IFRS® Accounting

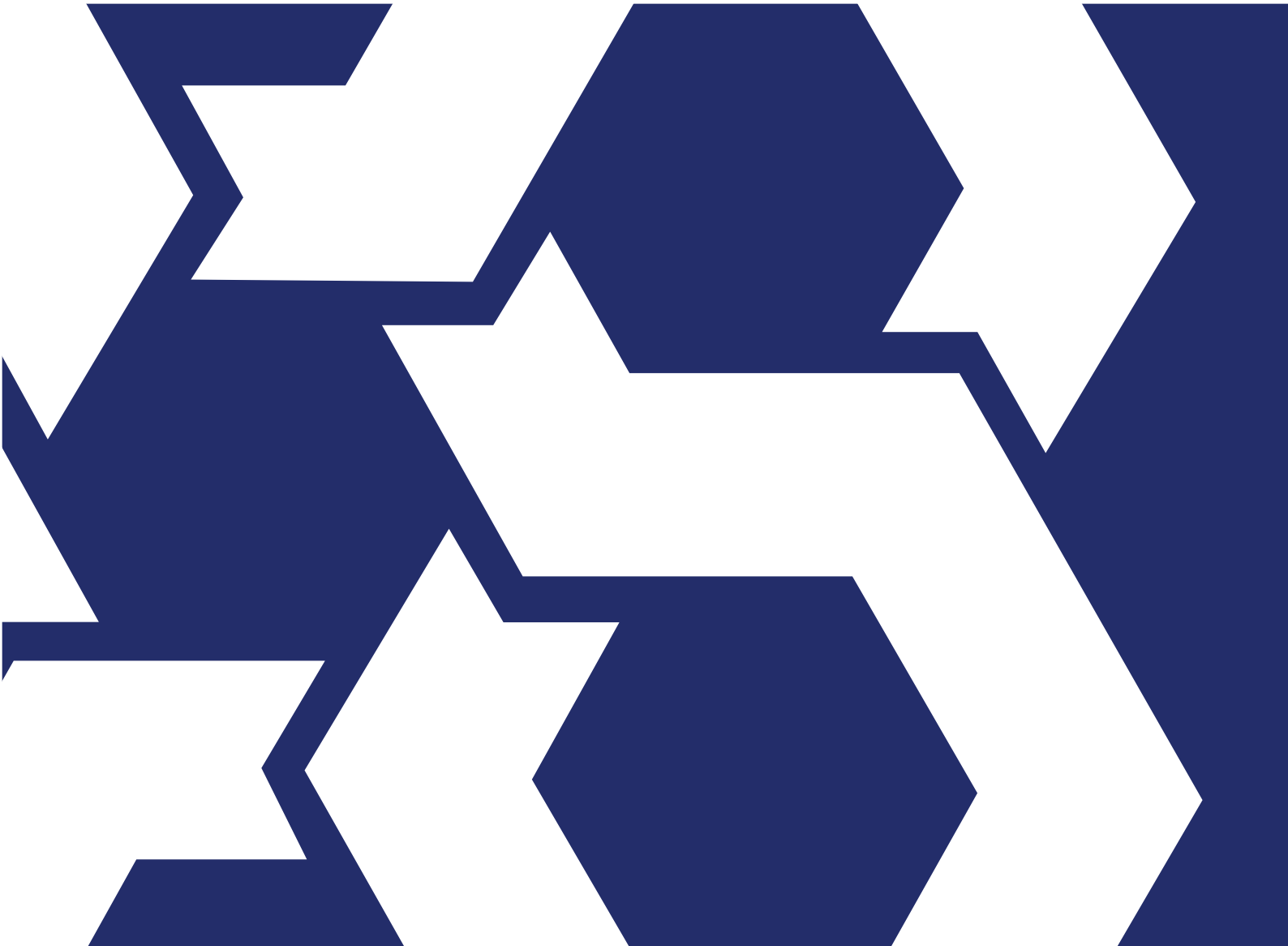
November 2026

Project Summary and Feedback Statement

IFRS® Accounting Standards

Post-implementation Review

IFRS 16 *Leases*



Post-implementation Review of IFRS 16 *Leases*

This Project Summary and Feedback Statement summarises the work the IASB completed and the conclusions it reached in the Post-implementation Review of IFRS 16 *Leases*.

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At a glance

The International Accounting Standards Board (IASB) carried out the Post-implementation Review of IFRS 16 *Leases* between June 2024 and November 2026.

The objective of the Post-implementation Review was to assess whether the effects on users of general purpose financial reports, preparers, auditors and securities regulators of applying the requirements in IFRS 16 are as intended when the new requirements were developed.

The Post-implementation Review also provided an opportunity for the IASB to learn lessons that could be helpful for future standard-setting projects.

The IASB's overall conclusion

After analysing the evidence gathered in the Post-implementation Review, the International Accounting Standards Board (IASB) concluded that the requirements in IFRS 16 *Leases* are overall working as intended. In particular, the IASB concluded that:

- stakeholders have no fundamental questions about the clarity or suitability of the core objectives or principles underlying the requirements.
- the benefits to users of general purpose financial reports (users) of the information arising from applying the requirements in IFRS 16 are not significantly lower than was expected.
- lessees incur higher-than-expected ongoing costs in applying the requirements for determining discount rates and remeasuring lease liabilities. However, the overall costs of applying all the requirements, including the costs of auditing and enforcing their application, are not significantly greater than was expected.

Outcomes

Research to reduce lessee costs and clarify rent concession requirements

The IASB decided to add to its project pipeline a research project on targeted improvements to IFRS 16. The project will:

- explore how to mitigate the higher-than-expected ongoing costs for lessees of applying the measurement requirements in IFRS 16 without a significant negative effect on the usefulness of lease-related financial information. The project will explore reducing costs related to:
  - *remeasurements of the lease liability*—for example, by reducing the frequency of remeasuring the lease liability or simplifying the requirements for reassessing the lease liability to reflect changes in variable lease payments linked to an index or rate.
  - *discount rates*—for example, by requiring or permitting lessees to use a simplified discount rate instead of an incremental borrowing rate or to use an unchanged discount rate for some remeasurements of the lease liability.
- clarify how a lessee applies the requirements in IFRS 16 and IFRS 9 *Financial Instruments* 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).

At a glance *continued ...*

Standard-setting to enhance disclosures about total cash outflows for leases

The IASB decided to explore in its project on the Statement of Cash Flows and Related Matters requiring lessees:

- to disclose the components of the total cash outflow for leases; and
- to disclose where in the statement of cash flows each component is presented.

Stakeholder feedback on the classification and presentation of lease-related cash flows by lessees, and on non-cash movements related to leases, will inform the IASB's deliberations in its project on the Statement of Cash Flows and Related Matters.

Other outcomes

The IASB decided:

- to consider in its next agenda consultation how to prioritise exploring the effects of applying the requirements in IFRS 16 and IFRS 10 *Consolidated Financial Statements* to account for the sale and leaseback of an asset in a single-asset entity together with other corporate-wrapper matters;
- to remove from the maintenance-project pipeline the project on Sale and Leaseback of an Asset in a Single-asset Entity; and
- to take no action on other matters identified in the Post-implementation Review.

The IASB will consider the feedback related to small or medium-sized entities (SMEs) in the next comprehensive review of the *IFRS for SMEs* Accounting Standard. The IASB will also consider stakeholders' suggestions for improvements when it develops transition requirements in future standard-setting projects.

Appendix B summarises stakeholder feedback and provides the IASB's response to that feedback.

Introduction

Post-implementation reviews

A post-implementation review is a mandatory step in the IFRS Foundation's due process. The IASB is required to carry out a post-implementation review of every new Standard or major amendment to a Standard.

The IFRS Foundation *Due Process Handbook* sets out the two phases of a post-implementation review.

The first phase involves identifying matters for a public consultation in the form of a request for information.

In the second phase, the IASB considers the comments it has received from the public consultation and the information it has gathered through stakeholder engagement and other research activities.

A post-implementation review ends when the IASB presents its findings and sets out the steps it plans to take, if any.

Objective of a post-implementation review

The objective of a post-implementation review is to assess whether the effects on users, preparers, auditors and securities regulators of applying the requirements of a new Standard or major amendment to a Standard 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 the IASB publishes when it issues the new requirements.[1]

During a post-implementation review, the IASB considers important and contentious matters it discussed during the development of the new requirements and whether the Standard or major amendment to a Standard continues to work as intended in the current environment, considering market developments since those new requirements were issued. It also considers whether applying the new requirements led to unintended consequences that the IASB was not aware of when it developed those requirements.

A post-implementation review involves the IASB assessing whether the new requirements are, overall, working as intended. That is:

- the benefits to users of the information arising from applying the new requirements are not significantly lower than was expected; and
- the costs of applying the requirements and auditing and enforcing their application are not significantly greater than was expected.

When the IASB issues a new Standard or major amendment to a Standard, the IASB and the IFRS Interpretations Committee (Committee) conduct various activities to support the implementation and consistent application of the Standard or major amendment. These activities might include publishing the Committee's agenda decisions in response to application questions, or materials such as articles and webcasts.[2] In the course of supporting implementation of a new Standard or major amendment, the IASB might decide it needs to amend the new requirements.[3]

1 The *Effects Analysis on IFRS 16* Leases describes the likely costs and benefits of IFRS 16. The costs and benefits are collectively referred to as 'effects'.

2 For the materials supporting consistent application of IFRS 16, including agenda decisions, see the implementation support webpage.

3 The IASB issued amendments to IFRS 16 in *Covid-19-Related Rent Concessions* in May 2020, *Interest Rate Benchmark Reform—Phase 2* in August 2020, *Covid-19-Related Rent Concessions beyond 30 June 2021* in March 2021 and *Lease Liability in a Sale and Leaseback* in September 2022.

Introduction *continued ...*

Stakeholders are encouraged to submit questions about the application of new requirements that meet the submission criteria to the Committee at *any time*.[4] This process remains the best way for application questions to be answered. Although a post-implementation review can also identify application questions, such identification is not the objective of the post-implementation review.

A post-implementation review is not a standard-setting project and does not automatically lead to standard-setting. However, post-implementation reviews can identify improvements that can be made to a new requirement or the standard-setting process.

The IASB's objectives when issuing IFRS 16

IFRS 16 was issued in January 2016 and became effective for annual reporting periods beginning on or after 1 January 2019. The IASB worked jointly with the Financial Accounting Standards Board (FASB) on this project. The FASB issued Accounting Standards Update 2016-02 Leases in February 2016, which amended the FASB Accounting Standards Codification® and created FASB ASC Topic 842, Leases (Topic 842).

IAS 17 *Leases*, the previous Standard for leases, focused on identifying when a lease is economically similar to purchasing the asset being leased (underlying asset). If an entity determined that a lease was economically similar to purchasing the underlying asset, the entity classified it as a finance lease and the lessee reported it on its statement of financial position. All other leases were classified as operating leases and the lessee did not report them on its statement of financial position (they were 'off-balance-sheet leases'). A lessee accounted for off-balance-sheet leases similarly to service contracts, reporting a rental expense in the statement of profit or loss (typically the same amount in each period of the lease—a straight-line lease expense).

The previous accounting model for lessees was criticised for failing to meet the needs of users. In particular:

- information reported about operating leases lacked transparency.
- there were two accounting models available for leases, in which assets and liabilities associated with leases were not recognised for operating leases but were recognised for finance leases. Therefore, entities could account differently for economically similar transactions.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective of the Standard is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users to assess the effect that leases have on an entity's financial position, financial performance and cash flows. (See paragraph 1 of IFRS 16).

To meet the objective, the Standard introduces a single lessee accounting model in which a lessee accounts for all leases as providing finance. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Except for particular leases, IFRS 16 requires a lessee:[5]

- to recognise lease assets (right-of-use assets) and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
- to recognise depreciation of lease assets and interest on lease liabilities in the statement of profit or loss over the lease term; and
- to classify cash payments for the principal portion of lease liabilities within financing activities in the statement of cash flows, and the interest portion of lease liabilities in accordance with the requirements in IAS 7 *Statement of Cash Flows* for interest paid.

4 See paragraphs 5.15–5.22 of the *Due Process Handbook*.

5 A lessee may elect not to apply the requirements in paragraphs 22–49 of IFRS 16 to short-term leases and leases of low-value assets (see paragraphs 5–8 of IFRS 16).

Introduction *continued ...*

The IASB decided to carry forward the lessor accounting model in IAS 17. Accordingly, a lessor continues to classify a lease as either a finance lease or operating lease and to account for those two types of leases in distinct ways. IFRS 16 requires a lessor to disclose additional information to enable users to better evaluate the uncertainty of cash flows associated with the lessor's leasing activities.

The IASB expected IFRS 16 to improve:

- the quality of financial reporting by providing greater transparency about a lessee's financial leverage and capital employed; and
- comparability between entities that lease assets and entities that borrow to buy assets, while reflecting the economic differences between these transactions.

Timeline

The timeline of the Post-implementation Review is presented in Appendix C.

More information

More information about this project, including recordings of public meetings, is available on the IFRS Foundation's website.

First phase—Identifying matters and gathering feedback

Identifying matters to be examined

To inform the first phase of the Post-implementation Review, IASB members and staff participated in or observed 28 meetings with a wide range of stakeholders from around the world. These stakeholders included the IASB's consultative bodies, the Committee, preparers representing industries that were expected to be most affected by IFRS 16 and users.

The IASB also carried out other research. It reviewed:

- academic literature relevant to this Post-implementation Review;
- the Committee's discussions relating to IFRS 16;
- the relevant feedback the IASB discussed when deciding whether to align the *IFRS for SMEs* Accounting Standard with IFRS 16;
- a sample of enforcement decisions related to applying the requirements in IFRS 16;
- analysts' reports and investors' presentations published around the time IFRS 16 was issued;
- information disclosed by a sample of lessees;
- implementation questions discussed in the webcasts supporting the implementation of IFRS 16;
- alternative performance measures FTSE 100 entities reported before and after IFRS 16 became effective;
- an analysis of the quantitative effects of IFRS 16; and
- the findings of the FASB's Post-implementation Review of Topic 842 shared by the FASB during the joint FASB–IASB education sessions in June 2024 and October 2024.

Appendix A summarises how the IASB gathered evidence for the Post-implementation Review of IFRS 16.



First phase—Identifying matters and gathering feedback *continued ...*

Feedback from the first phase

Feedback from the first phase of the Post-implementation Review was generally positive—it suggested that IFRS 16 is overall working as intended, has achieved its objective and improved financial reporting.

For most users, IFRS 16 has improved transparency and the quality of financial information used to assess lessees' capital employed and financial leverage, particularly in industries that use leases extensively (such as airlines, retail and telecommunications). However, for many preparers, it is unclear whether IFRS 16 has achieved its objectives. They highlighted the high ongoing costs of applying the Standard and reported that some users reverse the effects of IFRS 16 in their models.

Although the overall assessment of the Standard was generally positive, stakeholders raised concerns about the lessee accounting model related to:

- the use of judgement required by IFRS 16, which sometimes reduces the comparability of reported financial information, particularly in relation to lease terms, discount rates and variable lease payments;
- the complexity for users of analysing lease-related cash flows;
- the lack of disclosure by some entities of information about the total cash outflows for leases;
- the high cost of initially implementing IFRS 16;
- higher-than-expected ongoing costs for many preparers, especially for determining discount rates and remeasuring lease liabilities; and
- the effects of applying IFRS 16 together with various other Standards.

Some concerns were raised about the lessor accounting model, particularly about the lack of specific requirements for lessors compared to lessees. However, stakeholders generally identified no major concerns about the lessor accounting model.

Despite some concerns, most stakeholders did not recommend significant changes to the requirements in IFRS 16.

Based on the evidence gathered in the first phase, the IASB decided to focus the Request for Information on specific matters related to applying the requirements in IFRS 16, including matters arising from applying IFRS 16 with other Standards. The Request for Information *Post-implementation Review of IFRS 16* Leases was published on 17 June 2025, with a 120-day comment period.

Second phase—Summary of findings and the IASB's response

Gathering evidence

In the second phase of the Post-implementation Review, the IASB gathered further evidence on the matters identified in the first phase. The evidence was collected from five main sources:

- 122 comment letters received in response to the Request for Information;
- 37 further meetings with stakeholders (including users, preparers, accounting firms, regulators, national standard-setters and the IASB's consultative bodies);
- an updated review of the academic literature;
- two education sessions with the FASB, in October 2025 and June 2026; and
- an AI-assisted review of entities' disclosure practices related to leases.

Appendix A summarises how the IASB gathered evidence for the Post-implementation Review.

Approach to assessing evidence

When considering whether to act on matters identified in a post-implementation review, the IASB looks for evidence that:

- the benefits to users of the information arising from applying the new requirements are significantly lower than expected (for example, there is significant diversity in application); or
- the costs of applying some or all of the new requirements and auditing and enforcing their application are significantly greater than expected (or a significant market development after the new requirements were issued makes it more costly than expected to apply the new requirements consistently).

The IASB considers the extent to which evidence gathered during a post-implementation review suggests that:

- the matter has **substantial consequences** (for example, widespread diversity in practice materially affects users' ability to analyse trends and compare entities);
- the matter is **pervasive** (for example, it affects transactions that occur frequently in various industries and jurisdictions);
- the matter arises from a financial reporting issue that **can be addressed** by the IASB or the Committee (that is, they are likely to find a feasible solution); and
- the benefits of action would be expected to **outweigh the costs** (considering the extent of disruption to current practice and operational costs arising from change relative to the importance of the matter to users).

Actions could include standard-setting, referring a matter to the Committee or developing materials to support consistent application. The IASB can also conclude that no action is required.

Summary of the IASB's response

The IASB concluded that the requirements in IFRS 16 are, overall, working as intended. The IASB also concluded that the Standard is achieving its objective of providing a basis for users to assess the effect that leases have on an entity's financial position, financial performance and cash flows.

The IASB identified no fundamental questions about the clarity or suitability of the Standard's core principles. However, the Post-implementation Review identified some areas in which applying the requirements in IFRS 16 can result in operational challenges, higher-than-expected costs, or diversity in practice. In response, the IASB decided to carry out targeted actions in specific areas while retaining the Standard's core principles.

Second phase—Summary of findings and the IASB's response *continued ...*

Research to reduce lessee costs and clarify rent concession requirements

The overall costs of applying all the requirements of IFRS 16 (and auditing and enforcing their application) are not significantly greater than was expected. However, evidence gathered during the Post-implementation Review showed that ongoing costs of applying the requirements associated with remeasuring lease liabilities and determining discount rates are higher than expected.

In response, the IASB decided to add to its project pipeline a research project on targeted improvements to IFRS 16. This project will explore proportionate cost-reduction measures that do not significantly reduce the usefulness of information provided to users, including:

- *remeasurement of lease liabilities*—exploring options to reduce the frequency of remeasuring lease liabilities and to simplify reassessments arising from changes in variable lease payments linked to an index or rate; and
- *discount rates*—assessing options for simplified approaches to determining discount rates, including the use of unchanged discount rates for specified remeasurement events, taking into account the complexities associated with determining incremental borrowing rates.

To address diversity in practice, the project will also clarify the relationship between IFRS 16 and IFRS 9 for situations in which a lessor forgives lease payments due from a lessee. The Committee had previously recommended that the IASB carry out standard-setting to address this matter and the evidence from the Post-implementation Review supports that recommendation.

Standard-setting to enhance disclosures about total cash outflows for leases

Evidence gathered in the Post-implementation Review showed that stakeholders were concerned about the usefulness of information on lessees' lease-related cash flows. Several concerns relate to topics the IASB is considering in its project on the Statement of Cash Flows and Related Matters. Stakeholder feedback about the presentation, classification and fragmentation of lease-related cash flows (and non-cash movements at lease commencement) will inform the IASB's deliberations in that project.

The IASB also decided to explore in its project on the Statement of Cash Flows and Related Matters requiring lessees to disclose the components of total cash outflows for leases and to disclose where in the statement of cash flows each component is presented. This action responds to feedback that the classification and presentation of lease-related cash flows can make it complex for users to understand and analyse the effects IFRS 16 has on an entity's cash flows.

Cross-cutting matters

The IASB will consider cross-cutting matters in its future projects, namely:

- *corporate wrappers*—the IASB concluded that it would be more cost-effective to consider the relationship between *all* relevant Standards for corporate-wrapper matters. This approach will go beyond considering only the relationship between the requirements in IFRS 10 and IFRS 16 to account for the sale and leaseback of an asset in a single-asset entity. The IASB decided to consider the priority of a broader corporate-wrapper project in its next agenda consultation.
- *SMEs*—the insights from this Post-implementation Review and outcomes from the targeted research project on lessee costs will inform the IASB's deliberations in the next comprehensive review of the *IFRS for SMEs* Accounting Standard.
- *future transition requirements*—feedback on the effectiveness of practical expedients and the modified retrospective approach in IFRS 16 provided valuable insights. The IASB will consider these insights when developing transition requirements in future standard-setting projects, in particular stakeholders' comments on the use of transition options.

Second phase—Summary of findings and the IASB's response *continued ...*

Decisions to take no action

The IASB considered stakeholder feedback on areas in which application challenges were reported but concluded that no further action was warranted. In reaching these conclusions, the IASB considered whether the matters are widespread in their effect on entities and users, whether potential solutions would make information more useful and whether potential solutions would disrupt current accounting practice. These matters include:

- *the usefulness of information resulting from lessees applying judgement*—stakeholders commented that the use of judgement, in particular in determining lease terms and discount rates, can affect comparability between lessees. The IASB:
  - observed that judgement is an inherent feature of principle-based Standards and enables entities to reflect their specific facts and circumstances.
  - concluded that simplifying the requirements, introducing more prescriptive rules or detailed application guidance, or developing specific disclosure requirements to provide information about the judgements entities make was not warranted. Stakeholders' concerns often related to specific fact patterns in complex lease transactions, and amended requirements or guidance would risk becoming too fact-specific or outdated as contract structures evolve.
  - noted that other Standards already require entities to provide information about judgements and concluded that duplicating those requirements in IFRS 16 was unnecessary.
- *the sale and leaseback accounting model*—stakeholders reported difficulties and some diversity in applying the requirements to assess whether a sale has occurred in a sale and leaseback transaction and to calculate the gain or loss recognised. These concerns primarily related to specific, highly structured or complex transactions. However, the IASB:
  - observed that sale and leaseback transactions are not pervasive and decided developing additional guidance for specific complex fact patterns was not justified; and
  - concluded that there was not enough new evidence to reconsider the partial gain or loss recognition model for sale and leaseback transactions, which would require a fundamental change to the model.
- *lessor accounting*—the IASB concluded that the lessor accounting model carried forward from IAS 17 remains adequate. The Post-implementation Review did not identify fundamental concerns with that model.

Overall conclusion

Although the IASB concluded that the requirements in IFRS 16 are, overall, working as intended, evidence from the Post-implementation Review has revealed aspects of IFRS 16 that warrant action. In the IASB's view, the package of actions that it decided to take is an appropriate and proportionate response to stakeholders' feedback.

Appendix A—How the IASB gathered evidence

Public consultation through the Request for Information

In response to the Request for Information, the IASB received 122 comment letters, which are available on the IFRS Foundation's website.[6]

Respondents to the Request for Information represented various stakeholder groups:[7]

Table A1—Respondents by stakeholder type		
Type of respondent[8]	**Number of comment letters**	**Percentage of respondents (%)**
Academics	3	2
Accountancy bodies	13	11
Accounting firms	11	9
Preparers and industry organisations	45	37
Regulators	3	2
Standard-setters	29	24
Users	3	2
Other	15	13
Total	**122**	**100**

Respondents to the Request for Information represented various regions:

Table A2—Respondents by region		
Region	**Number of comment letters**	**Percentage of respondents (%)**
Africa	7	6
Asia–Oceania	54	44
Europe	33	27
Latin America	14	11
North America	2	2
Global	12	10
Total	**122**	**100**

6 One comment letter was received that, at the respondent's request, was treated as confidential. It was not posted on the project page but was included in the analysed feedback.

7 The data in Tables A1–A2 should be considered in conjunction with the stakeholder-engagement events that were held during the project (see Tables A3–A4).

8 Some comment letters include views of a group of mixed stakeholders. In these cases the different types of stakeholders are not separately captured in Table A1. For example, some comment letters from standard-setters also include the views of preparers or users of financial statements, but these comment letters are categorised as coming from standard-setters.

Appendix A—How the IASB gathered evidence *continued ...*

Stakeholder engagement

During the Post-implementation Review, IASB members and staff met with a wide range of stakeholders at 28 events held during the first phase of the project and 37 events held during its second phase. Stakeholders consulted included users, preparers, academics, accounting firms, regulators, standard-setters, the Committee and the IASB's consultative bodies (the Capital Markets Advisory Committee, the Global Preparers Forum, the Accounting Standards Advisory Forum, the Emerging Economies Group, the Islamic Finance Consultative Group and the IFRS Taxonomy Consultative Group).[9]

Participants from various stakeholder groups attended the events:

Table A3—Events by stakeholder type

Type of participant	Number of events attended	Percentage of events (%)
Academics	1	2
Accounting firms	3	5
Preparers and industry organisations	14	21
Regulators	3	5
Standard-setters	17	26
Users	21	32
Mixed groups	6	9
Total	**65**	**100**

Participants from various regions attended the events:

Table A4—Events by region

Region	Number of events attended	Percentage of events (%)
Africa	3	5
Asia–Oceania	18	27
Europe	16	24
Latin America	5	8
North America	3	5
Global	20	31
Total	**65**	**100**

9 See the meeting summaries for the November 2024 Capital Markets Advisory Committee meeting; November 2024 Global Preparers Forum meeting; September 2024, March 2025 and March 2026 Accounting Standards Advisory Forum meetings; and December 2024 and June 2026 Emerging Economies Group meetings. See also the webpage for the December 2024 Islamic Finance Consultative Group meeting details and Agenda Paper 1 *Update on taxonomy workplan* for the December 2024 IFRS Taxonomy Consultative Group meeting.

Appendix A—How the IASB gathered evidence *continued ...*

Review of academic research

During the Post-implementation Review, the IASB carried out two academic literature reviews, one before and another after it published the Request for Information. The IASB reviewed academic research papers:

- submitted to the joint conference of the IASB, the FASB and *The Accounting Review* 'Accounting for an Ever-changing World' in November 2022.
- referenced by academics who participated in the IASB workshop with the European Accounting Association, EFRAG and UK Endorsement Board in October 2025. The same team of academics submitted a comment letter providing a list of academic references that the IASB has also considered.
- referenced in comment letters submitted in response to the Request for Information.
- identified in the Social Science Research Network, Google Scholar or other databases of academic studies through a search for papers on topics relevant to the Post-implementation Review.
- collected by the FASB staff for the Post-implementation Review of Topic 842, Leases.
- sent by academics to the IASB staff.

The IASB also reviewed a project report from the joint research programme set up by the IASB, KPMG and International Association for Accounting Education and Research.

In total, the IASB reviewed 57 academic papers that examine the implementation and application of both IFRS 16 *Leases* and Topic 842.[10]

Findings of the FASB's Post-implementation Review of Topic 842

The IASB monitored the findings of the FASB's Post-implementation Review of Topic 842 as part of its own review of IFRS 16. In June 2024, October 2024, October 2025 and June 2026 the IASB held education sessions with the FASB in which the boards shared the findings of their post-implementation reviews of leases standards.

In November 2025 the FASB published its *Post-implementation Review Summary Report: Topic 842—Leases*.

10 For further details see Agenda Paper 7F *Review of academic literature* from the IASB's March 2025 meeting and Agenda Paper 7C *Academic literature review—Update* from the IASB's February 2026 meeting.

Appendix B—Feedback statement[11]

Table B1—Overall assessment of IFRS 16 *Leases*
Feedback

Overall views on IFRS 16

Most stakeholders provided positive overall feedback on IFRS 16. Some provided negative feedback and some provided mixed feedback.

Of the stakeholders who provided positive overall feedback, most said IFRS 16 is meeting, or largely meeting, its objective. Many also said its core principles are clear or understood. Stakeholders also commented that:

- IFRS 16 has improved transparency about lessees' leverage and capital employed by requiring recognition of lease liabilities and right-of-use assets;
- IFRS 16 successfully addresses the shortcomings of IAS 17 *Leases* and improves the quality of financial information;
- the single lessee classification model removes ambiguity between finance and operating leases and ensures faithful representation of lease obligations;
- IFRS 16 has improved comparability between lessees and entities that borrow to buy assets; and
- entities provide better disclosures by applying IFRS 16.

Stakeholders who provided negative overall feedback on IFRS 16 made comments that broadly related to:

- *lease classification (and presentation in the financial statements)*—most of these stakeholders said the single-lessee accounting model in IFRS 16 fails to provide useful information that faithfully represents the differing economics of various types of leases. These stakeholders view some (or all) leases as operating (instead of debt-like) transactions.
- *distortions of financial ratios*—many of these stakeholders expressed concerns about distortions of earnings before interest, tax, depreciation and amortisation (EBITDA), leverage and other metrics. These stakeholders said they provide alternative performance measures that reverse the effects of IFRS 16 on financial performance or cash flows to faithfully represent the underlying economics of their leases. Some stakeholders expressed concerns about front-loaded interest expenses arising on lease liabilities.
- *cost–benefit imbalance*—many of these stakeholders said reporting in accordance with IFRS 16 is perceived as a compliance exercise and does not provide useful information to internal or external stakeholders.
- *comparability with Topic 842 model*—some of these stakeholders (from Latin America and Canada) commented on differences between the lessee accounting model in IFRS 16 and the one in Topic 842, Leases.

continued ...

11 Stakeholders did not always comment on all the questions in the Request for Information. Therefore, throughout this appendix, unless otherwise stated, the feedback is quantified based on the proportion of stakeholders that commented on a particular question. This is not necessarily the proportion of all stakeholders that responded to the Request for Information. However, in some sections, for greater clarity and ease of reading, readers are reminded when a quantifier refers only to those stakeholders who commented on a specific matter.

... continued

Table B1—Overall assessment of IFRS 16 *Leases*

Feedback *continued ...*

Many of the stakeholders that provided negative feedback recommended changes to the lessee accounting model in IFRS 16. However, these stakeholders were only a few of all the stakeholders that provided feedback in this Post-implementation Review. These recommended changes included:

- requiring lessees to classify leases as finance or operating leases;
- requiring lessees to provide better disclosures, instead of recognising right-of-use assets and lease liabilities;
- aligning the reporting in the statement of profit or loss with Topic 842; or
- reinstating IAS 17.

Most of the stakeholders who provided mixed overall views on IFRS 16 raised concerns that are largely similar to those from stakeholders who explicitly provided negative views. Of the stakeholders who provided mixed overall feedback, a few said the IASB should avoid any fundamental changes to IFRS 16. Some others recommended changes to the lessee accounting model, such as extending the short-term lease recognition exemption, excluding some classes of assets from the scope of IFRS 16 or requiring disclosure of two types of leases (finance and operating).

Overall, despite some concerns, only a few stakeholders expressed appetite for significant changes to the requirements in IFRS 16.

Overall benefits

Most stakeholders commented on the overall benefits of IFRS 16 (that is, improvements to the quality and comparability of financial information about leases). Of these stakeholders:

- most agreed that the benefits of IFRS 16 are largely as expected.
- some said there are some benefits of IFRS 16—for example, the recognition of leases on lessees' statements of financial position has improved the transparency of leverage and capital employed. However, those stakeholders said the presentation of related cash flows or expenses does not provide useful information.
- a few said the overall benefits are not largely as the IASB expected—for example:
  - the divergence in the presentation of the statement of profit or loss between IFRS 16 and Topic 842 creates challenges for comparability; and
  - stakeholders sometimes continue to rely on pre-IFRS 16 metrics largely due to the perception that the IFRS 16 accounting model does not accurately reflect business operations.

Most stakeholders—including most that provided positive overall feedback on IFRS 16—raised some concerns about the usefulness of information resulting from the application of judgement in determining discount rates and lease terms (see Table B2) and lessees' lease-related cash flows (see Table B3).

continued ...

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Table B1—Overall assessment of IFRS 16 *Leases*

Feedback *continued ...*

Some stakeholders, mainly standard-setters, provided examples of benefits to preparers—and, indirectly, to users—from applying IFRS 16, such as:

- a better understanding of the portfolio of contractual agreements and lease transactions, because entities needed to make an inventory of all lease agreements when making the transition to IFRS 16;
- centralisation of lease-management processes, resulting in operational efficiencies;
- improved internal processes and controls related to lease portfolios;
- greater collaboration between business and finance functions, resulting in better management decisions; and
- informed credit and investment assessments.

However, many preparers said it is unclear what the benefits of IFRS 16 are and whether the information is useful, because preparers receive few questions from users about leases. These preparers said they often reverse the effects of IFRS 16 for internal management purposes or in external market communications—for example:

- for consistency with their peers (who report EBITDA and cash flows on a pre-IFRS 16 basis); or
- for banks (who monitor debt covenants on a pre-IFRS 16 basis).

A few stakeholders said there are potential structuring opportunities in:

- identifying a contract as a lease or service;
- determining shorter lease terms; or
- including in contracts variable lease payments (that do not depend on an index or rate), instead of fixed payments, to avoid (or reduce) the recognition of lease liabilities.

Overall costs

Some stakeholders commented on the initial costs of applying IFRS 16 and generally said these costs were high.

Many stakeholders commented on the ongoing costs of applying the requirements in IFRS 16 (see Table B4). Of these stakeholders:

- some agreed that ongoing costs are largely as the IASB expected.
- many expressed concerns about higher-than-expected or significantly higher-than-expected ongoing costs. However, these stakeholders were only some of the stakeholders that provided feedback in this Post-implementation Review.
- many were unclear about whether the ongoing costs are largely as expected.

Stakeholders acknowledged that experiences vary depending on entity size, sector, complexity of lease portfolios, and systems implemented. Stakeholders said that higher-than-expected ongoing costs are prevalent among lessees with large or complex lease portfolios in industries in which leases are widely used. Stakeholders also mentioned system limitations and the costs of maintaining systems.

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Table B1—Overall assessment of IFRS 16 *Leases*

Feedback *continued ...*

Of the stakeholders who commented on the ongoing costs of applying IFRS 16:

- most identified lease liability reassessments and lease modifications as a cause of high ongoing costs;
- many identified the requirement to determine discount rates (or revised discount rates) as one of the major ongoing cost drivers;
- some commented on the high costs of disclosing information required by the Standard with what they viewed as little observed benefit for users; and
- many said the recognition exemptions are not effective in reducing the ongoing costs of applying IFRS 16.

SMEs

A few stakeholders (mainly from Asia–Oceania) commented on the challenges that SMEs—that are outside of the scope of the *IFRS for SMEs* Accounting Standard—face in applying IFRS 16 because of these SMEs' limited resources.

The IASB's response

The IASB concluded that IFRS 16 is, overall, working as intended, although it will consider improvements in some areas.

In the IASB's view, stakeholders' concerns about the usefulness of information resulting from an entity applying particular requirements in IFRS 16 (see Tables B2–B3 and B6.1–B6.6) do not provide evidence that the overall benefits of IFRS 16 are significantly lower than the IASB expected.

The IASB concluded that the major drivers of higher-than-expected ongoing costs are confined to the requirements in IFRS 16 for determining discount rates and remeasuring lease liabilities. In the IASB's view, the project to target these specific requirements in IFRS 16 is a proportionate response to the feedback, because it might be feasible to achieve cost reductions for preparers without a significant negative effect on the usefulness of information provided to users. Notwithstanding the feedback on the requirements for remeasuring lease liabilities and determining discount rates, the IASB concluded that the overall ongoing costs of applying all the requirements in IFRS 16 (and auditing and enforcing their application) are not significantly greater than was expected and the overall benefits for users justify these costs (see Table B4).

The IASB decided when developing the third edition of the *IFRS for SMEs* Accounting Standard, not to align Section 20 *Leases* of that Standard with IFRS 16. Instead, it decided to reconsider alignment with IFRS 16 in the next comprehensive review, when it will have more information about entities' experience of applying IFRS 16. The IASB will consider the feedback from this Post-implementation Review related to SMEs in the next comprehensive review of the *IFRS for SMEs* Accounting Standard.

The IASB noted that the project on targeted improvements to IFRS 16, which will focus on reducing lessee costs, will also inform its future deliberations in the next comprehensive review of the *IFRS for SMEs* Accounting Standard.

Table B2—Usefulness of information resulting from lessees applying judgement

Feedback
Most stakeholders commented on lessees applying judgement, with many generally agreeing that the usefulness of the resulting financial information is largely as the IASB expected. However, most stakeholders (including most users) said the judgement required to determine lease terms, incremental borrowing rates or which variable lease payments to include in the lease liability might lead to inconsistent application. Therefore, this judgement could reduce comparability between entities. Of those who commented: • many said the requirements in IFRS 16 generally provide a clear and sufficient basis for entities to make appropriate judgements. Nonetheless, they suggested the IASB provide additional guidance or illustrative examples to support consistent application. Some of them also suggested adding specific disclosure requirements about judgements. • some said the requirements in IFRS 16 do not provide a clear or sufficient basis for entities to make appropriate judgements. They asked the IASB to consider clarifying or simplifying requirements, providing additional guidance or enhancing disclosure requirements. A few stakeholders disagreed with the statement that the usefulness of financial information resulting from lessees applying judgement is largely as the IASB expected, because in their view the judgements made by lessees (particularly in determining lease terms and incremental borrowing rates) lead to variability in how similar leases are reported. However, a few other stakeholders, including a few users, said: • the exercise of judgement is a core principle in applying principle-based Standards and is necessary to reflect facts and circumstances and changing environments; • it would be challenging to improve financial information resulting from the application of judgement; • standard-setting cannot resolve matters arising from non-compliance with the requirements or inappropriate exercise of judgement; • the requirements allow entities to make appropriate judgements and can be applied consistently; and • additional guidance is unnecessary.

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Table B2—Usefulness of information resulting from lessees applying judgement
The IASB's response
The IASB decided to take no action on matters related to the usefulness of information resulting from lessees applying judgement. Feedback suggested that many stakeholders agreed that the requirements in IFRS 16 generally provide a clear and sufficient basis for entities to make appropriate judgements. However, some stakeholders disagreed. The IASB acknowledged these stakeholders' concerns and observed that the feedback suggests that some challenges might arise because of specific facts and circumstances. In particular, challenges might arise in complex contracts, highly structured transactions, or evolving arrangements (such as, power purchase agreements). The IASB considered requiring lessees to disclose information about the judgements they make in determining lease terms and discount rates. However, the IASB concluded that additional disclosure requirements would be unlikely to provide significant benefits to users. For example, entities with large lease portfolios might provide aggregated information only, which could limit its usefulness. The IASB also noted that IAS 1 *Presentation of Financial Statements* (or IAS 8 *Basis of Preparation of Financial Statements*, if an entity applies IFRS 18 *Presentation and Disclosure in Financial Statements*) already requires entities to disclose information about significant judgements. Therefore, the IASB questioned whether additional disclosure requirements would provide meaningful incremental information. The IASB concluded that developing more detailed guidance or additional examples would be unlikely to benefit many stakeholders. Illustrative examples related to highly specific or complex fact patterns would help relatively few stakeholders. The IASB noted that seemingly minor differences in contract terms or circumstances can lead to different accounting outcomes. Therefore, additional guidance or examples could be too fact-specific or become outdated as transaction structures evolve. The IASB also considered whether simplifying requirements would reduce entities' need to apply judgement and, hence, also reduce costs—for example, developing an approach to determining the lease term based solely on the non-cancellable period. However, in the IASB's view, such an approach would impair the usefulness of information reported. The IASB noted that it will explore simplifications of the requirements for determining discount rates and remeasuring lease liabilities in its research project to improve IFRS 16 (see Table B4). Such simplifications might reduce entities' need for judgement in these areas.

Table B3—Usefulness of information about lessees' lease-related cash flows

Feedback

Many stakeholders commented on the usefulness of information about lessees' lease-related cash flows. Of those stakeholders:

- many said, overall, the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are largely as the IASB expected; and
- many either explicitly said the improvements are lower (or significantly lower) than expected or expressed mixed views—for example, agreeing with the usefulness of some aspects of the cash-flow-related information but disagreeing with other aspects.

Stakeholders' concerns related to:

- classification and presentation of cash flows;
- fragmentation of cash flow information and its resulting complexity; and
- insufficient information about non-cash movements on initial recognition of leases, which affects comparability between lessees and entities that borrow to buy assets.

Some stakeholders raised concerns about the classification of lessees' lease-related cash flows. They said classifying lease cash flows as financing activities:

- does not reflect the operating nature of lease payments, particularly in lease-intensive industries such as airlines, retail or telecommunications. Some leases are core to operating activities and, in some stakeholders' view, do not represent a financing decision.
- is inconsistent with how entities manage and report operating cash flows, key performance measures such as free cash flow, or how external stakeholders use information about cash flows in analysing trends, making credit assessments, valuing entities or monitoring covenants. Entities sometimes report alternative performance measures, and some analysts rely on this adjusted or non-GAAP information.
- hinders comparability between entities purchasing assets and entities leasing assets.

Some stakeholders raised concerns about the overall complexity for users to understand and analyse the effect leases have on historical and future cash flows. Their comments included that:

- the classification of various lease-related cash flows in operating and financing categories—and splitting a single, fixed lease payment between principal and interest components—obscures the total cash outflow for leases, complicating users' analyses;
- the information is insufficient to allow users to link lease-related information between the statement of financial position, the statement of profit or loss and the statement of cash flows; and
- the requirement to disclose information about the total cash outflow is applied inconsistently and the disclosure sometimes lacks enough detail about the components of total cash outflows.

continued ...

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Table B3—Usefulness of information about lessees' lease-related cash flows

Feedback *continued ...*

Some users suggested the IASB require lessees to present non-cash movements at the lease commencement date. These movements would comprise an investing outflow and an offsetting financing inflow and would help users to compare lessees with entities that borrow to buy assets. A few other stakeholders raised similar concerns, saying:

- the requirements in IAS 7 *Statement of Cash Flows* for non-cash transactions are unclear or insufficient and therefore result in disclosures that do not provide useful information; and
- the IASB should consider developing requirements:
  - to distinguish a lease from an in-substance purchase of an asset; and
  - to classify and present cash flows related to in-substance purchases.

Some stakeholders suggested the IASB consider the feedback on lease-related cash flows from the Post-implementation Review in its project on the Statement of Cash Flows and Related Matters.

The IASB's response

The IASB decided to explore requiring lessees to disclose:

- the components of total lease-related cash outflow; and
- where in the statement of cash flows each component is presented.

The IASB acknowledged the challenges that users face in identifying and analysing the components of lessees' lease-related cash flows and in linking information between the primary financial statements. The IASB decided to explore these improvements to the requirements in its project on the Statement of Cash Flows and Related Matters.

The IASB decided to take no action in response to other matters raised by stakeholders. When developing IFRS 16, the IASB considered stakeholders' views about the nature of lease arrangements (that is, whether they are operating in nature or debt-like transactions). In response to the feedback in this Post-implementation Review, the IASB concluded it would not be feasible to find a solution for classification and presentation of lessees' lease-related cash flows that would reflect these differences while providing information that is comparable and understandable.

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Table B3—Usefulness of information about lessees' lease-related cash flows

The IASB's response *continued ...*

Some of the matters raised in this Post-implementation Review are similar to matters the IASB decided to explore in its project on the Statement of Cash Flows and Related Matters, including developing potential requirements:

- to specify the content and location of information an entity discloses about non-cash transactions (leases being one of the most frequently identified examples of these transactions); and
- to strengthen the link between the statement of cash flows and information presented or disclosed in other parts of the financial statements.

Therefore, the IASB will consider relevant feedback on the classification and presentation of lease-related cash flows and non-cash movements in that project.

The IASB also observed that potential amendments to requirements in IAS 7 on the classification of cash flows and on non-cash transactions might help to address some of the feedback related to distinguishing a lease from an in-substance purchase of an asset.

Table B4—Ongoing costs for lessees of applying the measurement requirements

Feedback

Many stakeholders commented on the ongoing costs for lessees of applying the measurement requirements in IFRS 16. Some of them said the ongoing costs of applying IFRS 16 are reasonable, but most of them expressed concerns about high ongoing costs.

Many of those who commented on the ongoing costs of applying IFRS 16 said they find aspects of the Standard complex to apply and not always possible to automate, in particular if judgement is required. Entities also incur high costs to train staff in various functions.

Stakeholders highlighted a few areas that, in their view, contribute most to the ongoing costs of applying IFRS 16 being higher than expected, namely:

- remeasurement of the lease liability;
- discount rates; and
- disclosure requirements.

Stakeholders also commented on the recognition exemptions and IT systems.

Remeasuring the lease liability and determining discount rates

Of the many stakeholders who commented on the ongoing costs of applying IFRS 16, most expressed concerns about the cost–benefit balance of applying the requirements for reassessments and lease modifications. Their comments included that:

- reassessments of the lease liability (or lease modifications) are triggered by events that occur frequently in some industries, such as logistics, retail and telecommunications, and affect large portfolios of contracts that might have complex terms and conditions. In some circumstances, accounting for the remeasurements requires a lot of time and resources and often involves manual work that cannot be automated easily. Feedback suggested remeasurements of lease liabilities might occur more frequently than the IASB expected and often result in small changes to amounts reported.
- the requirements are generally complex to understand and apply. For example, it might be difficult:
  - to distinguish between a reassessment of the lease liability and a lease modification; and
  - to determine the amount to recognise as an adjustment to right-of-use assets and in the statement of profit or loss if a change in the lease term and a lease modification happen at the same time.
- the cost of accounting for changes in lease payments that depend on an index or rate contributes to high ongoing costs. Stakeholders said the changes might:
  - affect multiple accounting records (such as fixed-asset ledgers and liability registers);
  - affect future depreciation amounts (and result in volatility in the statement of profit or loss if the carrying amount of a right-of-use asset is adjusted frequently); and
  - result in costs exceeding benefits because of frequent remeasurements in jurisdictions in which, for example, inflation or interest rates are volatile.

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Table B4—Ongoing costs for lessees of applying the measurement requirements

Feedback *continued ...*

Many of those who commented on the ongoing costs of applying IFRS 16 identified the requirement to determine and revise discount rates as one of the major drivers of high ongoing costs. They said that determining and periodically updating discount rates is complex, involves significant judgement, and in some cases requires use of external consultants, particularly for entities with activities in more than one jurisdiction and in jurisdictions with frequently changing interest rates.

Many of those who commented on the ongoing costs of applying IFRS 16 made suggestions related to remeasuring the lease liability and determining discount rates. Stakeholders did not question the conceptual basis for the requirements or recommend fundamental changes to IFRS 16. Instead, they suggested the IASB consider whether it might be possible to simplify some of the requirements without a significant negative effect on the usefulness of information for users.

Disclosure requirements

Some of those who commented on the ongoing costs of applying IFRS 16 said the costs of disclosing information required by IFRS 16 are high with what they view as little observed benefit for users. They suggested the IASB consider reducing or simplifying disclosure requirements by, for example:

- removing the requirements to disclose information about future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities;
- removing requirements to disclose expenses relating to short-term leases and leases of low-value assets, and expenses relating to variable lease payments not included in lease liabilities; and
- allowing entities to apply simplified disclosure requirements if lease assets or liabilities are below a specific threshold.

Recognition exemptions

Many of those who commented on the ongoing costs of applying IFRS 16 raised concerns about the recognition exemptions not being effective in reducing the ongoing costs of applying IFRS 16. Their comments included that:

- the guidance lacks clarity—for example, the amount of US$5,000 mentioned in the *Basis for Conclusions on IFRS 16* Leases and the reference to cars in paragraph B6 of IFRS 16 are unhelpful. In these stakeholders' view, this lack of clarity leads to diversity in practice because the relationship between materiality and this amount is unclear.
- the amount of US$5,000 is outdated, having not been updated since the Standard was issued 10 years ago.

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Table B4—Ongoing costs for lessees of applying the measurement requirements

Feedback *continued ...*

Costs related to IT systems

Many of those who commented on the ongoing costs of applying IFRS 16 commented on IT systems. They said large licence fees, customisation costs, ongoing maintenance and the initial absence of fully developed solutions have been drivers of both implementation and ongoing costs. If systems are not fully developed, manual workarounds increase ongoing costs.

Some stakeholders said even if entities have implemented sophisticated lease accounting software, some manual work is still required and cannot be fully automated (such as analysing contract modifications or sale and leaseback transactions). In the view of a few stakeholders, the application of IFRS 16 resulted in entities generating higher-than-expected IT costs on an ongoing basis because some requirements in IFRS 16 are complex to model in IT software (for example, the requirements to determine revised discount rates).

A few stakeholders said IT systems require costly storage space to maintain large volumes of IFRS 16-related information and to manage disclosure preparation.

The IASB's response

Remeasuring the lease liability and determining discount rates

Stakeholders identified the requirements for remeasuring lease liabilities and discount rates as major cost drivers. Consequently, the IASB decided to explore how to mitigate lessees' higher-than-expected ongoing costs of applying those measurement requirements without a significant negative effect on the usefulness of lease-related financial information. The project will explore reducing costs relating to:

- remeasurements of the lease liability, for example by:
  - reducing the frequency of remeasuring the lease liability; and
  - simplifying the requirements for reassessing the lease liability to reflect changes in variable lease payments that are linked to an index or rate; and
- discount rates, for example by requiring or permitting lessees to use:
  - a simplified discount rate instead of the incremental borrowing rate; and
  - an unchanged discount rate for some remeasurements of the lease liability.

In the IASB's view, the frequency of remeasurements of lease liabilities might reflect an increasingly volatile global landscape, marked by more frequent geopolitical conflicts and adverse economic conditions. Furthermore, the unprecedented business disruption caused by the covid-19 pandemic made applying IFRS 16 challenging for lessees worldwide, which in the IASB's view has contributed to stakeholders' perception of the ongoing costs of applying the Standard.

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Table B4—Ongoing costs for lessees of applying the measurement requirements

The IASB's response *continued ...*

The IASB observed that reducing the frequency of remeasurements, particularly if these remeasurements are not substantial, could be an effective means of reducing ongoing costs for lessees. Nonetheless, developing any such potential amendments without significantly reducing the usefulness of the lease information could be challenging. The IASB decided to assess the feasibility of providing remeasurement reliefs.

The IASB discussed and decided to explore a possible way of simplifying the requirements for variable lease payments linked to an index or rate. The approach would be to require entities to remeasure the related lease liability only if the lease obligation is remeasured for reasons other than changes to the index or rate (for example, a change in lease term or lease modification). Such a simplification would align the requirements in IFRS 16 more closely with those in Topic 842, which could benefit users by improving comparability of lease-related information between the two Standards while lowering costs for entities.

Disclosure requirements

Considering costs for entities and benefits to users, the IASB concluded that the evidence does not support removing disclosure requirements in IFRS 16.

The IASB acknowledged that lessees with large volumes of complex, unique or otherwise significant lease arrangements are likely to incur incremental costs associated with providing information about future cash flows not reflected in the measurement of lease liabilities. However, users need such information to understand significant features that are excluded from the measurement of lease liabilities. Furthermore, in the IASB's view, many lessees with leases that do not have complex or unique features will not need to provide these additional disclosures to meet the disclosure objective in IFRS 16.

Similarly, the IASB did not receive enough new evidence to support removing the requirements to disclose expenses relating to short-term leases, leases of low-value assets and variable lease payments not included in lease liabilities. The IASB observed that disclosure of this information is useful because it helps users to reconcile lease-related cash flows with lease-related expenses and, thus, forecast future cash outflows.

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Table B4—Ongoing costs for lessees of applying the measurement requirements

The IASB's response *continued ...*

Recognition exemptions

The IASB decided to take no action regarding the recognition exemptions in IFRS 16.

The Basis for Conclusions on IFRS 16 explains the IASB's rationale in developing the recognition exemptions; it does not contain authoritative guidance or thresholds. Therefore, amending or removing explanations in the Basis for Conclusions would be unlikely to resolve concerns raised.

The IASB noted that guidance and explanations about the recognition exemptions are already available. For example, application guidance in paragraphs B3–B8 of IFRS 16 and the Illustrative Examples on IFRS 16 *Leases* include examples of low-value assets and examples of assets that typically are not of low value. The Basis for Conclusions on IFRS 16 explains that the IASB decided to include the exemptions to reduce costs associated with leases that could be high in volume but low in value. It also explains the relationship between materiality and the low-value asset exemption.

An IASB webcast also explains the requirements in IFRS 16 on the recognition exemptions and how they relate to the overarching materiality principle. The IASB concluded that it would not be feasible to provide more-detailed guidance, explanations or other supporting material on the recognition exemptions beyond what is already available without fundamentally reconsidering the scope of the Standard. Stakeholders did not suggest such a fundamental reconsideration.

Costs related to IT systems

The IASB acknowledged stakeholders' concerns about costs related to IT systems. The IASB observed that when it issued IFRS 16, it had assumed that an entity with large volumes of leases or complex leases would have updated its IT systems and processes to provide the information required by the Standard. However, feedback suggested that not all entities have implemented IT solutions to account for leases (or most aspects of lease accounting). Therefore, entities' need for manual work contributes to high ongoing costs of applying IFRS 16. Some requirements that stakeholders said cannot be easily or fully automated will be considered in the research project exploring how to mitigate the ongoing costs of applying the measurement requirements—for example, remeasuring lease liabilities and determining discount rates.

Table B5—Potential improvements to future transition requirements

Feedback

Of the many stakeholders who commented on potential improvements to future transition requirements:

- most agreed that the transition requirements in IFRS 16 achieved an appropriate balance between reducing costs for preparers and providing useful information to users; and
- some said allowing multiple transition options created comparability issues.

Many users said despite most entities applying the modified retrospective approach—which is not a method preferred by users—they had enough information to understand the changes to entities' financial performance, financial position and cash flows resulting from the implementation of IFRS 16.

Many stakeholders provided recommendations for the IASB to consider in developing transition requirements in future Standards. Most of these stakeholders commented on having more than one transition option and most of them encouraged the IASB to continue using this transition approach in future standard-setting. They said the approach provides flexibility and helps entities to manage costs and operational challenges without significantly compromising transparency.

Some other stakeholders expressed concerns. Their recommendations varied and included:

- considering carefully, on a case-by-case basis, whether to provide more than one transition option, taking into account the scope and nature of a Standard and the related cost–benefit trade-offs;
- reducing the number of transition options in future Standards to avoid complexity and improve comparability between entities and periods;
- making full retrospective application the default transition approach for future Standards, with modified retrospective application permitted in exceptional circumstances only; and
- making exemptions and practical expedients available regardless of the chosen transition approach, to avoid penalising entities that choose full retrospective application.

A few stakeholders also suggested that any grandfathering provisions—for example, those that permit entities not to reassess contracts—be introduced with particular care, given their potentially long-lasting effects.

Some stakeholders suggested that, in future standard-setting, the IASB provide more comprehensive transition support to help to resolve implementation challenges and reduce implementation costs. Stakeholders' suggestions included that the IASB provide:

- enhanced guidance on the transition requirements, including:
  - illustrative disclosure examples or standardised disclosure templates; and
  - sector-specific guidance; and
- additional guidance on implementing a new Standard, including illustrative examples and frequently asked questions.

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Table B5—Potential improvements to future transition requirements
Feedback *continued ...*
Some stakeholders suggested ways to better support technology readiness for future Standards. Suggestions included that the IASB: • allow a longer implementation period for IT-intensive Standards; • engage early with IT vendors; and • field-test new requirements to identify practical challenges.
The IASB's response
The IASB noted stakeholders' suggestions for future standard-setting projects. Feedback suggested that most stakeholders welcomed the transition options and practical reliefs provided by IFRS 16. The IASB recognises that optionality can reduce comparability. Therefore, it remains cautious when developing transition requirements, seeking to strike an appropriate balance between reducing implementation costs for entities and providing useful information to users. Feedback also showed that disclosures play an important role in transition periods and can help to mitigate the loss of information arising from modified transition approaches and practical reliefs.

Table B6.1—Applying IFRS 16 with IFRS 9 to rent concessions

Feedback

Many stakeholders commented on applying IFRS 16 with IFRS 9 *Financial Instruments* 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). Most of them said the relationship between the requirements in IFRS 16 and IFRS 9 is unclear for situations in which a lessee accounts for such a rent concession and suggested that the IASB clarify this relationship.

Many stakeholders said they observed diversity in practice resulting from the lack of clarity. Some entities account for rent concessions as a lease modification and some as an extinguishment of the lease liability.

Stakeholders provided mixed views about the prevalence of these rent concessions. However, most suggested the IASB provide clarity on accounting for rent concessions because, even if such concessions are uncommon now, they might become common in the future. A few stakeholders said the clarification would reduce the effort required in discussions with auditors and, hence, would reduce ongoing costs.

Only a few users commented on the application of IFRS 16 with IFRS 9 to rent concessions.

The IASB's response

The IASB decided:

- to clarify how a lessee applies the requirements in IFRS 16 and 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); and
- to undertake this narrow-scope project together with the research project on cost-reduction measures, which responds to feedback on the ongoing costs of applying the measurement requirements in IFRS 16 (see Table B4).

In reaching its decision, the IASB considered the Committee's previous recommendation to undertake a narrow-scope project to address a lessee's accounting for this type of rent concession. Feedback in this Post-implementation Review shows that the matter is still important to stakeholders—especially in times of economic uncertainty, when rent concessions might be granted to lessees more often.

The IASB observed that stakeholders have varying views on what the potential solution should be and each has its merits and challenges.

Table B6.2—Applying IFRS 16 with IFRS 15 in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale

Feedback

Of the many stakeholders who commented on applying IFRS 16 with IFRS 15 *Revenue from Contracts with Customers* in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale:

- many said the assessment is often difficult, mainly because the requirements in IFRS 15 were not intended to be applied to a sale and leaseback transaction and the lack of specific requirements gives rise to application questions; and
- some said they have not encountered difficulties in the assessment, noting that sale and leaseback transactions are infrequent in their jurisdictions or sectors, or that the Standards provide sufficient requirements.

Many of those who commented reported diversity in practice or difficulties in how a seller-lessee makes judgements in assessing the transfer of control in sale and leaseback transactions in specific circumstances. These circumstances include:

- situations that would normally lead to a lessor classifying a lease as a finance lease;
- arrangements that involve constructing the underlying asset; and
- situations in which the seller-lessee sells an asset (for example, a building) and leases back a part of the asset only (for example, a single floor).

The IASB's response

The IASB decided to take no action in response to feedback on the effects of applying IFRS 16 with IFRS 15 in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

Feedback suggested the matter is not widespread and there is little evidence that it significantly affects users' analyses.

The IASB observed that stakeholders' concerns focus on specific scenarios. Additional guidance for highly structured and non-routine transactions, or illustrative examples for specific complex fact patterns, would be unlikely to help many stakeholders. Seemingly minor differences in the terms of a sale and leaseback transaction or in an entity's circumstances can result in different accounting outcomes.

Table B6.3—Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction

Feedback

Of the many stakeholders who commented on applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction (the matter):

- most said recognising a partial gain or loss in a sale and leaseback transaction provides useful information.
- some disagreed with recognising only a part of the gain or loss in such a transaction. They suggested the IASB consider adopting the accounting approach in Topic 842 (which requires full recognition of the gain or loss).

Many of those who commented on the matter said calculations can be complex or the requirements can be unclear; therefore, applying the requirements can be costly.

Some of those who agreed with the partial gain or loss recognition requirements suggested the IASB reduce costs and improve the usefulness of information by:

- providing specific guidance or examples on calculating partial gains or losses;
- reconsidering the inconsistency in accounting for variable lease payments (that do not depend on an index or rate) in leases and leasebacks; and
- allowing entities not to apply the sale and leaseback requirements if the lease term in the leaseback is short.

Some users commented on sale and leaseback transactions. Most of them said these transactions are not prevalent or are of limited relevance for their analyses.

The IASB's response

The IASB decided to take no action in response to feedback on the effects of applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction.

Feedback from most stakeholders who commented on the matter, including some users, showed agreement—or no disagreement—with the partial gain or loss recognition model. Therefore, the IASB concluded that the evidence was insufficient to support reconsidering the decisions it made in developing IFRS 16.

The IASB acknowledged that calculating the partial gain or loss can be complex and therefore costly. However, it could see no feasible solution that could significantly reduce the cost and complexity of the requirements without a fundamental change to the sale and leaseback model. The IASB also observed that sale and leaseback transactions are not routine transactions. Therefore, these transactions are not a major contributor to the higher-than-expected ongoing costs for lessees of applying the measurement requirements in IFRS 16.

Table B6.4—Applying IFRS 16 with IFRS 10 to corporate wrappers

Feedback

Some stakeholders suggested the IASB clarify accounting for the sale of a subsidiary and the leaseback of one of its assets (or its only asset). These stakeholders said it was unclear:

- whether an entity applies IFRS 10 *Consolidated Financial Statements* or IFRS 15 to determine whether it has transferred control of the asset and, thus, derecognises it; and
- whether an entity applies sale and leaseback accounting (recognising a 'partial gain' on the sale of the asset) or applies IFRS 10 (recognising the 'full gain' on the sale of the subsidiary).

A few stakeholders noted this matter was included in the IASB's maintenance-project pipeline. Most of them suggested the IASB undertake a broader project to clarify the relationship between IFRS 10 and other Standards in accounting for corporate wrappers in general.

The IASB's response

The IASB decided:

- to consider in its next agenda consultation how to prioritise exploring 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 together with other corporate-wrapper matters. The IASB concluded that considering the relationship between *all* relevant Standards for corporate-wrapper matters would be more cost-effective than focusing only on the relationships between particular Standards. Nonetheless, in the Post-implementation Review of IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* and in the Post-implementation Review of IFRS 15, the IASB concluded that developing a comprehensive solution for corporate wrappers would be complex and would require significant resources.
- to remove from the maintenance-project pipeline the project on Sale and Leaseback of an Asset in a Single-asset Entity. The IASB noted that the project was added to the pipeline following the Committee's recommendation that the IASB undertake a narrow-scope project to address the accounting for the sale and leaseback of an asset in a single-asset entity and other similar transactions. However, the IASB concluded that this topic was only one instance of an issue that would need to be addressed more holistically.

Table B6.5—Applying IFRS 16 with IAS 38
Feedback
Some stakeholders said it is unclear whether some arrangements and digital infrastructure are within the scope of IFRS 16 or IAS 38 *Intangible Assets* or are a service contract within the scope of another Standard. Such arrangements and digital infrastructure include: • '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; and • indefeasible rights of use in the telecommunications industry.
The IASB's response
The IASB decided to take no action in response to feedback on the effects of applying IFRS 16 with IAS 38 to identify leases. In April 2024 the IASB started a project on Intangible Assets. In that project, the IASB is using test cases of newer types of intangible assets to help it in considering whether to update some aspects of the definition of an intangible asset, associated guidance and the recognition criteria. Cloud computing arrangements is one of the test cases the IASB is discussing.

Table B6.6—Other matters relevant to assessing the effects of IFRS 16

Feedback

Lessor accounting

Some stakeholders commented on lessor accounting. Most of these stakeholders suggested the IASB provide targeted clarifications, additional application guidance or illustrative examples intended to reduce diversity in practice. The matters raised mainly relate to lessors' subsequent measurement of leases, the asymmetry between the lessee and lessor accounting model, and whether to analogise to lessee accounting requirements if no specific lessor requirements exist. However, with the exception of a few, stakeholders did not ask the IASB to comprehensively reconsider the lessor accounting model in IFRS 16 and did not suggest the model is flawed.

Identifying a lease

Some stakeholders commented on challenges in identifying a lease and determining whether:

- the customer, the supplier or a regulator, if applicable, directs the use of an asset. In particular, stakeholders mentioned power purchase agreements.
- a supplier's right to substitute an asset is substantive.

The IASB's response

The IASB decided to take no action on other matters identified in this Post-implementation Review, including on lessor accounting and identifying a lease.

Lessor accounting

When developing IFRS 16, the IASB concluded that the costs associated with making changes to lessor accounting would not be outweighed by the benefits of doing so because most stakeholders (including users) were of the view that lessor accounting in IAS 17 was not 'broken'. Consequently, the IASB decided to substantially carry forward to IFRS 16 the lessor accounting model in IAS 17. (See paragraph BC58 of the Basis for Conclusions on IFRS 16.) In the IASB's view, the feedback in this Post-implementation Review on lessor accounting does not challenge the IASB's rationale when it developed IFRS 16.

The IASB acknowledged that feedback suggested additional requirements for lessors might be helpful in some circumstances. However, these circumstances do not appear to be widespread.

The IASB noted that it considered concerns about the asymmetrical accounting for lessees and lessors when developing IFRS 16 (see paragraph BC61 of the Basis for Conclusions on IFRS 16).

continued ...

... continued

Table B6.6— Other matters relevant to the assessment of the effects of IFRS 16

The IASB's response *continued ...*

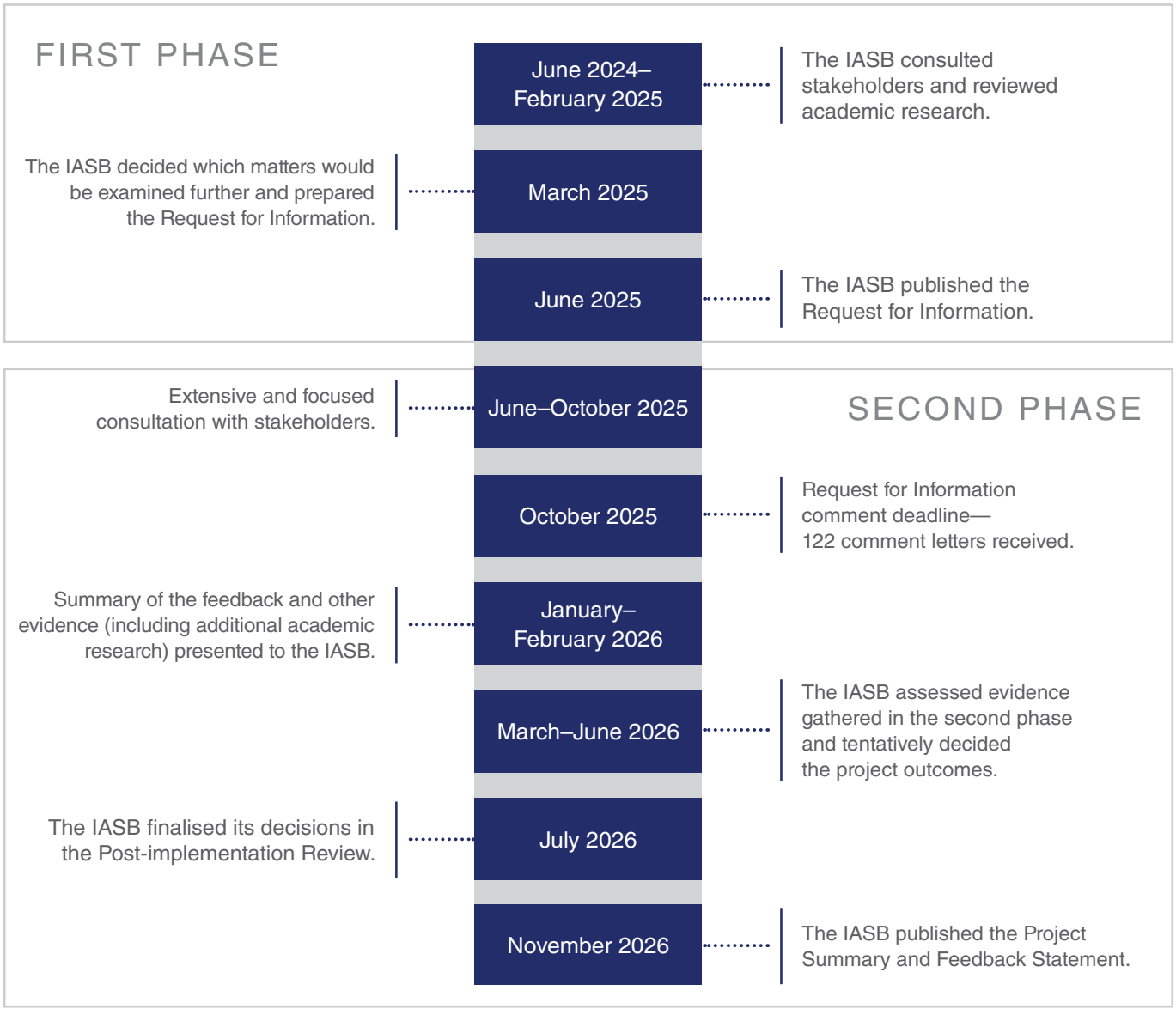
Identifying a lease

The IASB observed that concerns about identifying a lease relate mainly to unique or complex contracts. In the IASB's view, the nature of stakeholders' comments suggests that these challenges arise because of specific facts and circumstances and are not pervasive. The IASB has not identified fundamental questions about the definition of a lease or widespread concerns about the overall suitability of the requirements.

IFRS 16 retained the definition of a lease in IAS 17 but expanded the application guidance and illustrative examples for more complex arrangements. Furthermore, since IFRS 16 was issued, the Committee has published five agenda decisions that explain how an entity applies the requirements in IFRS 16 to identify a lease.

In the IASB's view, the principles and requirements in IFRS 16 provide an adequate and sufficient basis for entities to identify leases. Further standard-setting activity would be unlikely to eliminate entities' need for judgement in assessing unique or complex contracts.

Appendix C—Timeline of the Post-implementation Review



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