AASB Invitation to Comment

ITC 55
June 2025

Post-implementation Review of AASB 16 *Leases*

Comments to the AASB by 5 September 2025

Australian Government

Australian Accounting Standards Board

How to Comment on this AASB Invitation to Comment

The AASB is seeking comment on this Invitation to Comment by 5 September 2025. This will enable the AASB to consider Australian stakeholders' comments in the process of formulating its own comments to the IASB on the Request for Information (RFI). Comments on the RFI are due to the IASB by 15 October 2025.

Formal Submissions

Submissions should be lodged online via the "Current Projects – Open for Comment" page of the AASB website as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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AASB REQUEST FOR COMMENTS

The Australian Accounting Standards Board's (AASB's) policy is to incorporate IFRS Accounting Standards into Australian Accounting Standards applicable to for-profit and not-for-profit (NFP) entities in the private sector and the public sector. In addition, some Australian Accounting Standards also include specific requirements tailored for NFP and public sector entities.

The IASB and the AASB both perform a post-implementation review (PIR) of a new Accounting Standard or a major amendment to an existing Standard. The IASB is carrying out a PIR of IFRS 16 *Leases*, and the AASB is carrying out a PIR of AASB 16 *Leases* at the same time.

The overall objective of a PIR is to assess whether the effects of applying the new requirements are as intended. A PIR is not a standard-setting project and does not automatically lead to standard-setting. It is also not intended to lead to the resolution of every application question.

The IASB's PIR process

During Phase 1 of the IASB's PIR process, the IASB identifies matters to be examined through public consultation and issues a Request for Information (RFI). The IASB's RFI provides more information about a PIR and the PIR process.

The AASB reissues the IASB's RFI in Australia as an Invitation to Comment, and contributes to the IASB's PIR process when the issues are considered significant to Australian entities.

The AASB's domestic PIR process

Because the IASB sets IFRS Accounting Standards for for-profit private sector entities, an IASB RFI does not specifically consider matters affecting certain other entities, such as those operating in the NFP private, NFP public and for-profit public sectors. However, the AASB notes that some of the matters in an IASB RFI may be relevant to these sectors.

The AASB also acknowledges that entities in the NFP and public sectors might have feedback on sector-specific application issues. This feedback is important to the AASB, even though it might not be relevant to the IASB.

Structure of this Invitation to Comment

To align the IASB and the AASB PIRs, the AASB is seeking stakeholder feedback on applying AASB 16 *Leases*, which incorporates IFRS 16 *Leases*, in Australia.

This ITC includes three sections and is structured as follows:

Section	Summary	To whom is this section relevant?
Section 1: AASB general matters for comment	This section includes three general questions relevant to all entities applying AASB 16.	✓ All stakeholders
Section 2: NFP and public sector topics for comment	This section seeks feedback from NFP and public sector stakeholders on sector-specific application issues identified by the AASB during the planning phase of this PIR.	✓ NFP private and public sector stakeholders ✓ For-profit public sector stakeholders
Section 3: IASB Request for Information	This section contains the IASB's RFI on IFRS 16 in full. Stakeholders providing feedback on this section can address the IASB's questions with reference to AASB 16.	✓ For-profit private sector stakeholders ✓ Parts of Section 3 are relevant to NFP and public sector stakeholders

This Invitation to Comment is seeking feedback only on applying AASB 16. The AASB is not seeking feedback on the lease disclosure requirements in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* at this time. Stakeholders will be able to provide feedback on the AASB 1060 disclosure requirements during the PIR of AASB 1060. A separate Invitation to Comment on this topic is expected to be issued in Q3 2025.

SECTION 1: AASB GENERAL MATTERS FOR COMMENT

In addition to the specific matters for comment on each topic in Section 2 and Section 3, the AASB would also particularly value comments on the following:

1. Are there any regulatory issues or other issues arising in the Australian environment that adversely affect the application of AASB 16 *Leases*?

2. Does the application of the requirements in AASB 16 result in major auditing or assurance challenges?

3. Are the requirements in the best interests of the Australian economy?

SECTION 2: NFP AND PUBLIC SECTOR TOPICS FOR COMMENT

Introduction

AASB 16 *Leases* was issued in 2016 following the issue of IFRS 16 *Leases* by the IASB. It was effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

AASB 16 introduced a single accounting model for lessees that requires a lessee to:

(a) initially measure right-of-use (ROU) assets at cost and subsequently measure them by applying a cost model (or other measurement model permitted under the Australian Accounting Standard applicable to the underlying asset), and to recognise these assets and corresponding lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value;

(b) initially measure the lease liability at the present value of the lease payments not paid at the commencement date, and subsequently adjust the lease liability for interest accretion and lease payments. The carrying amount of the lease liability is also adjusted as necessary to reflect any changes in lease payments, lease modifications and revised in-substance fixed lease payments;

(c) recognise depreciation of ROU assets separately from interest on lease liabilities in the income statement; and

(d) classify cash payments for the principal portion of lease liabilities within financing activities and the interest portion of lease liabilities in accordance with the requirements in AASB 107 *Statement of Cash Flows*.

The lessor model in AASB 16 follows a dual accounting approach for lease accounting. The accounting is based on whether the significant risks and rewards incidental to ownership of an underlying asset are transferred to the lessee, in which case the lease is classified as a finance lease; otherwise, it is classified as an operating lease.

AASB 16 includes specific requirements for NFP and public sector entities. Key requirements include:

(a) scope exclusions – AASB 16 does not apply to service concession assets (AASB 1059 *Service Concession Arrangements: Grantors*). However, public sector licensors must apply AASB 16 to licences that are in substance leases, except for intellectual property, which falls under AASB 15 *Revenue from Contracts with Customers* (paragraphs Aus3.1–Aus3.2 of AASB 16);

(b) measurement of ROU assets – NFP lessees may elect to measure ROU assets at fair value instead of cost for leases with significantly below-market terms, where such leases are intended to support the entity's objectives (paragraph Aus25.1). These assets can be treated as a separate class of assets, even if they have similar characteristics to other ROU assets (paragraph Aus25.2);[1]

1 For ease of reference in this Invitation to Comment, leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives are referred to as "concessionary leases".

(c) revaluation option for public sector entities – NFP public sector entities can choose to measure ROU assets at cost or fair value, if they apply the revaluation model under AASB 116 *Property, Plant and Equipment* to the related class of property, plant and equipment (paragraph Aus35.1); and

(d) additional disclosure requirements – if an NFP entity elects to measure concessionary leases at cost, additional disclosures are required, including:

    (i) the entity's reliance on concessionary leases;

    (ii) the nature and terms of the leases, including payments, lease term, underlying asset descriptions and usage restrictions (paragraph Aus59.1).

    The disclosures are required individually for material leases and aggregated for other leases involving ROU assets of a similar nature, ensuring that the information disclosed remains clear and relevant (paragraph Aus59.2).

Main findings from the planning phase

The planning phase establishes the scope of matters to be considered by the PIR. These matters are identified through a review of project documentation published when AASB 16 was issued, a review of academic research and other literature, targeted outreach with selected stakeholders and consideration of matters raised by stakeholders during the implementation of the pronouncement and subsequently.

In undertaking the planning phase of this PIR, the AASB understands that some NFP and public sector stakeholders are experiencing challenges applying AASB 16. The main findings from the planning phase of this PIR have been summarised in this section, which is arranged under a number of topics.

NFP and public sector topics

- Topic 1: Application of AASB 16 by NFP and public sector entities
- Topic 2: Determining the lease term
- Topic 3: Lease modifications
- Topic 4: Measurement of lease liabilities – determining an incremental borrowing rate
- Topic 5: NFP public sector concessionary leases
- Topic 6: Sale and leaseback arrangements
- Topic 7: Other matters

Topic 1: Application of AASB 16 by NFP and public sector entities

Background

When the IASB issued IFRS 16, its view was that it would result in a more faithful representation of an entity's assets and liabilities and greater transparency about its financial leverage and capital employed. IFRS 16 was expected to:

(a) reduce the need:

  (i) for investors and analysts to adjust amounts reported on a lessee's statement of financial position and income statement; and

  (ii) for companies to provide 'non-GAAP' information about leases.

  IFRS 16 was expected to provide a richer set of information than was available applying the predecessor Standard (IAS 17 *Leases*), to give further insight into an entity's operations;

(b) improve comparability between entities that lease assets and entities that borrow to buy assets; and

(c) create a more level playing field in providing transparent information about leases to all market participants. For example, an entity will more accurately measure assets and liabilities arising from leases by applying IFRS 16, compared to the estimates made by more sophisticated investors and analysts when entities applied IAS 17.

The IASB acknowledged that implementation costs would be incurred. However, their significance would depend on an entity's lease portfolio, the terms and conditions of its leases, and the systems it already had in place to account for leases. The IASB expected the ongoing costs of applying IFRS 16 to be only marginally higher than those incurred when applying IAS 17.[2]

Feedback – what we have heard so far

Feedback received from stakeholders suggested that the costs associated with applying AASB 16 in the NFP and public sectors may outweigh the perceived benefits. Key concerns raised by stakeholders include:

(a) in the NFP public sector, the intended benefits of improving comparability of the financial statements between entities that lease assets and entities that borrow to buy assets might not be applicable, as NFP public sector entities typically do not borrow to buy assets;

(b) the relevance and usefulness of the information provided by AASB 16. For example:

2 IFRS 16 *Leases* Effects Analysis

(i) some NFP public sector stakeholders consider that there is a disconnect between government reporting and statutory reporting, resulting in entities making AASB 16 adjustments for statutory reporting purposes;

(ii) financial statement users of NFP and public sector entity financial statements are more interested in service delivery and resource allocation than lease financing;

(iii) internal users in the NFP private sector reportedly struggle to understand the impact of lease capitalisation; and

(iv) the accounting outcomes of AASB 16, like front-loaded expenses, are seen as confusing and potentially distorting reported financial results;

(c) both NFP and public sector entities reported relatively high ongoing costs associated with applying AASB 16:

(i) less sophisticated and less well-resourced entities often outsource lease calculations, which can be costly for entities with a significant number of leases;

(ii) similarly, many consider that lease accounting by NFP and public sector entities is resource-intensive. This is because many internal 'resources' are often required to review contracts to determine whether a lease exists and, if so, to determine lease calculations. This is particularly relevant for entities with manual processes or outdated systems, or entities with many leases;

(iii) high costs may lead to differences in how entities apply AASB 16; and

(iv) AASB 16 is often considered overly complex for the types of leases common in the NFP and public sectors, which often have non-commercial terms.

Question for respondents

1. In respect of NFP and public sector entities:

(a) are the ongoing costs of applying AASB 16 and auditing and regulating its application significantly greater than expected?

(b) are the benefits to users significantly lower than expected?

(c) overall, do you have any comments about whether AASB 16 results in financial statements that are more useful than financial statements prepared under the previous Standard AASB 117 *Leases*?

Please explain the reasons for your views on the above matters. Examples to illustrate your responses are also most helpful.

Topic 2: Determining the lease term

Background

AASB 16 requires lessees to determine the lease term when recognising a lease. Paragraph 18 defines the lease term as the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party, with no more than an insignificant penalty.

This definition highlights the importance of considering not only the legally binding period of the lease but also the likelihood of exercising extension or termination options. The lease term is a crucial input in measuring the ROU asset and the lease liability recognised on the lessee's statement of financial position.

Feedback – what we have heard so far

NFP and public sector stakeholders expressed concerns about determining the lease term. In particular, determining what is considered an insignificant penalty and assessing whether there is reasonable certainty that an entity will exercise a lease extension option were raised as areas of concern.

Insignificant penalty

Stakeholders, particularly in the public sector, provided feedback that lease agreements often contain "holdover" clauses, allowing continued use of the leased asset after the contractual period. Paragraph B34 of AASB 16 states a lease is no longer enforceable when both parties have the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Feedback indicated that determining what constitutes an "insignificant penalty" in practice can be difficult, as AASB 16 seems to focus primarily on financial penalties, potentially overlooking non-financial penalties that may be particularly relevant to NFP entities (e.g. reputational damage and service disruption).

Reasonable certainty over lease extension options

Stakeholders provided feedback that assessing whether an NFP or public sector entity is reasonably certain to exercise an option to extend a lease can be challenging where there is uncertainty about the entity's ongoing funding, and the availability of ongoing funding affects the entity's ability to exercise a lease extension option.

For example, Entity A enters into a 24-month lease with an option to extend the lease for a further 24 months. However, Entity A's ability to exercise a lease extension option at the end of the initial lease term depends on whether it receives ongoing funding from Party B or another party. At the commencement of the lease, there is no certainty that Entity A will receive ongoing funding from Party B. Given the importance of Entity's A services, another party may provide ongoing funding to Entity A if it doesn't receive the funding from Party B. However, at the commencement of the lease, there is no certainty whether this will occur.

Questions for respondents

Regarding determining the lease term, do you have any comments about:

2. the application of the requirements in practice by NFP and public sector entities?
3. whether differences in application exist in practice in the NFP and public sector?
4. whether the current requirements and guidance in AASB 16 for determining the lease term are sufficient for NFP and public sector entities?

If so, please provide your views on those requirements, relevant circumstances and their significance, and areas where you believe changes or additional guidance are needed. Examples to illustrate your responses are also most helpful.

Topic 3: Lease modifications

Background

A lease modification is defined in AASB 16 as a change in the scope of a lease or the consideration for a lease that was not part of the original terms and conditions of the lease (Appendix A). AASB 16 differentiates between modifications that, in substance, create a new lease separate from the original lease and those that represent a change to the existing lease's scope or consideration. The accounting treatment for these two types of modifications differs significantly.

Paragraph 44 of AASB 16 specifies that a lease modification is accounted for as a separate lease if both of the following conditions are met:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount equivalent to the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Paragraphs 45 and 46 of AASB 16 outline the accounting treatment for lease modifications that do not qualify as separate leases.

Feedback– what we have heard so far

Stakeholders provided feedback that NFP and public sector entities can sometimes find accounting for lease modifications challenging.

For example, when a lease is modified, NFP public sector stakeholders noted that it can be difficult to determine whether a modification results in a separate lease. This is because leases in the NFP public sector may not reflect commercial substance, which can make it difficult to determine whether the consideration (i.e. lease payments) increases by an amount that is commensurate with the stand-alone price for the increase in scope (i.e. additional leased assets) as required by paragraph 44 of the Standard.

Some stakeholders also provided feedback about the complexities of accounting for lease modifications, observing that NFP and public sector entities find it difficult to correctly apply the lease modification accounting requirements because there is no guidance to support them.

Questions for respondents

Regarding the accounting for lease modifications, do you have any comments about:

5. the application of the requirements in practice by NFP and public sector entities?

6. whether differences in application exist in practice in the NFP and public sector?

7. whether the current requirements and guidance in AASB 16 for lease modification are sufficient for NFP and public sector entities?

If so, please provide your views on those requirements, relevant circumstances and their significance, and areas where you believe changes or additional guidance are needed. Examples to illustrate your responses are also most helpful.

Topic 4: Measurement of lease liabilities – determining an incremental borrowing rate

Background

At the commencement of a lease, a lessee measures the lease liability at the present value of the lease payments discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate, which is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment (paragraph 26 of AASB 16).

After initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest expense on the liability and decreasing the carrying amount for lease payments made. Also, in some cases, the carrying amount of the lease liability may require remeasurement, for example to reflect any reassessment of the lease term, lease modifications or revised in-substance fixed lease payments (paragraph 36).

Feedback – what we have heard so far

Feedback from stakeholders suggests that some NFP private sector entities face challenges measuring their lease liabilities because they have difficulty determining their incremental borrowing rate. This is because they often lack access to external borrowings and have no observable benchmark for determining an incremental borrowing rate.

Questions for respondents

Regarding the measurement of lease liabilities and determining an incremental borrowing rate, do you have any comments about:

8. the application of the requirements in practice by NFP private sector entities, including how these entities are currently determining the incremental borrowing rate in practice?

9. whether differences in application exist in practice in the NFP private sector?

10. whether the current requirements and guidance in AASB 16 for the measurement of lease liabilities are sufficient for NFP private sector entities?

If so, please provide your views on those requirements, relevant circumstances and their significance, and areas where you believe changes or additional guidance are needed. Examples to illustrate your responses are also most helpful.

Topic 5: NFP public sector concessionary leases

Background

AASB 16 paragraph Aus25.1 provides an accounting policy choice for NFP entities to measure initially a class of ROU assets arising under concessionary leases at either cost or fair value. This choice was introduced to alleviate any burden for such an entity in assessing the fair value of these concessionary ROU assets.

When an NFP entity elects to measure a class or classes of concessionary ROU assets at initial recognition at cost, additional qualitative and quantitative disclosures are required by paragraphs Aus59.1 and Aus59.2.

The Basis for Conclusions accompanying AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* (which is published with AASB 16) clarified that this accounting policy choice is ongoing for private sector NFP entities. In paragraph BC25 to AASB 2022-3, the AASB noted that it would reconsider this accounting policy choice for public sector NFP entities following the completion of its Fair Value Measurement project and the concessionary leases component of the IPSASB's Leases project. However, despite finalising the amendments to AASB 13 *Fair Value Measurement* for public sector NFP entities, the AASB has not yet reconsidered the accounting policy choice.

Feedback – what we have heard so far

Stakeholders have raised the following key points regarding concessionary leases in the NFP public sector:

(a) there is concern that the option to measure concessionary ROU assets at either cost or fair value is only a temporary measure for NFP public sector entities, unlike the ongoing choice available to NFP private sector entities;

(b) the absence of a clear statement within AASB 16 confirming the ongoing nature of the accounting policy choice for the NFP public sector, coupled with the commentary in the Basis for Conclusions, creates confusion and uncertainty;

(c) most entities appear to favour the cost approach for concessionary ROU assets, presumably due to the potential complexities and costs associated with fair value measurement; and

(d) the current fair value option is generally considered to work well in practice, with any material effects primarily relating to disclosures.

Questions for respondents

Regarding NFP public sector concessionary leases, do you have any comments about:

11. whether there are any reasons to remove the current accounting policy choice to measure initially concessionary ROU assets at either cost or fair value?

12. whether the temporary accounting policy choice for NFP public sector entities should be made permanent?

13. whether the disclosures prepared in accordance with paragraphs Aus59.1 and Aus59.2 of AASB 16 are sufficient in providing useful information to financial statement users regarding concessionary leases when the ROU assets are measured at cost?

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

Topic 6: Sale and leaseback arrangements

Background

Paragraph 98 of AASB 16 addresses transactions that involve an entity (the seller-lessee) transferring an asset to another entity and then leasing the same asset back from that entity (the buyer-lessor). The performance obligation criteria in AASB 15 *Revenue from Contracts with Customers* are applied to determine whether the transfer of the asset between the entities is a sale (paragraph 99).

If a transaction is a sale, the seller-lessee recognises an ROU asset proportionate to their retained interest in the asset and a gain or loss only on the transferred rights. The buyer-lessor accounts for the purchase of the asset and for the lease under lessor accounting. Any non-market terms in a sale and leaseback transaction are adjusted to fair value (paragraphs 100–102A).

If a transaction is not a sale, the seller-lessee continues to recognise the asset and recognises a financial liability for the transfer proceeds, and the buyer-lessor recognises a financial asset. The financial assets and liabilities are accounted for under AASB 9 *Financial Instruments* (paragraph 103).

Feedback – what we have heard so far

Stakeholder feedback indicates that sale and leaseback transactions are common in the public sector and that accounting for these transactions can be particularly challenging when an asset is sold or transferred for nominal consideration.

Questions for respondents

Regarding sale and leaseback arrangements, do you have any comments about:

14. the application of the requirements in practice by public sector entities?

15. whether differences in application exist in practice in the public sector?

16. whether the current requirements and guidance in AASB 16 for sale and leaseback arrangements are sufficient for public sector entities?

If so, please provide your views on those requirements, relevant circumstances and their significance, and areas where you believe changes or additional guidance are needed. Examples to illustrate your responses are also most helpful.

Topic 7: Other matters

Topics 1–6 focus on matters identified by stakeholders during the planning phase of this PIR.

Topic 7 encourages NFP and public sector stakeholders to provide feedback on other matters that they consider significant to the application of AASB 16.

Question for respondents

17. Are there any other NFP and public sector matters that should be brought to the attention of the AASB as it undertakes a PIR of AASB 16?

If so, please provide your views on those matters, relevant circumstances and their significance, and areas where you believe changes or additional guidance are needed. Examples to illustrate your responses are also most helpful.

SECTION 3: IASB REQUEST FOR INFORMATION

The IASB has issued Request for Information *Post-implementation Review of IFRS 16* Leases seeking feedback from stakeholders to assess whether the effects of applying the Standard for users of financial statements, preparers, auditors and regulators are those the IASB intended when it developed the requirements.

Specifically, the Request for Information is seeking feedback about:

- whether IFRS 16 is meeting its objectives;
- whether the benefits to users and the costs of applying IFRS 16 and auditing and enforcing its application are not significantly different from what the IASB expected; and
- specific areas of IFRS 16, such as:
    - lease term requirements;
    - variable lease payment requirements;
    - discount rate requirements;
    - requirements relating to the remeasurement of lease liabilities;
    - information about lease-related cash flows;
    - transition requirements;
    - lease modification requirements; and
    - sale and leaseback requirements.

Comments on the Request for Information are due to the IASB by 15 October 2025.

If Australian stakeholders respond directly to the IASB's Request for Information, the AASB requests those stakeholders to also send a copy of their response to the AASB.

IFRS® Accounting

June 2025

Request for Information

IFRS® Accounting Standard

Post-implementation Review
IFRS 16 *Leases*

Comments to be received by 15 October 2025

International Accounting Standards Board

IASB/RFI/2025/1

Request for Information

Post-implementation Review of IFRS 16 *Leases*

Comments to be received by 15 October 2025

Request for Information *Post-implementation Review of IFRS 16 Leases* is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **15 October 2025** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

Copies of IASB publications may be ordered from the Foundation by emailing customerservices@ifrs.org or by visiting our shop at https://shop.ifrs.org.

Contents

Introduction

The International Accounting Standards Board (IASB) is undertaking a post-implementation review of IFRS 16 *Leases*.

The IASB, together with the Financial Accounting Standards Board (FASB), started a joint project to improve the financial reporting of leases in July 2006.

The IASB issued IFRS 16 in January 2016. 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).

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases

The **objective of IFRS 16** is to ensure that lessees and lessors provide relevant information that faithfully represents leases

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

The IASB expected IFRS 16 **to improve comparability** between entities that lease assets and entities that borrow to buy assets, while reflecting the economic differences between these transactions

IFRS 16 replaced IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Timeline

2016 The IASB issued IFRS 16 in January 2016.

2019 IFRS 16 became effective for annual reporting periods beginning on or after 1 January 2019.

2024 The IASB began the post-implementation review of IFRS 16 in June 2024.

What is a post-implementation review?

The IASB carries out a post-implementation review of each new IFRS Accounting Standard or major amendment to a Standard.[1] The objective of a post-implementation review is **to assess whether the effects of applying the new requirements on users of financial statements (users), preparers, auditors and regulators are as intended when the new requirements were developed**. The basis for such an assessment is the effects analysis of the likely benefits and the initial and ongoing costs arising from the new requirements that the IASB publishes when it issues the new requirements.[2]

During a post-implementation review, the IASB considers important or contentious matters it discussed during the development of the new requirements and market developments since those new requirements were issued. It also considers whether there are unintended consequences from applying the new requirements that the IASB was not aware of when it developed those requirements.

A post-implementation review involves assessing whether the new requirements are overall working as intended, with the benefits to users of the information arising from applying the new requirements *not significantly* lower than was expected and the costs of applying the requirements and auditing and enforcing their application *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) support the implementation of the Standard or major amendment by, for example, setting up a Transition Resource Group to discuss implementation questions that arise, publishing materials to support consistent application or publishing agenda decisions in response to application questions.[3] In the course of supporting implementation of a new Standard or major amendment, the IASB might decide it needs to amend the new requirements.[4] Stakeholders are encouraged to submit questions about the application of new requirements that meet the submission criteria to the Committee at *any time*.[5] This process remains the best way for application questions to be answered. A post-implementation review might also identify application questions.

1 See the IFRS Foundation *Due Process Handbook*. A detailed description of the post-implementation review process is available on our website.

2 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'.

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

4 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.

5 See paragraphs 5.13–5.19 of the *Due Process Handbook*.

How does the IASB prioritise matters in a post-implementation review?

The IASB considers whether to take any action on matters identified in the post-implementation review and how to prioritise those matters depending on the extent to which evidence gathered during the post-implementation review indicates:

(a) the matter has **substantial consequences** (for example, widespread diversity in practice materially affects users' ability to analyse trends and compare entities);

(b) the matter is **pervasive** (for example, it affects transactions that occur frequently in various industries and jurisdictions);

(c) the matter arises from a financial reporting issue that **can be addressed** by the IASB or the Committee (that is, a feasible solution is likely to exist); and

(d) the benefits of any action are expected to **outweigh the costs** (considering the extent of disruption to current practice and operational costs from change in the light of the importance of the matter to users).

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. A post-implementation review is not a standard-setting project and does not automatically lead to standard-setting.

What is involved in a post-implementation review?

Phase 1

The IASB identifies matters to be examined, drawing on the broad network of IFRS Accounting Standards-related bodies and interested stakeholders, including the Committee and the IASB's advisory groups.

The IASB publishes a **request for information** asking stakeholders for feedback on the matters identified in Phase 1 and any other information relevant to the post-implementation review. Anyone can respond.

Phase 2

The IASB considers comments from the public consultation along with information gathered from any additional analysis and consultation.

The IASB publishes a **report and feedback statement** summarising its findings and any next steps. The next steps can include referring a matter to the Committee, providing materials to support consistent application of the requirements or considering possible standard-setting.

Invitation to Comment

Summary of questions

This Request for Information sets out questions in six sections:

(a) **Section 1** seeks information on stakeholders' experiences relating to IFRS 16 and their overall views on the Standard;

(b) **Sections 2–4** seek information about matters in IFRS 16 that the IASB has identified as areas of interest to examine further in this post-implementation review and do not cover all aspects of the Standard;

(c) **Section 5** seeks suggestions for improvements to future transition requirements; and

(d) **Section 6** seeks other information relevant to the post-implementation review of IFRS 16 not covered in Sections 1–5, including its relationships with the requirements in other IFRS Accounting Standards.

Responses to these questions will inform the IASB's assessments in this post-implementation review (see the 'What is a post-implementation review?' section on page 5).

Guidance for responding to questions

You need not answer all questions. Comments are most helpful if they:

(a) answer the questions as stated;

(b) state the paragraph(s) in IFRS Accounting Standards to which they relate;

(c) explain any significant differences between the actual and the expected likely effects of IFRS 16;

(d) explain whether these significant differences were caused by market developments since the IASB issued the Standard or whether you have new evidence that the cost–benefit balance of applying the requirements has changed;

(e) are supported by evidence to help the IASB identify matters that are of such significance that they suggest the new requirements are not working as intended because the matter has substantial consequences and is pervasive (see page 6); and

(f) describe any solutions you propose and how they might affect the assessment of benefits and costs—for example, if a solution would affect requirements in IFRS 16 which are largely converged with the requirements in Topic 842.

Preparers of financial statements—please respond to questions considering how your entity accounts for leases.

Auditors, regulators and users—please respond to questions considering financial statements you audit, regulate or use.

The IASB does not expect you to carry out detailed investigations to answer the questions, so when providing your answers, please consider matters and concerns that are already known to you through your experience with applying IFRS 16 (or using information prepared in accordance with the Standard).

Deadline

The IASB will consider all written comments received by 15 October 2025.

How to comment

Please submit your comments:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

Request for Information

1. Overall assessment of IFRS 16

Context

The IASB would like to understand stakeholders' views on and experiences relating to IFRS 16 to assess, overall, whether IFRS 16 is working as intended.

Background

IFRS 16 sets out 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 about their leases in a manner that faithfully represents those transactions. This information gives a basis for users to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.[6]

To meet its objective, the Standard introduced a single lessee accounting model in which a lessee accounts for all leases as providing finance (IFRS 16 eliminated the model in which a lessee classifies leases as either operating leases or finance leases). For almost all leases, IFRS 16 requires a lessee:

(a) to recognise in the statement of financial position lease assets (right-of-use assets) and lease liabilities;

(b) to recognise in the statement of profit or loss depreciation of lease assets and interest on lease liabilities over the lease term; and

(c) to classify in the statement of cash flows cash payments for:

  (i) the principal portion of lease liabilities within financing activities; and

  (ii) the interest portion of lease liabilities in accordance with the requirements in IAS 7 *Statement of Cash Flows* for interest paid.

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 an operating lease and to account for those two types of leases in distinct ways.

The IASB considered the benefits and costs of the new requirements in IFRS 16 and discussed these in the *Effects Analysis on IFRS 16*. The IASB concluded that applying IFRS 16 would result in a more faithful representation of a lessee's assets and liabilities and greater transparency about the lessee's financial leverage and capital employed. This information was expected:

(a) to reduce the need for investors and analysts to adjust amounts presented in a lessee's statement of financial position and statement of profit or loss.

6 See paragraph 1 of IFRS 16.

(b) to reduce the need for lessees to provide 'non-GAAP' information about leases. IFRS 16 provides a richer set of information than was available when entities applied IAS 17, giving further insight into an entity's operations.

(c) to improve comparability between entities that lease assets and entities that borrow to buy assets, while also reflecting the economic differences between these transactions.

(d) to provide transparent information about leases and give *all* market participants equal access to this information. When entities applied IAS 17, only more sophisticated investors and analysts made estimates using the information entities provided.

The IASB expected that an entity with material operating (off-balance-sheet) leases would incur implementation costs:

(a) to set up systems and processes, including educating staff;

(b) to determine the discount rates used to measure lease assets and lease liabilities on a present value basis; and

(c) to communicate changes to reported information to external parties.

The IASB expected that, after a lessee updated its systems to provide information in accordance with IFRS 16, ongoing costs would be only marginally higher than those the lessee incurred applying IAS 17. The data a lessee obtains to apply IFRS 16 is similar to that which it used to apply IAS 17, except for the discount rates that an entity needs to determine for all leases recognised in the statement of financial position when applying IFRS 16.

Spotlight 1—Perspectives on IFRS 16 as a whole

Users' perspectives

Initial feedback from users suggests that IFRS 16 is working as intended, has achieved its objective and has improved financial reporting. Most users said IFRS 16 has improved transparency and the quality of financial information they use to assess the capital employed by, and financial leverage of, lessees, particularly in industries that use leases extensively (such as retail, airlines and telecommunications). These users said recognition of leases in the statement of financial position reflects their view that leases are debt-like transactions. In relation to disclosures, users said the more detailed information disclosed in the notes to the financial statements is a meaningful improvement on the information disclosed in accordance with IAS 17.

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Some users said information about the cash flows of entities that lease assets and entities that borrow funds to buy assets provided in accordance with IFRS Accounting Standards is not comparable (see Section 3). Some users said the use of judgement required by IFRS 16 reduces the comparability of reported financial information in some cases (see Section 2). However, some other users said IFRS 16 provides more accurate information than previous methods they used to estimate lease liabilities based on operating lease expense multiples or the present value of future minimum lease payments.[7] Many users said the differences between the requirements in IFRS 16 and Topic 842 reduce the comparability of information in the statement of profit or loss and statement of cash flows, add complexity to their analysis and result in additional costs.

The IASB expected IFRS 16 to reduce the need for investors and analysts to adjust amounts reported by lessees. Although a few users said the expectation was met, some other users said they continue to adjust amounts reported in accordance with IFRS 16 because, for example:

(a) they make their own estimates of lease liabilities based on the useful life of the leased asset (instead of the lease term determined in accordance with IFRS 16) to compare economic returns on invested capital;

(b) they do not view lease liabilities as debt; or

(c) many entities have financial covenants (including for new debt issues) based on adjusted (typically pre-IFRS 16) metrics.

Many users said updating their models to analyse and compare entities required significant effort, particularly because of the distortion to historical trends. Their analyses were further complicated because IFRS 16 permitted lessees implementing the Standard to use more than one transition option, practical expedient and choice of how to measure lease assets relating to off-balance-sheet leases.

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7 IAS 17 required lessees to disclose for operating leases: lease payments recognised as an expense in the period and the total of future minimum lease payments arising from non-cancellable operating leases.

... continued

Preparers' and other stakeholders' perspectives

Initial feedback from regulators, auditors and standard-setters suggests that IFRS 16 is working as intended, has achieved its objective and has improved financial reporting.

Many preparers said it is unclear whether the Standard has achieved its objective because they incur high ongoing costs to apply IFRS 16 but see limited or no benefits. However, other preparers said IFRS 16 has improved their entities' internal controls and co-ordination between the accounting and business functions.

Many preparers said that for internal management purposes, they adjust financial information presented in the statement of cash flows and in the statement of profit or loss to reverse the effects of IFRS 16. These adjustments suggest, in these preparers' view, that information presented in accordance with IFRS 16 does not faithfully represent lease transactions (see Section 3 for more detailed feedback from these preparers about lease-related cash flows).

Many preparers said the cost of implementing IFRS 16 was high (as expected), mainly because they needed:

(a) to apply the new accounting model to many contracts.

(b) to apply significant judgement to determine discount rates and lease terms.

(c) to implement expensive IT solutions. Some preparers said fully developed IT solutions were not available when they implemented IFRS 16.

Some preparers said their ongoing costs are reasonable. However, many other preparers said they incur higher-than-expected ongoing costs, especially when measuring (or remeasuring) the lease liability (see Section 4). Some preparers said they also incur higher-than-expected ongoing costs in circumstances with:

(a) intragroup leases—preparers expressed concerns about the high costs of maintaining dual accounting records relating to intragroup leases for separate (or individual) financial statements prepared in accordance with IFRS Accounting Standards and eliminating intragroup leases in consolidated financial statements at each reporting date; and

(b) business combinations—preparers expressed concerns about the high costs of applying IFRS 3 *Business Combinations* to recognise acquired lease contracts.

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Some preparers said simplifications to some of the requirements in the Standard might improve the cost–benefit balance.

Despite some concerns, most stakeholders expressed no appetite for significant changes to the requirements in IFRS 16. Most preparers said, after initial challenges, they developed accounting policies and processes for most matters that work well in practice and any fundamental changes to the Standard could result in further disruption that would outweigh the benefits of change.

Question 1—Overall assessment of IFRS 16

(a) In your view, is IFRS 16 meeting its objective (see page 9) and are its core principles clear? If not, please explain why not.

(b) In your view, are the *overall* improvements to the quality and comparability of financial information about leases *largely* as the IASB expected? If your view is that the overall improvements are *significantly lower* than expected, please explain why.[8]

(c) In your view, are the *overall* ongoing costs of applying the requirements and auditing and enforcing their application *largely* as the IASB expected? If your view is that the overall ongoing costs are *significantly higher* than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of IFRS 16.[9]

The *Effects Analysis on IFRS 16* describes the expected likely effects of the Standard, including benefits and implementation and ongoing costs.

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

8 Sections 2–3 discuss in more detail *specific* requirements in IFRS 16 that might affect the usefulness of the resulting information for investors and analysts. Please refer to those sections if you have evidence indicating that the usefulness of information resulting from the application of those requirements is *significantly lower* than the IASB expected.

9 Section 4 discusses in more detail the ongoing costs of applying *specific* requirements in IFRS 16. Please refer to Section 4 if you have evidence indicating that the ongoing costs resulting from the application of those requirements are *significantly higher* than the IASB expected.

2. Usefulness of information resulting from lessees' application of judgement

Context

This section discusses some of the parts of IFRS 16 that stakeholders said contribute to their concerns about the comparability of financial information. Some of these concerns arise because for some lease contracts an entity might have difficulty determining the lease term, the discount rate or which variable lease payments to include in the measurement of the lease liability.

The IASB would like to understand whether the application of judgement affects the usefulness of information to users and whether, as a result, the improvements to the quality and comparability of financial information about leases are *significantly* lower than the IASB expected when it issued IFRS 16. The IASB would also like to understand whether stakeholders' concerns about comparability are related to the clarity of the requirements (and whether the requirements can be applied consistently) or whether variations in outcomes reflect entities' varying facts and circumstances.

If the usefulness of information resulting from the lessees' application of judgement is significantly lower than expected, the IASB would like to understand what, in stakeholders' views, the IASB could do to improve the usefulness of that information.

Background

Lease term

IFRS 16 defines the lease term as 'the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.'

To determine the lease term and assess the length of the non-cancellable period of a lease, an entity is required to apply the definition of a contract and determine the period for which the contract creates enforceable rights and obligations.

To assess whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity is required to consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. In specified circumstances, IFRS 16 requires a lessee to reassess an option to extend or terminate the lease.

An entity is required to revise the lease term if the non-cancellable period of a lease changes.[10]

Discount rates

At the commencement date of a lease, the lessee is required to measure the lease liability at the present value of the lease payments that are not paid at that date. The lessee discounts the lease payments using the interest rate implicit in the lease, if that rate can be readily determined. If not, the lessee uses its incremental borrowing rate.

IFRS 16 defines a lessee's incremental borrowing rate as 'the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment'.[11]

IFRS 16 specifies circumstances in which the lessee is required to use an unchanged discount rate or a revised discount rate when remeasuring the lease liability after the commencement date (see Section 4).

Variable lease payments

The measurement of the lease liability includes fixed lease payments, in-substance fixed lease payments and variable lease payments that depend on an index or rate (among other payments).

Variable lease payments that depend on an index or rate include payments linked to a consumer price index, payments linked to a benchmark interest rate and payments that vary to reflect changes in market rental rates. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable.

A lessee is required to recognise in profit or loss variable lease payments it excluded from the measurement of the lease liability (for example, lease payments based on a percentage of the lessee's revenue) in the period in which the event or condition that triggered those payments occurred. IFRS 16 requires a lessee to disclose the expenses relating to variable lease payments excluded from the measurement of lease liabilities.[12]

10 See paragraphs 18–21 and B34–B41 of, and Appendix A to, IFRS 16.

11 See paragraph 26 of, and Appendix A to, IFRS 16.

12 See paragraphs 27–28, 38, 53 and B42 of IFRS 16.

Spotlight 2—Perspectives on lessees' application of judgement and the usefulness of resulting information

Lease term

Many stakeholders (mostly standard-setters and preparers) said determining the lease term involves complex judgements. Initial feedback suggests that assessing a 'reasonably certain' threshold, determining whether the contract creates enforceable rights and obligations and deciding what constitutes a penalty are some of the most challenging judgements an entity makes when applying IFRS 16.

Some users said the judgement required to determine the lease term in some cases reduces the comparability of financial information. These users also said that, in some cases, the lease terms that entities determined in accordance with IFRS 16 were inconsistent with their expectations (which might be based on past practice, entities' business models, lease terms determined by peer entities or assumptions the entity makes when testing assets for impairment).

Discount rates

Stakeholders, commenting specifically on interest rates implicit in leases, said these rates are not directly observable or cannot be readily determined.

Some stakeholders said determining incremental borrowing rates involves significant judgement, which, if applied inappropriately, can lead to variations in discount rates determined for similar contracts or result in rates that do not reflect entities' borrowing rates.

Some users said that, in some cases, the use of judgement required to determine discount rates reduces the comparability of financial information. Conversely, other users said a lessee's determination of lease liability in accordance with IFRS 16 is more accurate than the estimates of the present value of future lease payments based on information reported in accordance with IAS 17.

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Variable lease payments

Some stakeholders said it is sometimes difficult to determine whether variable lease payments are (or are not):

(a) variable lease payments that depend on an index or rate;

(b) variable lease payments linked to future performance or use of an underlying asset; or

(c) in-substance fixed lease payments.

A few users expressed more general concerns about the different accounting for variable lease payments included in the measurement of the lease liability and those not included, particularly if lessees disclose insufficient information about the two types of lease payment.

Question 2—Usefulness of information resulting from lessees' application of judgement

(a) Do you agree that the usefulness of financial information resulting from lessees' application of judgement is *largely* as the IASB expected? If your view is that lessees' application of judgement has a *significant* negative effect on the usefulness of financial information, please explain why.[13]

(b) Do you agree that the requirements in IFRS 16 provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently? If not, please explain why not.

(c) If your view is that the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, please explain:

  (i) what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or

  (ii) what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

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

13 Section 4 discusses in more detail the ongoing costs of applying the requirements for discount rates and subsequent measurement of the lease liability. Please refer to Section 4 if you have evidence indicating that the ongoing costs of applying these requirements are *significantly higher* than the IASB expected.

3. Usefulness of information about lessees' lease-related cash flows

Context

The IASB would like to understand whether the intended improvements to the quality and comparability of information about lease-related cash flows that lessees present or disclose are largely as expected. Stakeholders' feedback to this Request for Information will inform the IASB's research project on the Statement of Cash Flows and Related Matters, and the IASB might decide the feedback is better addressed by that project.

Background

To retain the link with the statement of financial position and statement of profit or loss, a lessee is required to classify in the statement of cash flows:

(a) cash payments for the principal portion of the lease liability within financing activities;

(b) cash payments for the interest portion of the lease liability in accordance with IAS 7; and

(c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

IFRS 16 requires a lessee to disclose the total cash outflow for leases. IFRS 16 also requires a lessee to disclose additional qualitative and quantitative information about its leasing activities to give users a basis on which to assess the effect leases have on a lessee's cash flows. This additional information might include information about future cash outflows to which the lessee is potentially exposed that are not included in the measurement of lease liabilities.[14]

Paragraphs 43–44E of IAS 7 require an entity:

(a) to exclude investing and financing non-cash transactions from the statement of cash flows and disclose them in the notes to the financial statements. Examples of non-cash transactions are the acquisition of assets either by assuming directly related liabilities or by means of a lease.

(b) to disclose information that enables users to evaluate changes in liabilities arising from financing activities (which include lease liabilities), including both changes arising from cash flows and non-cash movements.

14 See paragraphs 50, 53(g) and 59 of IFRS 16.

Spotlight 3—Perspectives on the usefulness of information about lessees' lease-related cash flows

Most stakeholders said IFRS 16 has improved the transparency and quality of information about leases that lessees present and disclose in the financial statements. However, some stakeholders (including some users and preparers) raised concerns about the presentation of lease-related cash flows in the statement of cash flows and the related disclosures. These stakeholders said:

(a) that the presentation of lease-related cash flows in the statement of cash flows is complex for users to analyse because:

  (i) cash payments for the principal portion of the lease liability are presented in financing cash flows;

  (ii) interest paid might be presented (together with any other interest paid) in operating or financing activities; and

  (iii) variable lease payments (not included in the measurement of the lease liability) are presented in operating activities.[15]

(b) that although required by IFRS 16, some entities do not disclose the total cash outflow for leases, in which case some users use the depreciation charge and interest expense as a proxy for lease cash outflows. Users acknowledged the two amounts can differ because interest expense for an individual lease is 'front-loaded'.

In their comments, these stakeholders suggested the IASB consider requiring entities:

(a) to provide information about non-cash transactions related to the initial recognition of leases to improve comparability between entities that lease assets and entities that borrow funds to buy assets.[16] Some users acknowledged that the information about additions to right-of-use assets might serve as a proxy for information about a lessee's capital expenditure.

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15 IFRS 18 *Presentation and Disclosure in Financial Statements* has removed the presentation alternatives for interest cash flows for most entities. Interest paid is generally classified in cash flows from financing activities. The Standard is effective for annual reporting periods beginning on or after 1 January 2027.

16 When an entity borrows to buy an asset (resulting in the entity receiving cash proceeds from the borrowings), it presents the cash proceeds from the borrowings in financing activities and the cash payments to acquire the asset in investing activities. Conversely, acquiring an asset by assuming directly related liabilities or by means of a lease are examples of non-cash transactions in paragraph 44 of IAS 7 *Statement of Cash Flows* that do not have an initial direct effect on cash flows. Although these transactions might be economically similar, they have different contractual cash flows resulting in different entries in the statement of cash flows. However, if the purchaser of an asset negotiates deferred payment terms with the supplier, the cash flow entries would be similar to those of a lessee.

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(b) to provide information about the total cash outflow for leases disaggregated into principal and interest portions.

(c) to present the cash flows of some leases in operating cash flows to faithfully represent the substance of these transactions. Some preparers in the retail and telecommunications sectors said the decision to lease is not a financing decision (or a decision between buying or leasing an asset) but a necessity because some assets cannot be purchased (for example, retail space in a shopping mall or part of a roof leased to install telecommunications equipment).

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

Do you agree that the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are *largely* as the IASB expected? If your view is that the improvements are *significantly lower* than expected, please explain why.

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

4. Ongoing costs for lessees of applying the measurement requirements

Context

This section discusses some of the requirements in IFRS 16 that stakeholders identified as contributing to their concerns about ongoing costs potentially being higher than expected.

The IASB would like to understand whether the requirements for the measurement of the lease liability are contributing to ongoing costs that are significantly higher than expected and, if so, how stakeholders would propose the IASB reduce these costs without significantly affecting the usefulness of financial information about leases.

Background

Discount rates

See Section 2.

Subsequent measurement of the lease liability

After the commencement date of the lease, IFRS 16 requires a lessee to measure the lease liability by:

(a) increasing the carrying amount to reflect interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments made; and

(c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.[17]

Reassessment of the lease liability

IFRS 16 requires a lessee to remeasure the lease liability to reflect changes to the lease payments and recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. A lessee remeasures the lease liability by discounting the revised lease payments using:

(a) a revised discount rate if there is a change in:

- (i) the lease term; or
- (ii) the assessment of an option to buy the underlying asset; or

(b) an unchanged discount rate if there is a change in:

- (i) the amounts expected to be payable under a residual value guarantee; or
- (ii) future lease payments resulting from a change in an index or rate used to determine those payments.[18, 19]

17 See paragraphs 36–38 of IFRS 16.

18 See paragraphs 39–43 of IFRS 16.

19 However, for (b), if the change in lease payments results from a change in floating interest rates, a lessee is required to use a revised discount rate that reflects changes in the interest rate (instead of using an unchanged discount rate).

Lease modifications

IFRS 16 defines a lease modification as ‘a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease’.

A lessee is required to account for a lease modification as a separate lease if the modification increases:

(a) the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration by an amount commensurate with the stand-alone price for the increase in scope.

In other cases, a lessee is required to account for the remeasurement of the lease liability by:

(a) decreasing the carrying amount of the right-of-use asset for lease modifications that decrease the scope of the lease. The lessee recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.

(b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.[20]

Spotlight 4—Perspectives on ongoing costs for lessees of applying the measurement requirements

Discount rates

Some preparers and standard-setters said determining discount rates (lessee’s incremental borrowing rate) remains costly and challenging due to complexity. Some stakeholders also said the requirement for lessees to determine revised discount rates when remeasuring lease liabilities contributes to the high ongoing costs of applying IFRS 16.

Some stakeholders said the IASB should provide additional guidance on determining incremental borrowing rates. Other stakeholders said the IASB should simplify the requirements to improve the cost–benefit balance of the requirements.

continued ...

20 See paragraphs 44–46 of, and Appendix A to, IFRS 16.

... continued

Subsequent measurement of the lease liability

Some stakeholders (mainly preparers and standard-setters) expressed concerns about the cost–benefit balance of the requirements for subsequent measurement of the lease liability. Initial feedback suggests:

(a) that it is costly to determine revised discount rates.

(b) that events that trigger reassessments of the lease liability (or lease modifications) occur frequently in some industry sectors and affect large portfolios of contracts that might have complex terms and conditions. In some circumstances, accounting for the remeasurements involves a lot of resource and often manual work (such as analysing changes to contracts) that cannot be automated.

(c) that some of the requirements can be complex to apply. For example, it might be difficult in some circumstances to determine the amounts to recognise as an adjustment to the right-of-use asset and in the statement of profit or loss if a reassessment of the lease liability and a lease modification that decreases the scope of the lease happen at the same time.

(d) that frequent remeasurements of the lease liability do not improve the transparency of financial information and the resulting information might be immaterial.

(e) that accounting for the change in future lease payments resulting from a change in an index or rate used to determine those payments contributes to high ongoing costs. IFRS 16 requires lessees to determine the amount of the remeasurement of the lease liability and to adjust the carrying amount of the right-of-use asset, which affects the depreciation charge in future periods.

Question 4—Ongoing costs for lessees of applying the measurement requirements

(a) Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are *largely* as the IASB expected? If your view is that the ongoing costs are *significantly higher* than expected, please explain why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs.

(b) If your view is that the ongoing costs are *significantly higher* than expected, please explain how you propose the IASB reduce these costs without a *significant* negative effect on the usefulness of financial information about leases.

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

5. Potential improvements to future transition requirements

Context

The IASB would like to understand how it can improve future transition requirements.

Background

IFRS 16 became effective for annual reporting periods beginning on or after 1 January 2019 and included some simplifications and practical expedients to provide cost relief for entities implementing the Standard. IFRS 16 permits a lessee to apply the Standard either:

(a) retrospectively for each prior reporting period presented in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) retrospectively (without restating comparative financial information) with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).[21]

If a lessee chooses to apply IFRS 16 retrospectively without restating comparative information, IFRS 16 permits that lessee to measure right-of-use assets relating to leases previously classified as operating leases either as if the lessee had always applied the Standard or at an amount based on the lease liability.[22] IFRS 16 includes several other practical expedients.[23]

Spotlight 5—Perspectives on transition requirements

Stakeholders said entities have used both transition methods. Feedback shows the modified retrospective approach (without restating comparative information) was more commonly used for cost–benefit reasons and entities found the practical expedients helpful.

Some users said transition options, practical expedients and different approaches to measure right-of-use assets relating to previous operating leases affected users' models and complicated data analyses. However, most users said entities provided enough information to allow users to understand the effect the implementation of IFRS 16 had on entities' financial performance, financial position and cash flows. In particular, users found useful the requirement for lessees to reconcile lease liabilities recognised in accordance with IFRS 16 with operating lease commitments disclosed in prior-year financial statements in accordance with IAS 17.

Some preparers commented on the lack of availability of IT solutions at the time of transition.

21 See paragraphs C5–C7 of IFRS 16.

22 See paragraph C8(b) of IFRS 16.

23 See paragraphs C3–C4 and C10 of IFRS 16.

Question 5—Potential improvements to future transition requirements

Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

(a) users have enough information to allow them to understand the effect of any new requirements on entities' financial performance, financial position and cash flows; and

(b) preparers can appropriately reduce their transition costs when implementing new requirements for the first time.

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

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

Effects of applying IFRS 16 with other IFRS Accounting Standards

Many stakeholders commented on the effects of applying the requirements in IFRS 16 with other IFRS Accounting Standards. They commented most on the relationships between IFRS 16 and IFRS 9 *Financial Instruments* or between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers*. The IASB would like to understand how often stakeholders have observed the matters described in Spotlights 6.1–6.3 and whether these matters have significantly affected the usefulness of information. The IASB would also like to understand what stakeholders propose the IASB does to improve the clarity of the requirements and to help entities apply the requirements consistently.

Spotlight 6.1—Perspectives on applying IFRS 16 with IFRS 9 to rent concessions

The IFRS Interpretations Committee (Committee) discussed how a *lessor* accounts 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, resulting in partial extinguishment of the lessee's lease liability. That discussion highlighted that a *lessee* can apply the principles and requirements in IFRS Accounting Standards to account for the rent concession in two ways. The lessee could either:

(a) apply paragraphs 3.3.1 and 3.3.3 of IFRS 9 to the extinguished part of the lease liability—such an approach would result in the lessee recognising in profit or loss the effect of the forgiveness of lease payments at the date on which the rent concession is granted; or

(b) account for the forgiveness of lease payments by applying the lease modification requirements in IFRS 16—such an approach would result in the lessee recognising the effect of the forgiveness of lease payments as a decrease in the carrying amount of the right-of-use asset.

The Committee recommended the IASB consider undertaking a narrow-scope standard-setting project to clarify how a lessee distinguishes between a lease modification as defined in IFRS 16 and an extinguishment (or partial extinguishment) of a lease liability accounted for in accordance with IFRS 9.

Initial feedback suggests it is still unclear how a lessee applies IFRS 16 with IFRS 9 to account for a rent concession and that this lack of clarity could have substantial consequences on the usefulness of information.

Question 6.1—Applying IFRS 16 with IFRS 9 to rent concessions

(a) How often have you observed the type of rent concession described in Spotlight 6.1?

(b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?

(c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

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

Spotlight 6.2—Perspectives on applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale

In the post-implementation review of IFRS 15, some stakeholders asked for additional guidance or examples on how to assess whether the transfer of an asset in a sale and leaseback transaction is a sale in accordance with IFRS 15. The IASB decided to gather further evidence on this matter in the post-implementation review of IFRS 16.

Initial feedback suggests it might be difficult in some situations to determine whether the transfer of an asset by the seller–lessee in a sale and leaseback transaction is a sale in accordance with IFRS 15. Some stakeholders said difficulties in making this judgement might arise if:

(a) a seller–lessee's renewal options in a leaseback transaction would permit the seller–lessee to extend the lease for substantially all the remaining economic life of the underlying asset;

(b) an entire building is sold, and only a part of that building (for example, a floor) is leased back;

(c) the seller–lessee leases back an asset that differs from the asset it sold (for example, the seller–lessee sells an unrenovated building and leases back a renovated building);

(d) the lessee has a right of first refusal if the buyer–lessor decides to sell the asset; or

(e) the buyer–lessor classifies the leaseback as a finance lease.

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Some stakeholders also said it is unclear:

(a) whether the determination of transfer of control of the underlying asset can be later reassessed—for example, when a repurchase option expires unexercised; and

(b) what percentage of asset value or asset life of a leaseback precludes accounting for the transaction as a sale.

Question 6.2—Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale

(a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?

(b) Have you observed diversity in seller–lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?

(c) If your view is that the IASB should act to help seller–lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

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

Spotlight 6.3—Perspectives on applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction

When developing IFRS 16, the IASB decided that the gain or loss a seller–lessee recognises on a completed sale in a sale and leaseback transaction should reflect the amount of the gain or loss that relates to the rights transferred to the buyer–lessor. Paragraph BC266 of the *Basis for Conclusions on IFRS 16* Leases explains the IASB's rationale for this decision. The IASB expected that restricting the amount of the gain recognised on the sale of an asset in a sale and leaseback transaction would reduce the incentive to perform such transactions to achieve a preferred accounting outcome.

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Initial feedback suggests that some stakeholders have concerns about partial gain or loss recognition in a sale and leaseback transaction because, in their view, such accounting is inconsistent with the accounting model in IFRS 15 to which the sale and leaseback requirements in IFRS 16 refer. In their comments, stakeholders said:

(a) the measurement of the right-of-use asset and lease liability in a sale and leaseback transaction differs from the initial measurement requirements for assets and liabilities arising from leases that are not part of sale and leaseback transactions; and

(b) the partial gain or loss recognition model can require an entity to make complex calculations and is difficult for users to understand and use for forecasting future cash flows.

Question 6.3—Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction

(a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?

(b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ *significantly* from those expected?

(c) If your view is that the IASB should improve the cost–benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.

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

Other matters

Stakeholders also have the opportunity to share feedback on other matters relevant to this post-implementation review that are not specifically covered by the other questions in this Request for Information.

Question 6.4—Other matters relevant to the assessment of the effects of IFRS 16

Are there any further matters the IASB should examine as part of the post-implementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5.

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

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