease receivable.
- (b) whether IFRS 9 impairment requirements apply to accrued operating lease income. See paragraph A4 in the [Agenda Paper 27C for the April 2024 IASB meeting](#).

Lessor accounting—finance lease modification

A standard-setter from Europe and a global accounting firm suggested the IASB clarify whether a lessor remeasures net investment in a finance lease on modification using an original discount rate (similar to the requirements for modifications of financial instruments in IFRS 9) or a revised discount rate (similar to the requirements for lease modifications in IFRS 16 for lessees).

A standard-setter from Asia-Oceania and a global accounting firm also suggested the IASB clarify the application of the modification requirements in IFRS 16 and IFRS 9 to a fact pattern when some fixed lease payments change to variable lease payments that do not depend on an index or a rate and the changes are modifications that are not accounted for as a separate lease and do not meet the criteria in paragraph 80(a) of IFRS 16. The stakeholders said that paragraph 80(b) of IFRS 16 requires such modifications to be accounted for applying the requirements in IFRS 9, which is inconsistent with the

Matter raised by stakeholders on applying IFRS 16 with ...

requirements for accounting for variable lease payments that do not depend on an index or a rate in IFRS 16.

Lessee accounting—deposits

A few stakeholders noted divergence in practice in accounting for lease deposits, particularly regarding whether lease deposits should be accounted for within the scope of IFRS 16 as part of the right-of-use asset or separately as a financial asset applying IFRS 9. Stakeholders observed that different approaches may result in differences in presentation and the recognition of interest income or interest expense.

4. ... IFRS 11 *Joint Arrangements*

A few standard-setters from Europe disagreed with the Committee's analysis and conclusion in March 2019 Agenda Decision [Liabilities in relation to a Joint Operator's Interest in a Joint Operation](#) and suggested the IASB provide guidance on accounting for leases in joint operations, for example, in extractive industries.

5. ... IFRS 15 *Revenue from Contracts with Customers**Timing of profit or loss recognition*

A few stakeholders (mostly standard-setters from Europe and Asia-Oceania) raised concerns about the inconsistency between the requirements for timing of revenue recognition in IFRS 15 (for entities involved in construction of an asset that is subsequently sold to a customer) and in IFRS 16 (for lessors that are involved in construction of the underlying asset before commencement of the finance lease). They said IFRS 15 requires the entities to recognise revenue over time if certain criteria are met, and paragraphs 71–72 of IFRS 16 require a manufacturer or dealer-lessor to recognise selling profit or loss equivalent to the profit or loss resulting from an outright sale of the underlying asset at the commencement date of the finance lease. The stakeholders suggested the IASB clarify the rationale for the requirements in IFRS 16 and IFRS 15 that result in different accounting for economically similar transactions.

Matter raised by stakeholders on applying IFRS 16 with ...*Non-lease components*

A few stakeholders from Asia-Oceania (mostly standard-setters) raised concerns about the interaction between IFRS 16 and IFRS 15 when lessors allocate consideration between lease and non-lease components, including in contracts containing variable lease payments or renewal options. Stakeholders observed that it may be unclear whether the allocation should be based on the lease term determined applying IFRS 16 or the contract term applying IFRS 15, which could lead to judgemental allocations, operational complexity and inconsistent application across entities.

Principal versus agent considerations

A few stakeholders said it is unclear whether principal versus agent considerations in IFRS 15 apply to an intermediate lessor in a sublease transaction. They said it is necessary to consider whether recognising the right-of-use asset and the lease liability related to the head lease faithfully represents the substance of the transaction when the intermediate sublessor acts as an agent of the head lessor.

6. ... IFRS 18 *Presentation and Disclosure in Financial Statements*

A standard-setter and a preparer group from Europe said it is not clear how a manufacturer-lessor applies requirements in IFRS 18 to classify operating leases in the statement of profit or loss. We note that the Committee received a [submission](#) on similar matter and will discuss it at its June 2026 meeting (see [Agenda Paper 6](#) for June 2026 Committee meeting).

7. ... IAS 16 *Property, Plant and Equipment**Useful life of leasehold improvements*

A few stakeholders from Europe and Asia-Oceania suggested the IASB clarify the interaction between determining the useful life of a leasehold improvement applying IAS 16 and determining the lease term applying IFRS 16. These stakeholders said there is diversity in practice, in particular in the telecommunications industry, because some entities consider that the useful life of leasehold improvements cannot exceed the lease term and some others take the opposite view. In these stakeholders' view, the Committee's

Matter raised by stakeholders on applying IFRS 16 with ...

November 2019 Agenda Decision [Lease Term and Useful Life of Leasehold Improvements](#) is not helpful.

Initial direct costs

A few standard-setters from Europe and Asia-Oceania suggested the IASB add guidance to IFRS 16 on accounting for costs, for example, transportation, installation and testing costs, directly attributable to bringing the underlying asset to the location and condition necessary for it to be capable of being used as intended based on the requirements for directly attributable costs in IAS 16.

8. ... IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*

A few stakeholders from Europe, Asia-Oceania and Latin America (mostly standard-setters) said remeasuring a lease liability (a monetary item) denominated in a foreign currency, without remeasuring the related right-of-use asset (a non-monetary item) leads to volatility in profit or loss and distorts the lessees' financial performance. A few standard-setters from Europe said the mismatch between the right-of-use assets and the lease liability (arising from the application of IAS 21) is exacerbated when entities apply IAS 29.

9. ... IAS 36 *Impairment of Assets*

A few stakeholders from Europe and Asia-Oceania highlighted difficulties when applying IAS 36 to test cash-generating units containing right-of-use assets for impairment and asked for additional guidance.

10. ... IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

A few stakeholders from Europe (standard-setters and a preparer) said there is diversity in accounting for contractual obligations to perform major maintenance of a leased asset (such as aircraft) that depends on usage of the asset. Some entities identify a separate component of the right-of-use asset at the commencement date that relates to the costs of fulfilling the maintenance obligation in the contract, depreciate that component until the

Matter raised by stakeholders on applying IFRS 16 with ...

next maintenance event date and include the costs of maintenance in the right-of-use asset when the maintenance event occurs. Some other entities recognise a provision (and the corresponding amount in the income statement) as the underlying asset is used (or through the passage of time).

Appendix B—Extracts from the FASB Accounting Standards Codification Topic 842, Leases

Topic 842, Leases—Subtopic 40, Sale and Leaseback Transactions— Section 25, Recognition

- B1. Paragraph 842-40-25-2 states: ‘The existence of a leaseback (that is, a seller-lessee’s right to use the underlying asset for a period of time) does not, in isolation, prevent the buyer-lessor from obtaining control of the asset. However, the buyer-lessor is not considered to have obtained control of the asset in accordance with the guidance on when an entity satisfies a performance obligation by transferring control of an asset in Topic 606 if the leaseback would be classified as a finance lease or a sales-type lease.’
- B2. Paragraph 842-40-25-3 states: ‘An option for the seller-lessee to repurchase the asset would preclude accounting for the transfer of the asset as a sale of the asset unless both of the following criteria are met:
- (a) The exercise price of the option is the fair value of the asset at the time the option is exercised.
 - (b) There are alternative assets, substantially the same as the transferred asset, readily available in the marketplace.’

Topic 842, Leases—Subtopic 40, Sale and Leaseback Transactions— Section 55, Implementation Guidance and Illustrations

- B3. Paragraph 842-40-55-5 states: ‘If the lessee controls the underlying asset being constructed before the commencement date, the transaction is accounted for in accordance with this Subtopic. Any one (or more) of the following would demonstrate that the lessee controls an underlying asset that is under construction before the commencement date:
- (a) The lessee has the right to obtain the partially constructed underlying asset at any point during the construction period (for example, by making a payment to the lessor).

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- (b) The lessor has an enforceable right to payment for its performance to date, and the asset does not have an alternative use (see paragraph 842-10-55-7) to the owner-lessor. In evaluating whether the asset has an alternative use to the owner-lessor, an entity should consider the characteristics of the asset that will ultimately be leased.
 - (c) The lessee legally owns either:
 - (i) Both the land and the property improvements (for example, a building) that are under construction.
 - (ii) The non-real-estate asset (for example, a ship or an airplane) that is under construction.
 - (d) The lessee controls the land that property improvements will be constructed upon (this includes where the lessee enters into a transaction to transfer the land to the lessor, but the transfer does not qualify as a sale in accordance with paragraphs 842-40-25-1 through 25-3) and does not enter into a lease of the land before the beginning of construction that, together with renewal options, permits the lessor or another unrelated third party to lease the land for substantially all of the economic life of the property improvements.
 - (e) The lessee is leasing the land that property improvements will be constructed upon, the term of which, together with lessee renewal options, is for substantially all of the economic life of the property improvements, and does not enter into a sublease of the land before the beginning of construction that, together with renewal options, permits the lessor or another unrelated third party to sublease the land for substantially all of the economic life of the property improvements.

The list of circumstances above in which a lessee controls an underlying asset that is under construction before the commencement date is not all inclusive. There may be other circumstances that individually or in combination demonstrate that a lessee controls an underlying asset that is under construction before the commencement date.’

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- B4. FASB ASC paragraph 842-40-55-36 (Example 2) states: ‘At the end of Year 5, the option to repurchase the asset expires, unexercised by Seller. The repurchase option was the only feature of the arrangement that precluded accounting for the transfer of the asset as a sale. Therefore, upon expiration of the repurchase option, Seller recognizes the sale of the asset by derecognizing the carrying amount of the financial liability of \$1,372,077, derecognizing the carrying amount of the underlying asset of \$1,371,429, and recognizing a gain of \$648. Buyer recognizes the purchase of the asset by derecognizing the carrying amount of its financial asset of \$1,350,041 and recognizes the transferred asset at that same amount. The date of sale also is the commencement date of the leaseback for accounting purposes. The lease term is 3 years (8 year contractual leaseback term - 5 years already passed at the commencement date). Therefore, Seller recognizes a lease liability at the present value of the 3 remaining contractual leaseback payments of \$200,000, discounted at Seller’s incremental borrowing rate at the contractually stated commencement date of 4 percent, which is \$555,018, and a corresponding right-of-use asset of \$555,018. Seller uses the incremental borrowing rate as of the contractual commencement date because that rate more closely reflects the interest rate that would have been considered by Buyer in pricing the lease.’