Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Post-implementation review IFRS 16 *Leases***	**Meeting:**	AASB October 2025 (M215)
Topic:	**Literature Review**	**Agenda Item:**	4.2
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Objective of this paper

1 The objective of this paper is to provide the Board with an overview of literature relevant to the post-implementation review (PIR) of AASB 16/IFRS 16 *Leases* in the Australian context. This paper is for information only and no decision is required.

Scope of this literature review

2 The scope of this review is limited to the Australian context.[1] It draws on both academic and practitioner literature on the implementation and application of AASB 16/IFRS 16.

3 In total, 17 studies were reviewed. These comprise published academic papers, working papers not yet published in journals, professional articles, surveys of preparers and users, a CPA Australia Research Report and the AASB–MASB Research Report. Where relevant, findings from international studies that included Australia as part of their sample were also considered. The literature search used targeted keyword combinations in Google Scholar, SSRN and ResearchGate. The main search terms were 'IFRS 16' AND 'Australia', and 'AASB 16'. It is acknowledged that a limitation of this review is the possibility that not all international studies including Australia in their sample have been captured. Further, the review focuses on the for-profit sector only.[2]

Overall summary

4 This review forms part of the Board's evidence-informed approach to standard setting. It draws on research and practice to provide practical insights that will support the assessment of whether AASB 16 has achieved its objectives and inform the PIR.

5 Overall, the literature identifies several themes of relevance to AASB 16. Key findings are:

[1] The IASB conducted its literature review from an international perspective. See pir-ifrs16-literature-review.pdf

[2] Staff will undertake a literature review on the impact of AASB 16 in the not-for-profit sector when the domestic PIR of AASB 16 is brought to the Board for consideration at a future meeting.

(a) **Preparedness and transition.** Preparers encountered challenges in identifying lease contracts, determining discount rates, consolidating lease data and updating information technology (IT) systems (Davern et al. 2019; CA ANZ 2024). Reliefs and expedients, including exemptions for short-term and low-value leases, were widely applied and generally regarded as effective in balancing cost and usefulness (AASB and MASB 2022).

(b) **Implementation challenges.** Key areas of difficulty remain in applying AASB 16. Estimating discount rates, particularly the incremental borrowing rate (IBR), is highly subjective and reduces comparability (Davern et al. 2019; Heywood 2020; Holloway and Singh 2025). System and process requirements also continue post-transition, with firms needing to capture new leases, reassess lease terms and account for modifications (CA ANZ 2024). Some investors consider disclosures overly detailed, which reduces their decision-usefulness (CA ANZ 2023).

(c) **Perceived benefits.** Preparers emphasised expected improvements in comparability and transparency but were less convinced about enhanced faithful representation or reduced reliance on non-GAAP measures (Davern et al. 2019). Investors welcomed clearer recognition of lease obligations (Davern et al. 2020), while analysts reported that forecasts became more accurate and less dispersed following adoption, particularly in lease-intensive firms (Hanlon et al. 2024).

(d) **User perspectives.** Transparency and comparability improved, and some studies found that recognition enhanced the value relevance of reported numbers (Onie et al. 2025b). However, survey evidence shows mixed views: while many investors valued the improved visibility of lease obligations, others cited disclosure complexity or questioned whether prior requirements were already sufficient (CA ANZ 2023). International evidence found comparability improvements in lease-intensive firms and jurisdictions with strong enforcement, including Australia, and reported reductions in information asymmetry overall (Sarquis et al. 2022; Altamuro et al. 2025).

(e) **Financial reporting impacts.** Effects were most pronounced in lease-intensive industries such as retail, aviation and real estate. Right-of-use assets and lease liabilities increased balance sheets, leverage rose, and earnings before interest, tax, depreciation and amortisation (EBITDA) was higher because lease expenses were replaced with depreciation and interest. Profitability effects varied: some studies reported improved value relevance, while others found that markets responded negatively to higher reported liabilities (Joubert et al. 2017; Xu et al. 2017; Hewa Dulige and Sharma 2025; Holloway and Singh 2025; Onie et al. 2025a).

(f) **Corporate behaviour.** Most firms did not materially reduce their reliance on leasing. However, some shortened lease terms, adjusted contract structures or reconsidered ownership and financing choices, particularly in lease-intensive industries such as retail (Altamuro et al. 2025; Holloway and Singh 2025; Onie et al. 2025a).

6 Taken together, the evidence suggests that AASB 16 improved transparency and comparability, particularly in lease-intensive industries. Transition costs were mitigated by practical expedients, but challenges remain in discount rate application, disclosure complexity and mixed findings on value relevance. Long-term behavioural impacts appear limited.

Structure of the remaining paper

7 The following sections provide a detailed discussion of the themes:

(a) Preparedness and transition (paragraph 8);

(b) Implementation challenges (paragraph 9);

(c) Perceived benefits (paragraph 10);

(d) User perspectives (paragraph 11);

(e) Financial reporting impacts (paragraph 12);

(f) Corporate behaviour (paragraph 13); and

(g) Conclusion (paragraphs 14 – 17).

Preparedness and transition

Key takeaway

Entities demonstrated varying levels of preparedness for adoption. Lease identification, discount rates and data collection were among the most resource-intensive efforts. Reliefs and expedients were widely applied and considered effective.

8 Evidence from surveys, interviews and disclosure analyses provides insights into how entities prepared for and managed the transition to AASB 16:

(a) **Readiness and challenges.** Davern et al. (2019) surveyed Australian preparers at different stages of implementation. Respondents who had progressed further in the adoption process encountered more difficulties, as practical challenges became apparent during detailed application rather than in initial planning. The most resource-intensive activities were:

(i) identifying contracts that met the definition of a lease;

(ii) determining appropriate discount rates; and

(iii) consolidating lease data across business units.

Although the previous standard, AASB 117 *Leases*, required disclosure of future operating lease commitments, those disclosures were presented at an aggregated level. Preparers therefore needed to develop new systems and processes under AASB 16 to capture lease-by-lease information, apply discounting, and recognise both right-of-use assets and lease liabilities.

(b) **Systems and processes**. The CA ANZ IFRS Survey (2024), covering multiple reporting cycles across Australia and New Zealand, reported that IT system changes and process redesign were among the most significant challenges. Survey results indicated that implementing AASB 16 required more extensive system changes than AASB 9/IFRS 9 *Financial Instruments* and AASB 15/IFRS 15 *Revenue from Contracts with Customers*.

(c) **Transition approaches**. Onie et al. (2024), in a review of disclosures by Australian Securities Exchange (ASX)-listed companies, found that most firms adopted the cumulative (modified retrospective) approach. This approach allowed entities to recognise the cumulative effect of adoption in opening equity without restating comparative periods. While it reduced the cost and effort of transition, it also limited comparability between reporting periods, as the prior year continued to reflect AASB 117 accounting. A few firms chose to restate comparatives, typically where they had performed a full reassessment of lease contracts and related data. This choice enhanced year-on-year comparability but required significantly more effort, suggesting that only entities with sufficient resources and data availability could do so.

(d) **Reliefs and expedients.** The AASB–MASB *Research Report 17* (2022), based on interviews and disclosure analysis in Australia and Malaysia, found widespread use of exemptions for leases of 12 months or less, exclusion of initial direct costs, and application of hindsight in assessing lease terms (i.e. practical expedients). All entities examined applied the ongoing expedient to expense low-value and short-term leases.

Stakeholders generally considered these measures to represent an appropriate balance between implementation cost and the usefulness of reported information. Preparers emphasised that the reliefs reduced administrative effort and enabled a timely transition. Auditors indicated that the use of expedients did not give rise to abnormal audit concerns. Users regarded overall comparability as acceptable, particularly since commitments had already been disclosed under AASB 117. However, some users were not fully aware of how expedients influenced reported numbers, highlighting the need for clearer communication and education.

Implementation challenges

Key takeaway

Key areas of difficulty remain in applying AASB 16, particularly in determining discount rates and managing ongoing system and process requirements. In addition, some investors find the disclosure requirements complex, which reduces their decision-usefulness.

9 The literature highlights several ongoing implementation challenges, particularly in applying discount rates, managing systems and processes, and interpreting expanded disclosures:

(a) **Discount rates**. Davern et al. (2019) identified the determination of discount rates—particularly the IBR—as one of the most challenging aspects of applying *AASB 16 Leases*. Entities reported difficulties in estimating appropriate IBRs because directly comparable market data were often unavailable. Heywood (2020), focusing on commercial property, showed that IBRs varied widely across tenants in the same building due to differences in lease term, financing structures and the financial strength of the lessee. This variability highlighted the lack of consistent benchmarks and introduced significant subjectivity into measurement. Holloway and Singh (2025) also observed inconsistency in discount rate application across Australian firms, noting that such variation reduced comparability between entities. Collectively, these findings indicate that discount rate estimation remains a challenge that affects both implementation effort and comparability.

(b) **Systems and data processes**. The CA ANZ IFRS Survey (2024) found that IT systems and related processes continued to require resources after the initial transition period. Respondents identified three main areas where effort was ongoing:

(i) capturing and recording new leases at commencement;

(ii) reassessing lease terms when contractual conditions changed; and

(iii) accounting for lease modifications.

These findings suggest that the application of AASB 16requires continuing system and process adjustments, which may be costly to entities.

(c) **Disclosure complexity**. The CA ANZ Investor Confidence Survey (2023) reported mixed reactions to the disclosure requirements of AASB 16. Some investors valued the additional information, particularly for assessing financial position and risk exposure. Others, however, found the disclosures difficult to interpret and considered the level of detail excessive.

Perceived benefits

Key takeaway

Preparers highlighted improvements in comparability, investors welcomed greater visibility of lease obligations, and analysts reported more reliable inputs for forecasts. By contrast, there was limited evidence that AASB 16 strengthened faithful representation or reduced reliance on non-GAAP measures.

10 The literature provides insights into how different stakeholder groups assessed the benefits of AASB 16:

(a) **Preparers' expectations**. Davern et al. (2019) surveyed Australian preparers across a range of industries to assess expectations of AASB 16. The survey found that 64% of respondents expected the Standard to improve comparability across firms, while 62% anticipated greater transparency in financial reporting. By contrast, fewer respondents believed that AASB 16 would materially enhance *faithful representation*—that is, information that is complete, neutral and free from material error in accordance with the *Conceptual Framework for Financial Reporting*—or reduce reliance on non-GAAP measures.

(b) **Investor perspectives**. Davern et al. (2020) surveyed Australian investors on their perceptions of AASB 16. Investors generally value the recognition of lease obligations, particularly when assessing financial position and risk exposure. The shift from off-balance sheet disclosure under AASB 117 to recognition under AASB 16 was seen by many as improving visibility of liabilities. However, the study also noted that some investors already adjusted for lease commitments under the previous Standard, limiting the incremental benefit for those users.

(c) **Analyst perspectives**. Hanlon et al. (2024) analysed analyst forecast accuracy before and after IFRS 16 adoption, using a large international sample that included Australian firms. Forecasts became more accurate, less biased and less dispersed following adoption, with the strongest improvements in lease-intensive industries. This evidence indicates that recognition of right-of-use assets and lease liabilities provided analysts with clearer and more consistent inputs, reducing reliance on adjustments based on off-balance sheet disclosures.

User perspectives

Key takeaway

User evidence shows that AASB 16 improved transparency and comparability, and in some cases increased the value relevance of financial information. However, investors remain divided: while many welcomed clearer recognition of lease obligations, others questioned the incremental benefit, citing disclosure complexity or the adequacy of prior requirements. International studies suggest improvements in information quality overall, though comparability outcomes were mixed.

11 The literature provides insights into how investors and other users assessed the usefulness of information under AASB 16. Evidence comes from surveys, market-based studies and international comparisons:

(a) **Investor assessments**. Davern et al. (2020) surveyed Australian investors and found that recognition of lease obligations under AASB 16 improved the transparency of financial position, particularly for assessing leverage and solvency. Onie et al. (2025b), in a working paper examining market outcomes, reported that recognition enhanced the value relevance of book value and earnings compared to disclosure alone, especially by narrowing differences between high- and low-lease firms. At the same time, some investors questioned whether these benefits justified the cost of implementation, noting that many analysts had already used constructive capitalisation methods under AASB 117. Taken together, these findings suggest that recognition delivered incremental benefits for some users but not all.

(b) **Survey evidence**. The CA ANZ Investor Confidence Survey (2023) showed that 46% of investors considered financial statements more useful post-AASB 16, while 36% considered them less useful. The concerns expressed included disclosure complexity and the perception that previous disclosure requirements had already provided adequate information for decision-making.

(c) **Comparability and information quality**. Altamuro et al. (2025), using a global sample of IFRS and US GAAP firms that included Australia, found that comparability improved after adoption of the new lease standards, particularly for firms with high lease intensity. Improvements were most evident in jurisdictions with strong enforcement, a category that includes Australia, suggesting that regulatory oversight helped translate the Standard’s requirements into more consistent reporting. Sarquis et al. (2022) also analysed a large international sample of IFRS and US GAAP firms. The study reported mixed results for comparability: in the IFRS sample, comparability improved in some cases but declined in others, with more than half of firm-to-firm comparisons showing a decrease. However, measures of information asymmetry—such as bid–ask spreads and analyst forecast dispersion—declined overall. This indicates that, despite mixed results on comparability, recognition improved the overall quality of information available to investors.

Taken together, these studies suggest that while the impact of lease recognition on comparability may vary across firms and contexts, the overall effect has been to improve the quality and reliability of information available to capital markets, particularly in lease-intensive industries and in countries with strong enforcement such as Australia.

Financial Reporting Impacts

Key takeaway

AASB 16 had a material impact on financial statements, particularly in lease-intensive industries. Balance sheets increased with the recognition of right-of-use assets and lease liabilities, leverage ratios increase, and EBITDA was higher due to the replacement of lease expenses with depreciation and interest

12 The literature provides consistent evidence that lease recognition under AASB 16 materially affected reported financial position and performance, with the most significant effects observed in industries heavily reliant on leasing:

(a) **Balance sheet effects**. Early research modelled the likely impact of lease recognition before IFRS 16 came into effect. Xu et al. (2017), using a model that capitalised operating lease commitments disclosed under AASB 117 for 165 ASX200 entities, estimated that recognising leases would substantially increase reported assets and liabilities, raise leverage ratios, and reduce return on assets. They also reported that the book value of equity became more value-relevant when leases were capitalised. Joubert et al. (2017) similarly modelled pre-adoption effects, focusing on the aviation and telecommunications sectors. Their analysis predicted substantial increases in reported liabilities, with particularly pronounced impacts for aviation companies.

Subsequent evidence based on post-AASB 16 adoption confirms that the effects were material in lease-intensive sectors. Onie et al. (2025a), reviewing Australian listed company disclosures, found that right-of-use assets accounted for more than 10% of total assets in retail and consumer sectors, while impacts were immaterial in others. Holloway and Singh (2025), using an Australian dataset, also documented balance sheet recognition of lease liabilities and right-of-use assets, noting that these were accompanied by observable changes in financial ratios. Together, this evidence demonstrates that while balance sheet impacts varied substantially across industries, AASB 16 had a pronounced effect in sectors where leasing is central to business models.

Most recently, CPA Australia (2025) provides comprehensive evidence on the state of lease reporting in Australia. Their study finds that by 2024, approximately 90 per cent of Australian listed firms recognised lease liabilities, compared to only 42 per cent before AASB 16, with lease liabilities representing around 45 per cent of total debt for the median firm. This indicates not only near-universal compliance but also the materiality of lease obligations for many firms. Interestingly, leases have appeared in only about 4 per cent of Key Audit Matters, suggesting that auditors generally do not view leases as a significant source of estimation uncertainty or audit complexity.

(b) **Performance metrics**. Holloway and Singh (2025) observed that EBITDA increased as lease expenses were replaced with depreciation and interest. Cash flows did not change, highlighting the risk that EBITDA improvements could be misinterpreted as stronger operating performance.

(c) **Profitability outcomes**. Hewa Dulige and Sharma (2025) conducted an empirical study of ASX100 firms over the period 2016–2022, covering both the pre- and post-adoption years of AASB 16. Using panel regression analysis, they examined the relationship between leasing variables and firm value. The study reported a positive association between operating lease intensity and firm value. In contrast, the recognition of right-of-use assets was negatively associated with firm value. This suggests that investors reacted cautiously to the higher liabilities reported under AASB 16, interpreting them as an indicator of increased financial risk. CPA Australia (2025) highlights inconsistency in how lease liabilities are treated in management commentary: among Australia's largest lease-intensive firms, 70 per cent include lease liabilities in Return on Invested Capital (ROIC) metrics, while 30 per cent exclude them.

Corporate Behaviour

Key takeaway

Evidence suggests that AASB 16 has not fundamentally changed firms' reliance on leasing. Most companies continued to lease at similar levels after adoption, though some adjusted contract terms or financing arrangements to manage the reported effects on balance sheets and leverage.

13 The literature provides insights into whether lease recognition under AASB 16 has altered corporate behaviour, including the extent of leasing, contract design and financing practices:

(a) **Lease intensity**. Altamuro et al. (2025), using a large cross-jurisdictional sample that included Australia, reported that more than 80% of firms did not change their overall lease intensity following adoption of IFRS 16. This suggests that leasing remained an attractive financing option despite the requirement to recognise right-of-use assets and lease liabilities on balance sheets.

(b) **Contract structures**. Onie et al. (2025a), examining disclosures of Australian listed firms, observed that some entities shortened lease terms, reduced exposure to long-term commitments, or reconsidered ownership versus leasing decisions. These adjustments were most apparent in industries heavily reliant on leased property, such as retail, where lease commitments form a substantial part of operating models.

(c) **Financing arrangements**. Holloway and Singh (2025), based on an Australian sample, found that some firms modified lease **structures** or renegotiated financing covenants to mitigate the increase in reported leverage. These findings indicate that while reliance on leasing generally remained unchanged, firms sought ways to manage the presentation of lease obligations within financial statements and contractual agreements.

Conclusion

14 Overall, the literature indicates that AASB 16 has largely achieved its objective of improving transparency and comparability, with the most pronounced effects observed in lease-intensive industries such as retail, aviation and real estate. Transition reliefs and expedients were widely used and generally considered effective in easing implementation, while analysts benefited from better inputs to forecasts.

15 At the same time, several ongoing issues remain. Studies highlight variability in the application of discount rates, reducing comparability across firms—an issue that is consistent with stakeholder feedback received through the PIR. Disclosure requirements, while valued by many investors, are also viewed by some as excessive or difficult to interpret, reducing their decision-usefulness.

16 Finally, the evidence on value relevance is mixed. Some studies find that recognition improved the association between reported numbers and market outcomes, while others indicate that lease liabilities were interpreted as increased financial risk.

17 Taken together, these findings suggest that while AASB 16 has delivered greater transparency and comparability, further consideration of discount rate application, disclosure presentation and user education may enhance its effectiveness.

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