
Accounting Standards Advisory Forum meeting

Date **March 2026**

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

Topic **Review of entities' lease-related disclosure practices**

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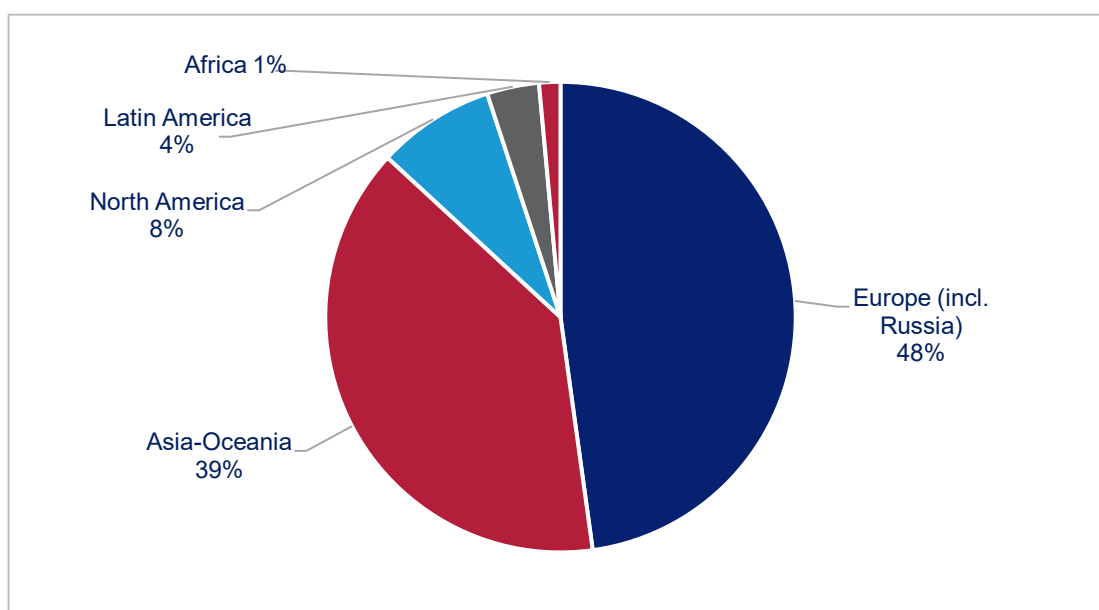
This paper was prepared for discussion at the International Accounting Standards Board's (IASB's) March 2026 meeting as Agenda Paper 7C.

Purpose and structure of this paper

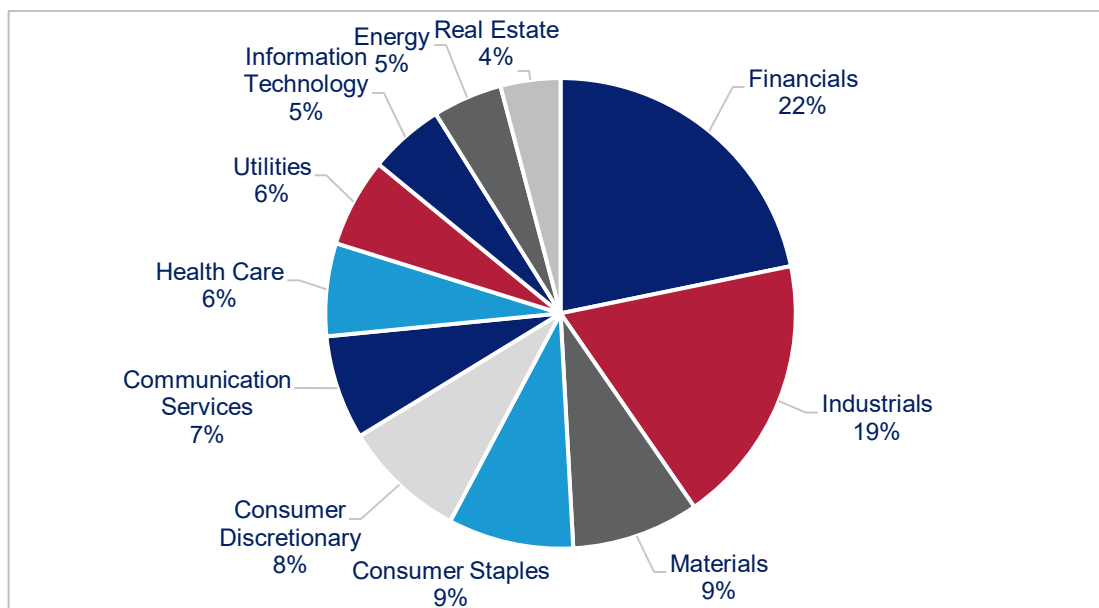
1. The purpose of this paper is to summarise findings from our targeted review of entities' lease-related disclosure practices.
2. This paper describes:
 - (a) objective and scope of our research (paragraphs 3–6);
 - (b) design of the AI prompts (paragraphs 7–10);
 - (c) limitations of our research (paragraphs 11–15); and
 - (d) findings (paragraphs 16–28).

Objective and scope of our research

3. We used an artificial intelligence model (AI) to analyse entities' disclosure practices.
4. We prompted the AI to analyse the consolidated financial statements of 753 entities that contain disclosures about leases for the reporting year ended in 2024. Our sample included global entities which are among the largest entities in terms of market capitalisation. The entities' financial statements are prepared in accordance with IFRS Accounting Standards (in a few jurisdictions entities apply a local GAAP that is substantially converged with IFRS Accounting Standards). Where annual reports were published in languages other than English, the AI translated the reports into English for the purposes of our analysis.
5. The following chart analyses the 753 entities by region:



6. The following chart analyses the 753 entities by industry sector:



Design of the AI prompts

7. The research focused on information disclosed about particular aspects of accounting for leases. We designed the AI prompts (research questions) to support staff's analysis of feedback to the Request for Information *Post-implementation Review of IFRS 16 Leases* (RFI) and to provide additional evidence and context. Our questions focused on the following areas:
 - (a) significant accounting judgments related to leases (see paragraphs 16–23);
 - (b) variable lease payments (see paragraphs 24–25);
 - (c) lease modifications, reassessment of lease liabilities and forgiveness of lease payments (see paragraphs 26–28);
 - (d) total lease cash outflows;
 - (e) sale and leaseback transactions; and
 - (f) the existence of a separate note or section on leases in an entity's financial statements.

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8. At this meeting, we present the findings of our research for matters in paragraph 7(a)–(c) because these matters relate to topics discussed in Agenda Papers 7A and 7B for this meeting. At a future meeting, we will present the findings of our research for the remaining matters.
 9. Some of the questions aimed to understand the prevalence of a matter (for example, sale and leaseback transactions). Other questions were designed to help us understand what information, if any, lessees provide for a specific disclosure requirement in IFRS 16 (or other IFRS Accounting Standards), and to assess the quality of the information entities disclose.
 10. We found that closed-ended prompts (Yes/No) were more effective and gave more reliable results. We were able to verify the reliability of the results because we instructed the AI to provide references to source information, such as excerpts from notes to financial statements or page numbers from the relevant annual reports.

Limitations of our research

11. To ensure accuracy and reliability of the responses to our prompts, we manually verified a sample of responses provided by the AI.
12. We first conducted a pilot phase using a sub-sample of 50 entities. During this phase, the research questions and prompts were refined through several iterative rounds to improve consistency and accuracy of the responses. Once we achieved a reasonable confidence level (based on our manual verifications of the results against the source files), the refined questions were applied to the full sample of 753 entities.
13. Entities apply varying reporting styles, terminology and document structures. Similar information might be disclosed using different words or phrases. To cope with this diversity, we defined the prompts using possible variations in wording (such as alternative phrasing and synonymous expressions) to capture the diversity in entities' drafting styles. However, it is possible that we have not provided all possible

variations in wording, and so the AI might have missed some instances of the information we were seeking or provided false negative (positive) responses.

14. We manually verified a sample of the results to ensure a reasonable level of accuracy. However, considering the sample size, we were unable to manually verify all the AI responses and therefore a level of error will exist in the overall results.
15. The staff acknowledges that AI-based analysis involves inherent limitations. The AI is sensitive to drafting nuances, terminology differences, document formatting and translation inaccuracies. Accordingly, results should be interpreted as indicative rather than determinative. However, the AI-based analysis has enabled us to review a large number of entities in a short period of time and has provided some useful information for the IASB to consider.

Findings

Disclosures about significant judgments

16. To provide context and additional evidence for our analysis of feedback to Question 2 in the RFI (usefulness of information resulting from lessees' application of judgement), we examined whether entities disclosed significant accounting judgements related to leases in accordance with paragraph 122 of IAS 1 *Presentation of Financial Statements*. Most stakeholders in response to Question 2 of the RFI said that significant judgement is required in determining lease terms, incremental borrowing rates or which variable lease payments to include in the lease liability, and this might lead to inconsistent application and reduce comparability between entities. Because of this, it could be reasonable to expect that many entities would disclose those significant judgements in accordance with paragraph 122 of IAS 1. The purpose of this question was to determine the frequency of disclosures about lease-related significant judgements and assess the quality of the information disclosed, in particular whether entities provide entity-specific information to help users of financial statements understand how management applies judgement.

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17. Of 753 entities screened, 182 (24%) entities disclosed significant accounting judgements related to leases.¹ Of those 182 entities:
- (a) 163 identified the determination of the lease term as an area involving significant judgement.
 - (b) 85 identified the determination of the discount rate as an area involving significant judgement.
 - (c) 55 identified other lease-related areas as areas involving significant judgement (these areas included identifying a lease, separating lease components, classification of leases by lessors, when variable lease payments become in-substance fixed, identifying variable lease payments that depend on an index or rate, and impairment of right-of-use assets).
18. The staff conducted a more detailed analysis of information disclosed relating to significant judgements in determining the lease term and discount rate in order to assess the quality of those disclosures. In performing this analysis, we considered the extent to which the disclosures enabled an understanding of the entity-specific judgements exercised by management. In particular, we assessed whether the explanations largely replicated wording similar to the requirements in IFRS 16, or whether they included entity-specific information that provided insight into how those judgements were applied in the entities' circumstances.
19. We found that:
- (a) some disclosures included entity-specific information, but the extent of such information varied:
 - (i) in some cases, the disclosures provided useful insight into how management applies judgement in determining the lease term or the discount rate (see paragraphs 20–22).

¹ We note that there was no screen for how significant leases were for the 753 entities in the sample. Therefore, it is not possible to determine whether these results are higher or lower than expected.

- (ii) in most other cases, although particular entity-specific elements were included, the disclosures provided more limited insight into the judgements applied. For example, with respect to judgements about lease terms, some entities referred to particular types of underlying assets. In relation to the discount rate, entities often described components considered in determining the incremental borrowing rate—such as risk-free rates adjusted for country risk, lease duration or reference bond yields—without detailed explanation about how those inputs were weighted or applied in practice.
 - (b) most disclosures on significant judgements did not include entity-specific information. The information disclosed was often boilerplate and contained wording close to the requirements of IFRS 16 on determining the lease term or relevant discount rate.
- 20. Examples of the entity-specific disclosures about judgements in determining the lease terms included:
 - (a) the characteristics of different underlying assets and how the entity considers these characteristics when determining the lease term;
 - (b) how the lease term is determined for different types of contracts—for example, for contracts with an indefinite period or those including termination options;
 - (c) the entity's typical lease terms and extension mechanisms; and
 - (d) the factors affecting the determination of the lease term for the entity, such as technological developments or potential changes in business models.
- 21. Examples of entity-specific disclosures about judgements in determining the discount rates included:
 - (a) the methodology for estimating the incremental borrowing rate, including reference to recent third-party financing, risk-free rates, credit adjustments, and specific lease characteristics such as term, currency or security; and

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- (b) factors considered in determining the rate, such as the nature of underlying assets, economic environment and entity-specific credit rating (or risk profile).
22. A few entities disclosed:
- (a) weighted average discount rates applied to leases over reporting periods, including disclosure of ranges or averages for key asset categories; and
 - (b) sensitivity analyses showing the effect of changes in discount rates on lease liabilities.
23. Although the examples in paragraphs 20–22 illustrate different approaches to disclosing judgements in determining the lease term and discount rate, the aspects of significant judgements and the information provided to explain how these judgements are applied may vary between entities. For each entity, information disclosed will depend on which judgements are significant and what information provides useful insight into how management applies them in practice. The examples in paragraphs 20–22 should therefore be considered in this broader context.

Disclosures about variable lease payments

24. To provide context and additional evidence for our analysis of feedback to Question 2 in the RFI (usefulness of information resulting from lessees' application of judgement), we examined whether entities disclosed what variable lease payments are linked to. The purpose of this question was to understand the nature and diversity of variable lease payments in practice.
25. Of 753 entities screened, 68 entities disclosed the variable to which their lease payments are linked. Of these:
- (a) 49 entities disclosed variable lease payments that are not linked to an index or a rate. Most of these payments were linked to performance measures, such as revenue, asset performance, number of products delivered or future performance. Other examples of what variable lease payments were linked to

included usage of asset, unit of output, production volume, energy consumption, number of passengers, or property taxes.

- (b) 11 entities disclosed variable lease payments linked to an index or a rate. These were primarily linked to consumer price indices and/or market rental rates.
- (c) 8 entities disclosed variable lease payments linked to both an index or a rate and a variable that is not an index or a rate. In other words, when explaining what their variable lease payments linked to, these entities reported payments linked to price indices, as well as payments based on other measures, such as a percentage of sales. These could be different lease payments or the same lease payments linked to two different variables.

Disclosures about lease modifications, reassessment of lease liabilities and forgiveness of lease payments

- 26. To provide context and additional evidence for our analysis of feedback to Question 4 in the RFI (ongoing costs for lessees of applying the measurement requirements), we examined whether entities disclosed information indicating:
 - (a) a lease modification;
 - (b) a reassessment of lease liability; or
 - (c) forgiveness of lease payments, or extinguishment or partial extinguishment of lease liabilities.
- 27. The purpose of these questions was to understand the prevalence of remeasurements of lease liabilities.
- 28. Of 753 entities screened, 153 (20%) entities reported some kind of a lease liability remeasurement. Of these 153 entities:
 - (a) 82 entities explicitly disclosed information about a lease modification separately from any other changes to lease liabilities (this subset of entities

includes five entities that also explicitly disclosed separate information about a reassessment of the lease liability).

- (b) 35 entities explicitly disclosed information about a lease reassessment separately from any other changes to lease liabilities (this subset of entities includes the five entities in (a) that also explicitly disclosed separate information about a lease modification).
- (c) 41 entities disclosed information about lease modifications and lease reassessments together (reported as ‘modifications and/or reassessments’), combined them with other changes to the lease liability (such as additions) or used broader terms like ‘remeasurement’ without explicitly stating whether the remeasurement was a modification or reassessment. As a result, for these 41 entities, the changes may include a modification, a reassessment, additions or a mixture of these, but the precise nature of the changes to the lease liability could not always be determined.
- (d) no entities disclosed forgiveness of lease payments, or extinguishment or partial extinguishment of lease liabilities.