
Accounting Standards Advisory Forum meeting

Date	September 2024
Project	Post-implementation Review (PIR) of IFRS 16 <i>Leases</i>
Topic	Phase 1–Identifying matters to be examined
Contacts	Tim Craig (tcraig@ifrs.org) Megumi Makino (megumi.makino@ifrs.org) Rafal Markowski (rmarkowski@ifrs.org)

This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum (ASAF). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose of this session

- To hear ASAF members' views on the implementation and ongoing application of IFRS 16 *Leases*.
- To help the IASB scope a request for information (RFI)—that is, to identify matters to include in the RFI for public consultation.

Contents

from slide

Questions for ASAF members	3
PIR process	5
Background to IFRS 16	9
Expected effects of IFRS 16	13
Detailed information to support outreach	20
Appendix A—IFRS 16 vs. US GAAP (Topic 842)	31

Questions (overall assessment and effects)

1

What is your **overall assessment** of IFRS 16? Are there any fundamental questions (‘fatal flaws’) about the clarity and suitability of core objectives or principles that indicate the requirements are not working as intended?

Slide 10 describes the objective of IFRS 16.

2

The *Effects Analysis* accompanying IFRS 16 describes the likely costs and benefits (effects) of IFRS 16.

- a) Have actual **ongoing costs and benefits** significantly differed from the expected effects? If so, please explain why.
- b) Were the **implementation costs** significantly different from those expected?
- c) How challenging was **transition** to IFRS 16? What transition requirements were helpful and would you recommend the IASB do anything differently in future standard-setting projects?

Slides 13–19 describe the expected effects of IFRS 16. Slide 29 provides an overview of transition methods.

Questions (application questions)

3

Are there any application questions that the IASB or the IFRS Interpretations Committee (Committee) needs to answer **urgently** or endeavour to start working on **before** the next five-yearly agenda consultation or **consider** in the next five-yearly agenda consultation?

For each matter raised, please explain whether:

- it has substantial consequences (for example, there is widespread diversity in practice that materially affects users of financial statements' ability to analyse trends and compare entities).
- it is pervasive (for example, it affects transactions that occur frequently in various industries and jurisdictions).
- it can be addressed by the IASB or the Committee. Please describe your suggested solution.
- the benefits of any action are expected to outweigh the costs (considering the extent of disruption to current practice, operational costs from change, and the importance of the matter to users of financial statements).

Please also explain how the matter is being addressed in practice today and whether, in your view, the question is appropriate for submission to the Committee.

Slide 7 describes the prioritisation framework. Slides 20–30 provide an overview of IFRS 16 topic areas.

PIR process

PIR—what is the objective?



To **assess** whether the **effects** of applying new requirements on users of financial statements, preparers, auditors and regulators are **as intended** when the IASB developed those new requirements

Overall, are the requirements working as intended?

Fundamental questions (ie ‘fatal flaws’) about the core objectives or principles—their clarity and suitability—would indicate that the new requirements are not working as intended

Are there specific application questions?

Specific application questions would not necessarily prevent the IASB from concluding that the new requirements are working as intended, but may nonetheless need to be addressed if they meet the criteria for whether the IASB would take further action

PIR—how does the IASB respond to identified matters?

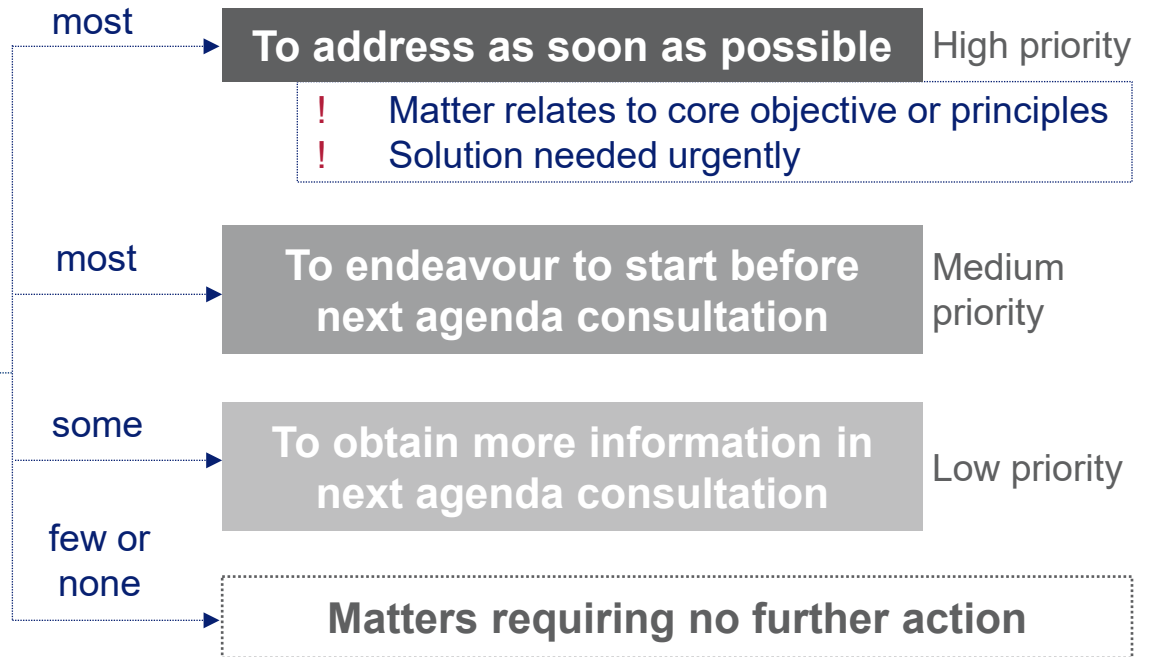
1 Consider whether to take action, based on the extent to which:

- the **objective** of the new requirements is not being met
- **benefits** to users are significantly lower than expected
- **costs** of application are significantly higher than expected

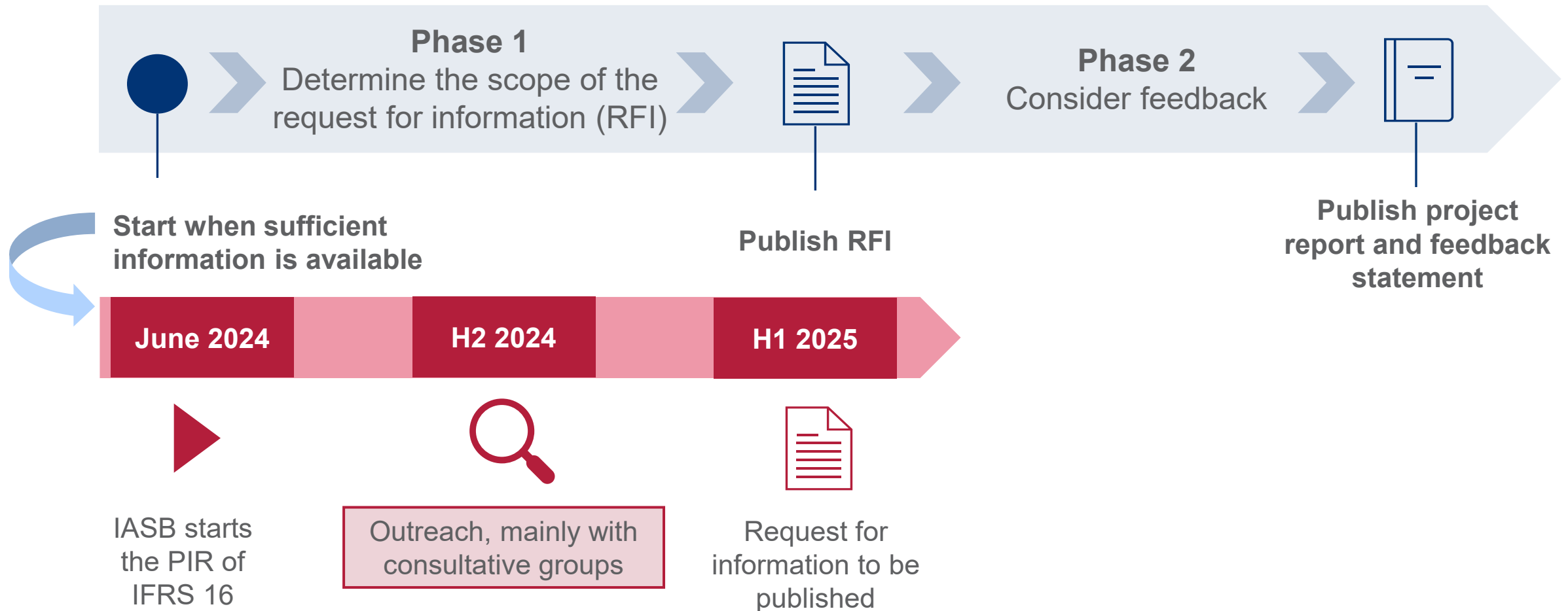
2 Determine the prioritisation of the matters based on the extent to which:

- matter has **substantial consequences**
- matter is **pervasive**
- matter relates to an issue that **can be addressed** by the IASB or the Committee
- the benefits of any action would be expected to **outweigh** the costs

3 Determining the timing of taking action

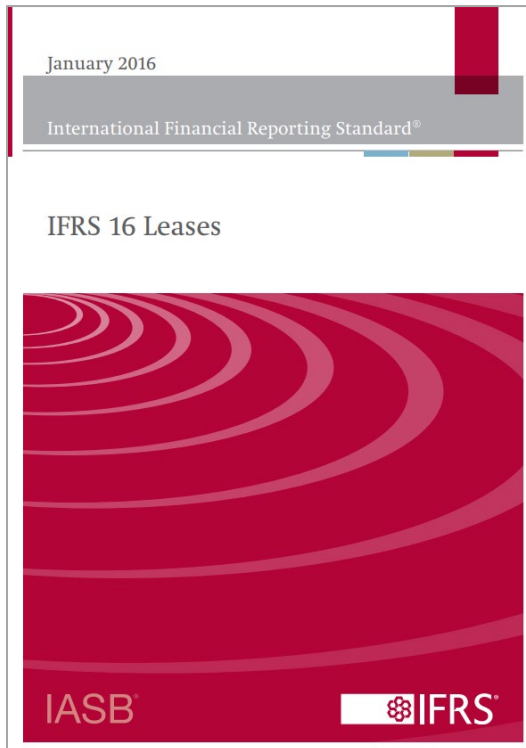


PIR—what is the process and where are we?



Background to IFRS 16

IFRS 16 at a glance



Effective from
1 January 2019



Objective

To ensure that lessees and lessors provide relevant information in a manner that faithfully represents leases. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

- Replaced IAS 17 *Leases*
- Brings **almost all** leases onto the **balance sheet of lessees**
- Significant change for lessees; little change for lessors
- Enhanced disclosure requirements

What has changed for lessees?

Financial position

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Assets	✈️ 🏠	---	✈️ ✈️ 🚗 🚌 🏠 🏠 🏠
Liabilities	\$\$	---	\$\$\$\$\$\$
Off balance sheet rights / obligations*	---	<div style="border: 1px dashed red; padding: 5px;"> 🚗 🚌 ✈️ 🏠 🏠 \$\$\$\$\$ </div>	---

*According to the Effects Analysis, listed entities using IFRS or US GAAP disclosed almost US\$3 trillion of off balance sheet lease commitments.

Financial performance

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	x	x	x
Operating costs <i>(excl. depreciation and amortisation)</i>	---	Single expense	---
EBITDA			↑↑
Depreciation and amortisation	Depreciation	---	Depreciation
Operating profit			↑
Finance costs	Interest	---	Interest
Profit before tax			↔

Activities since IFRS 16 was issued

A solid foundation for the PIR

The IASB, together with the Committee, has put significant efforts into monitoring and supporting the implementation and application of IFRS 16



Issued amendments to IFRS 16 to address some of the matters raised by stakeholders:

- May 2020—*Covid-19-Related Rent Concessions*
- August 2020—*Interest Rate Benchmark Reform—Phase 2*
- March 2021—*Covid-19-Related Rent Concessions beyond 30 June 2021*
- September 2022—*Lease Liability in a Sale and Leaseback*
- minor consequential amendments from other standards



Provided educational materials such as articles and webcasts

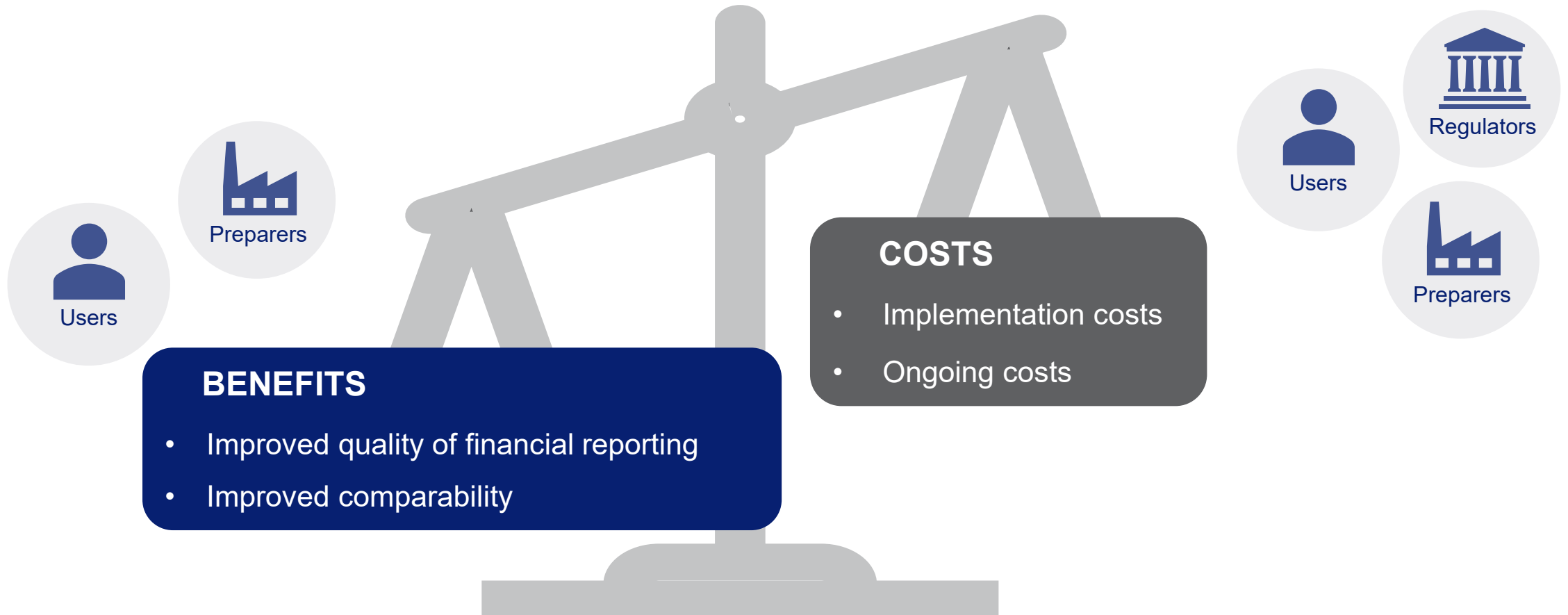


Analysed application questions and issued nine agenda decisions

Expected effects of IFRS 16

Expected effects—an overview

The IASB expected the benefits of IFRS 16 to **outweigh** the costs



Expected benefits—quality

Improved information available to **all** users of financial statements.

Improved quality of financial reporting



More faithful representation of an entity's assets and liabilities and greater **transparency** about the entity's financial leverage and capital employed. Previously only more sophisticated investors and analysts adjusted for off balance sheet leases, while others did not.



Reduced need for investors and analysts to **adjust** amounts reported on a lessee's balance sheet and income statement.



Reduced need for entities to provide **non-GAAP** information* about leases—IFRS 16 provides a richer set of information than was previously available, giving further insight into a lessee's operations and funding.



Improvements in how lessees manage their lease portfolios, and possible improvements in how some lessees finance and operate their **businesses**.

*Also referred to as APMs—alternative performance measures or MPMs—management-defined performance measures.

Expected benefits—comparability

Improved comparability between entities



Improved **comparability** between entities that lease assets and entities that borrow to buy assets, while also reflecting the economic differences between these transactions.



Better information about changes in an entity's financial **flexibility** when it extends or shortens the length of its leases.



Reduced opportunities for entities to **structure** leasing transactions to achieve off balance sheet accounting.



Reduced incentive for entities to enter into **sale and leaseback** transactions only for accounting purposes, because of the recognition of assets and liabilities arising from the leaseback and the restriction on any gain recognised on sale of an asset.

Expected implementation costs



Preparers

Set up of systems and processes



Determination of discount rates



Communication and education



Depending on:

- the size of an entity's lease portfolio
- the terms and conditions of those leases
- the systems already in place to account for leases applying IAS 17



Users

Education and updates to methodologies to analyse financial statements



Regulators, tax authorities

Costs relating to IFRS 16 if the respective regulations depend on the accounting in IAS 17

Expected ongoing costs

Except for discount rates, the data required to apply IFRS 16 is similar to that required to apply IAS 17. Once an entity has updated its systems, the IASB expects costs to be only marginally higher compared to those incurred when applying IAS 17.



Costs to arise from determining discount rates for each new or modified lease.



Costs to arise from reassessment of the lease term—and thereby a reassessment of the discount rate and lease payments—after its initial determination when required by IFRS 16.



Costs of remeasuring lease liabilities in relation to leases that include inflation-linked payments.

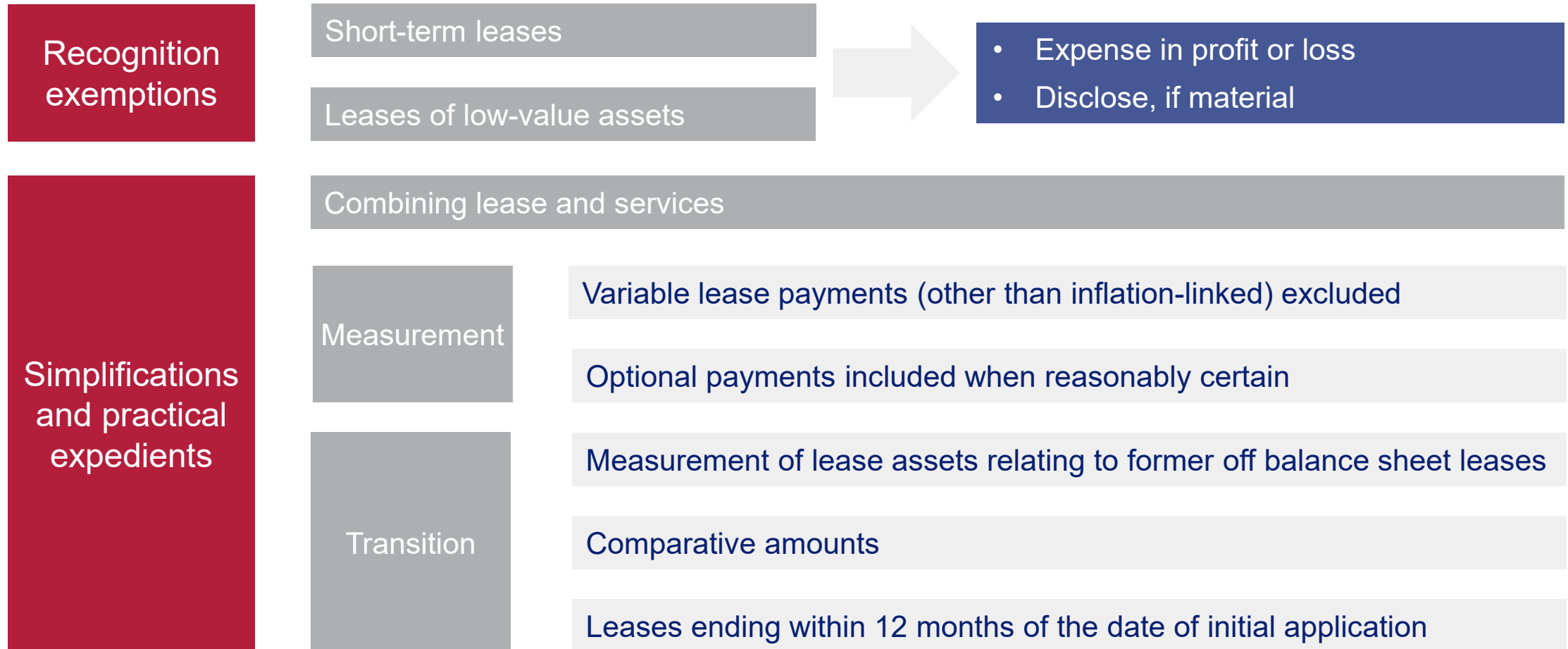


Costs of applying the disclosure requirements in IFRS 16.



Reduced costs because a lessee is no longer required to classify leases as finance leases or operating leases.

Key cost reliefs



Detailed information to support outreach

IFRS 16—topic areas

1 Identifying a lease

2 Lease term

3 Lessee

4 Lessor

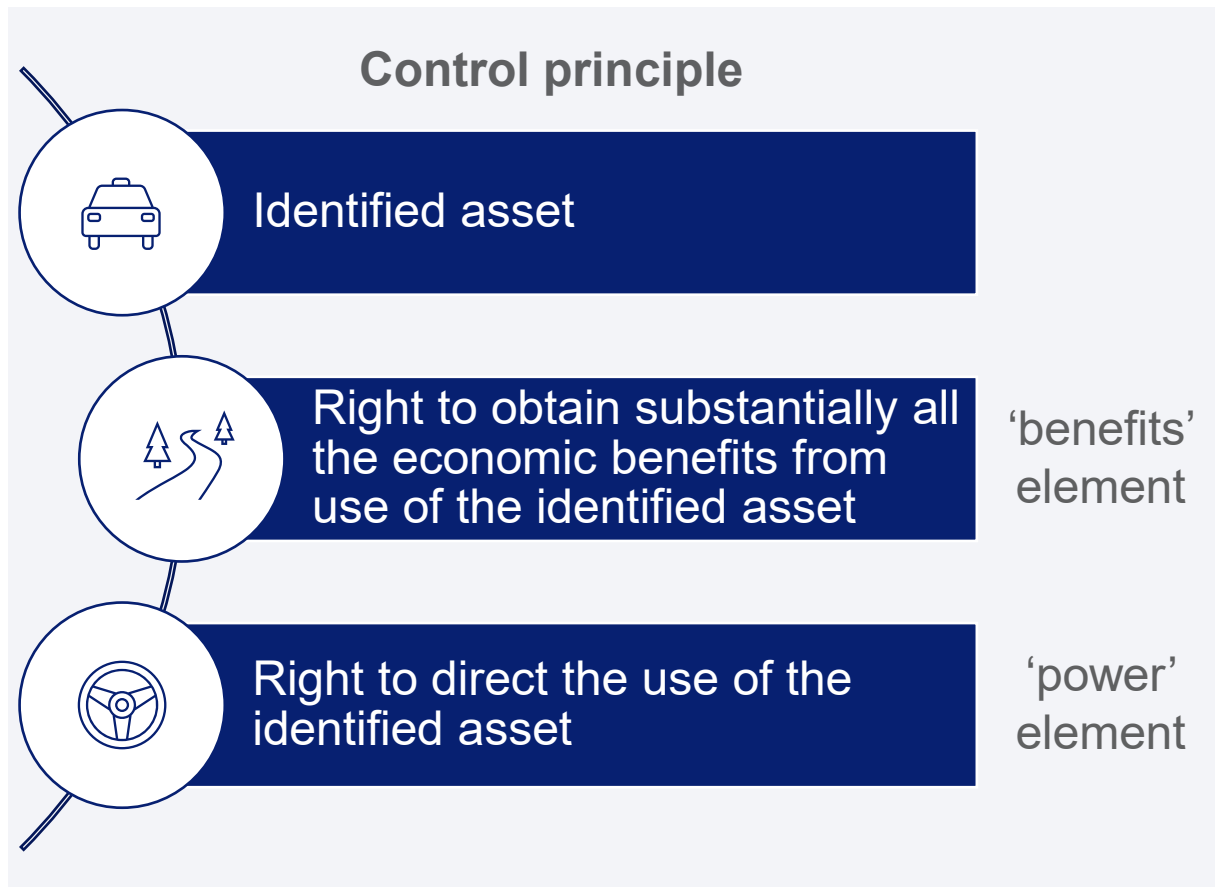
5 Sale and leaseback transactions

6 Transition

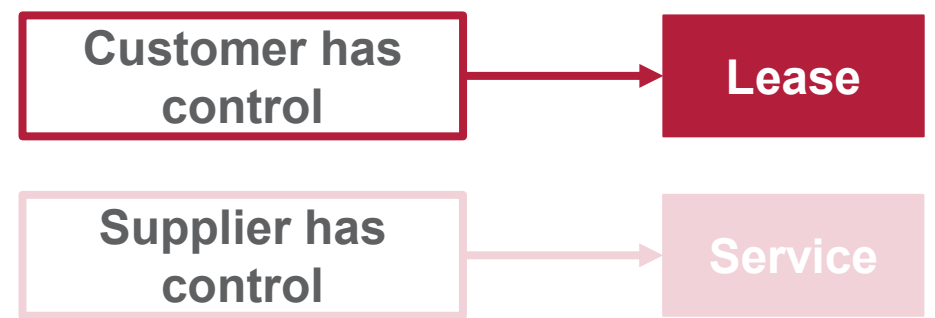
7 Interaction with other IFRS Accounting Standards

1. Identifying a lease

Right to **control the use** of an identified asset for a period of time in exchange for consideration.

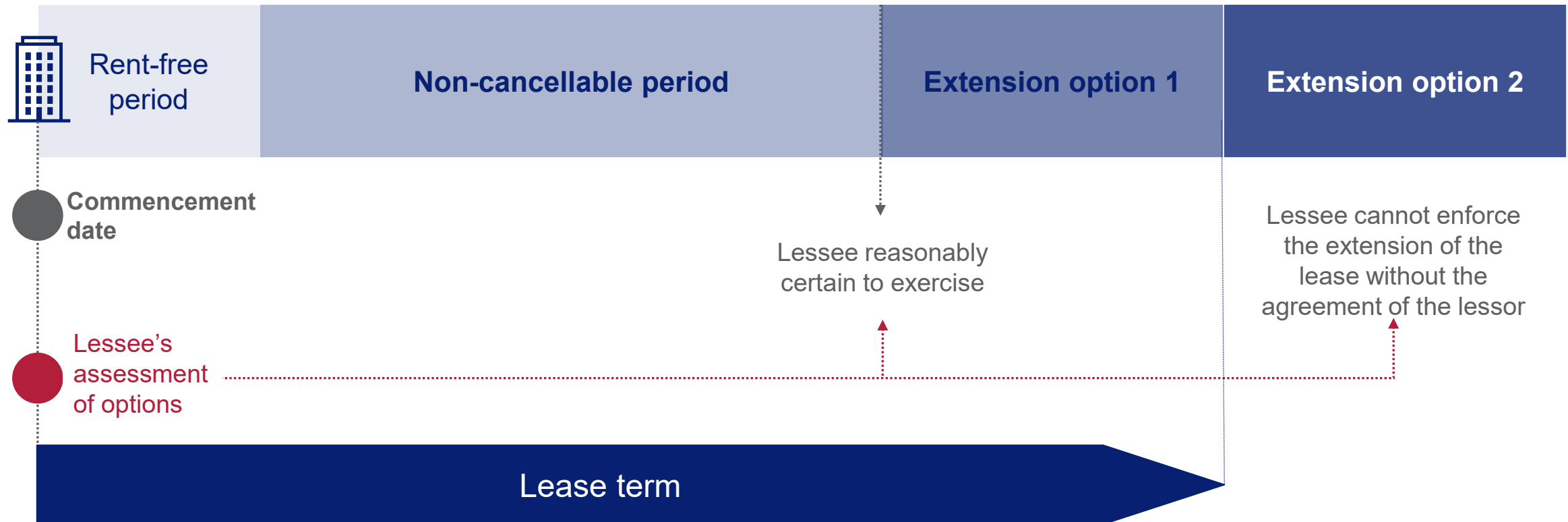


IFRS 16 retains the definition of a lease in IAS 17 but changes the application guidance.



2. Lease term

The non-cancellable period for which a lessee has the right to use an underlying asset together with periods covered by an extension (or termination) option if the lessee is reasonably certain to exercise (or not to exercise) that option.

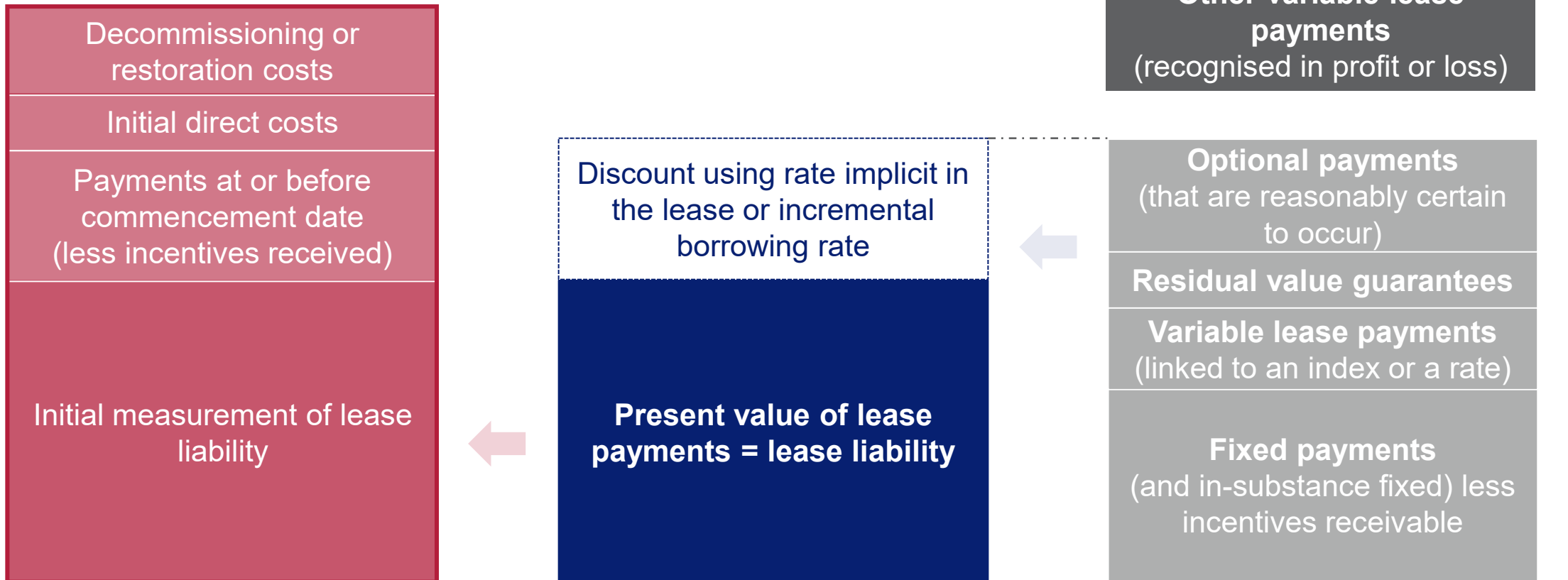


3. Lessee—initial measurement

Right-of-use asset

Lease liability

Lease payments during the lease term



3. Lessee—subsequent measurement

Right-of-use asset

Cost model

Revaluation model

Fair value model
(investment property)

Lease liability

+ Increase the carrying amount to reflect interest on the lease liability

- Reduce the carrying amount to reflect the lease payments made

Remeasure the carrying amount to reflect any **reassessment** or **lease modifications** (unless a lease modification is accounted for as a separate lease) **+** **-**

i **Lease modification**—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.

Reassessment—reflects a change in (1) the lease term, (2) the assessment of an option to purchase, (3) the residual value guarantee or (4) future lease payments that depend on an index or a rate.

3. Lessee—disclosures

Objective: to disclose information that, together with the information provided in the primary financial statements, gives a basis for users to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.



Quantitative and qualitative information that would satisfy the **objective**

- Breakdown of lease-related expenses
- Total cash outflow for leases
- Information about right-of-use assets by class of asset being leased
- Maturity analysis of the lease liabilities
- Gains or losses from sale and leaseback transactions
- Income from subleasing



- Entity-specific additional information, for example:
- The nature of the lessee's leasing activities
 - The effect of extension and termination options, or variable lease payments, on future cash outflows to which the lessee is potentially exposed

4. Lessor

Substantially no change to lessor accounting compared to IAS 17. Disclosure is enhanced.

Dual classification model

Finance lease

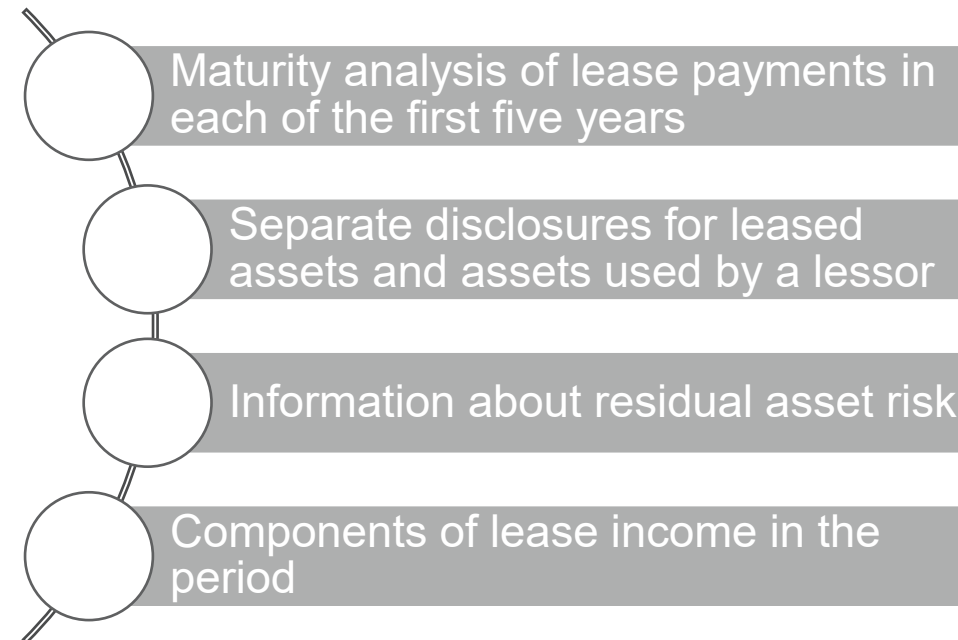
Operating lease

Subleases—Intermediate lessor

Account for head lease and sublease as two separate contracts

Classify a sublease with reference to the right-of-use asset arising from the head lease

Enhanced disclosures



5. Sale and leaseback transactions

Does the transfer of an asset satisfy the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale of the asset?

Transfer of the asset is a sale

Seller-lessee

- Measure the right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the rights **retained**.
- Recognise any gain or loss that relates to the rights **transferred**.

Buyer-lessor

- Recognise the transferred asset applying applicable Accounting Standard.
- Apply lessor accounting requirements in IFRS 16.

Transfer of the asset is *not* a sale

- Continue to recognise the transferred asset.
- Recognise a financial liability equal to the transfer proceeds and apply IFRS 9.

- Do not recognise the transferred asset.
- Recognise a financial asset equal to the transfer proceeds and apply IFRS 9.

6. Transition

	Full retrospective	Retrospective with the cumulative effect recognised at the date of initial application
Definition of a lease	An entity permitted to apply IFRS 16 to contracts previously identified as leases and not to apply IFRS 16 to contracts that were not previously identified as leases.	
Comparative information	Applying IFRS 16.	Applying IAS 17.
Right-of-use assets (ROU) and lease liabilities at the date of initial application	As if IFRS 16 had always been applied.	<p>Previous operating leases</p> <ul style="list-style-type: none"> • ROU measured (1) as if IFRS 16 had always been applied but using the lessee's incremental borrowing rate (IBR) at the date of initial application; or (2) at an amount equal to the lease liability. • Lease liability = remaining lease payments discounted using IBR at the date of initial application. <p>Previous finance leases</p> <p>The carrying amount of the ROU and lease liability at the date of initial application = the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.</p>
Disclosures	As required by paragraph 28 of IAS 8.	Same but instead of paragraph 28(f) of IAS 8 some additional information required.

Lessors (except for intermediate lessors) not required to make any adjustments on transition.

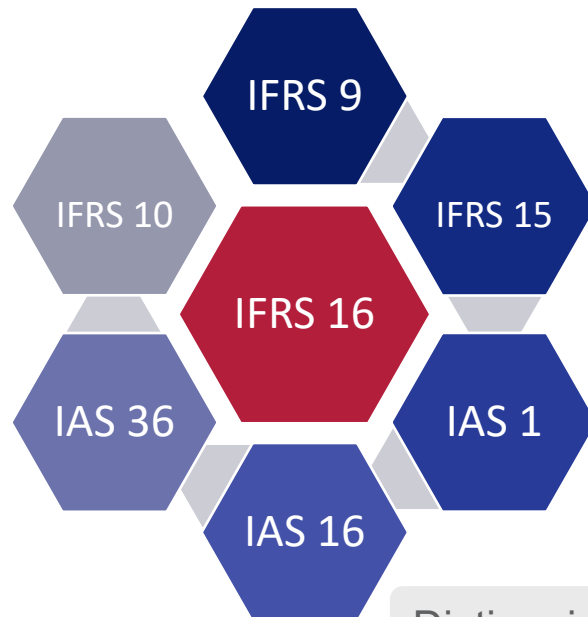
7. Interaction with other IFRS Accounting Standards

Examples

- Measurement of unguaranteed residual values and expected credit losses (ECL)
- Lessee accounting for lease payments forgiven

Sale and leaseback of an asset in a single-asset entity

Impairment testing of right-of-use assets, for example determining the cash flows to include and the appropriate discount rates to use



Assessment of whether the transfer of an asset is a sale in a sale and leaseback transaction

Presentation of the ECL allowance of a lease receivable in the statement of financial position

Distinguishing between a lease and a sale or purchase

Appendix A

IFRS 16 vs. US GAAP

(Topic 842)

IFRS 16 and Topic 842—comparison

		IFRS 16	US GAAP (FASB model)	
			Former ON balance sheet leases	Former OFF balance sheet leases
Statement of financial position				
<i>Recognition</i>	All leases on balance sheet	✓	✓	✓
	Exemption for short-term leases	✓	✓	✓
	Exemption for leases of low-value assets	✓	---	---
<i>Measurement</i>	Lease liabilities on a discounted basis	✓ ¹	✓ ¹	✓ ¹
	Initial right-of-use asset=lease liability	✓	✓	✓
	Depreciation of right-of-use assets	Typically straight-line	Typically straight-line	Typically increasing ²
Statement of profit or loss				
Operating costs		Depreciation	Depreciation	Single expense
Finance costs		Interest	Interest	---
Statement of cash flows				
Operating activities		Interest ³	Interest	Interest and principal
Financing activities		Principal	Principal	---
Other main differences				
Sale and leaseback transactions		Partial gain or loss recognition	Full gain or loss recognition	
Subleases—classification by an intermediate lessor as either operating or finance lease		Determined by reference to the right-of-use asset	Determined by reference to the underlying asset	

¹ Lease liabilities are measured in the same way applying IFRS 16 and the FASB model, except that inflation-linked payments are reassessed when those payments change applying IFRS 16 but are not when applying the FASB model.

² Right-of-use assets are measured at an amount that achieves the recognition of a single lease expense typically on a straight-line basis.

³ Applying IAS 7 *Statement of Cash Flows*, interest payments can be presented within operating, investing or financing activities. IFRS 18 *Presentation and Disclosure in Financial Statements* has made limited changes to the statement of cash flows. IFRS 18 is effective from 1 January 2027.

IFRS 16 is the result of the joint project of the IASB and the FASB. Both boards reached different decisions about the lessee accounting model.

Follow us online

 [ifrs.org](https://www.ifrs.org)

 [@IFRSFoundation](https://twitter.com/IFRSFoundation)

 [IFRS Foundation](https://www.youtube.com/IFRSFoundation)

 [International Accounting
Standards Board](https://www.linkedin.com/company/ifrs-foundation)