

6 October 2025

Andreas Barckow  
Chair, International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London, E14 4HD

Dear Dr Barckow

## **Request for Information – Post-implementation Review of IFRS 16 Leases**

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the Board's') Request for Information – Post-implementation Review of IFRS 16 *Leases* ('the RFI').

We note that questions persist in respect of several aspects of IFRS 16 (as highlighted in the RFI), in particular in respect of both the scope and practical application of the requirements on sale and leaseback transactions. We believe the post-implementation review is the appropriate time to address these issues in a holistic manner with a view to making targeted amendments to IFRS 16 as necessary. For sale and leaseback transactions, we believe that the application of a full gain or loss recognition approach should be considered and clear guidance on the applicability of these requirements to 'over time' sales provided. Applying a full gain or loss recognition approach would be a move towards alignment with U.S. GAAP and, more generally, we encourage the Board and the Financial Accounting Standards Board ('FASB') to take the opportunity of their concurrent post-implementation reviews to consider whether convergence could be achieved in other areas of lease accounting.

Our detailed responses to the questions in the RFI, together with issues on which we believe action by the Board could be of benefit are included in the appendix. We note that these responses are primarily from our perspective as auditors of financial statements. Users and preparers of financial statements are better placed to comment on the usefulness and costs of preparation, respectively, of the information required by IFRS 16.

If you have any questions concerning our response, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', enclosed in a thin black rectangular border.

**Veronica Poole**

Deloitte Global IFRS and Corporate Reporting Leader

## Appendix – Responses to the specific questions in the Request for Information

### Question 1 – Overall assessment of IFRS 16

- (a) In your view, is IFRS 16 meeting its objective 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.
- (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.

We agree that IFRS 16 has generally met its stated objective of recognition in the statement of financial position of the assets and liabilities arising from leasing transactions and that the calculations required by IFRS 16 are, although requiring significant judgement in many cases as highlighted under Question 2 below, auditable.

### 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.
- (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).

Whilst we believe that the judgements required to be taken in applying IFRS 16 are, in general, auditable there are areas in which the judgements to be made are consistently difficult. These include:

- Assessing the lease term, specifically the concept of ‘reasonable certainty’ for leases with multiple renewal or termination options.

- Identifying a ‘triggering event’ necessitating reassessment of the lease term.
- Distinguishing between a lease and in-substance purchase transaction and between lease modifications that should, or should not, be considered separate leases.
- Determining when (as referred to in paragraph BC261 of the basis for conclusions on IFRS 16) the requirements for sale and leaseback transactions should be applied to “other forms of transactions for which the economic effect is the same as a legal sale and leaseback (for example, a sale and leaseback transaction may be structured in the form of a lease and leaseback)” or to sale and leaseback transactions over part of an asset (for example, sale of a building with leaseback of only one of its floors).

### **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.

We agree that the detailed requirements of IFRS 16 in respect of cash flow classification were helpful in driving consistency application. However, the need for these requirements and other disclosure requirements added to IFRS 16 in respect of lease-related cash flows highlight some general issues with IAS 7 *Statement of Cash Flows* that should be considered in the context of the Board’s current project *Statement of Cash Flows and Related Matters* with a view to amending IAS 7 as necessary. We observe that:

- Were the requirements for classification of cash flows in IAS 7 clearer and/or better understood, they would not need to be supplemented by specific requirements in other IFRS Accounting Standards.
- There is no consistency in the standard-setting approach on when to require additional cash flow statement related disclosures. For example, IFRS 16 introduced a requirement to disclose the total cash flows relating to leases, whereas IFRS 3 *Business Combinations* does not require disclosure of the equally relevant information of total cash flows relating to a business combination.
- The requirements for disclosure of non-cash transactions in IAS 7 are vague (“shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information”) and not well understood. For example, it is unclear what additional information is required beyond the specific requirements of IFRS 16.

## **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.

We believe that preparers of financial statements are better placed to comment on the ongoing costs of applying 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.

We note that IFRS 16, in common with other recently published IFRS Accounting Standards, provides preparers with a choice of transition models with differing detailed requirements depending on which is selected. Whilst we do not object to this approach, we believe it should be applied with caution avoiding unnecessary diversity through multiple transition options when possible. We also note that the detailed requirements accompanying multiple transition options tend to be incorporated via cross-references between paragraphs of the transition section of a standard that can quickly become complex and confusing. A separate description of each transition model, possibly supported by an illustrative example, could in many cases be more understandable.

Any 'grandfathering' provisions should be introduced with particular care since their effect, which depends on the lifespan of affected contracts, can span several years and necessitate continued knowledge of predecessor guidance.

In addition, we note that a significant number of issues related to the interaction of IFRS 16 with other IFRS Accounting Standards have been encountered both on transition to IFRS 16 and subsequently. We recommend that cross-cutting issues be considered carefully prior to the publication of significant new accounting standards.

## **Question 6.1 – Applying IFRS 16 with IFRS 9 for 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.

Whilst rent concessions were particularly prevalent during the COVID-19 pandemic, they continue to be a feature of many economies. Concessions are often granted due to the inability of a lessee to make lease payments in full (which might be seen as more in the nature of an extinguishment), due to issues related to the availability or utility of the leased asset (which might be seen as more in the nature of a lease modification), or due to a combination of the two.

Given this, we believe the IFRS Interpretations Committee’s recommendation (referred to in Spotlight 6.1) of a limited-scope standard-setting project should be followed with the aim of addressing the current diversity in practice arising from the differing requirements of IFRS 9 and IFRS 16. This should provide guidance on which requirements to apply, including the factors to consider when either an IFRS 9 or IFRS 16 approach might seem plausible.

## **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.

We recognise the challenge of determining whether a sale and leaseback transaction should be considered a sale in the circumstances described in Spotlight 6.2.

More broadly, we note that it is currently unclear whether the sale and leaseback guidance applies only to assets that, following the requirements of IFRS 15, would be considered sold at a point in time or whether it also applies to assets sold over time. This is particularly relevant to transactions in respect of partially constructed assets. In such transactions it is not clear whether the ‘sold’ partially constructed asset transferred over time should be considered as distinct from the ‘leased back’ completed asset. If such a transaction is

seen as primarily a form of financing, and therefore subject to the sale and leaseback requirements, it may result in a significantly different accounting outcome compared to a sale with full gain recognition. We note that improvements to U.S. GAAP guidance on leases of assets under construction have also been suggested during FASB's post-implementation review process and believe that this may be an area on which the two boards could usefully co-operate to simplify and align their requirements, thus improving consistency of application in practice.

We believe that this issue should be clarified through a limited-scope amendment to IFRS 16, possibly in conjunction with a broader reassessment of sale and leaseback accounting as suggested in our response to Question 6.3 below.

**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.

Whilst we acknowledge the conceptual merits of gain (or loss) restriction in respect of sale and leaseback transactions, we are also, as noted at Question 6.2 above, conscious of many practical issues in its application. In particular, when the leaseback includes variable lease payments the question of whether the resulting right-of-use asset is a new asset or a retained portion of the underlying asset becomes relevant and remains unresolved.

Given this, we believe that an approach, similar to that already applied under U.S. GAAP, of full gain or loss recognition should be considered. When the buyer-lessor obtains control of the underlying asset and a sale as defined in IFRS 15 has occurred, the right-of-use asset obtained can be argued to be a substantively different asset to the underlying asset disposed of. Full gain or loss recognition to the extent that the sale is at fair value would be straightforward to apply and should lead to more consistent application in practice, if properly accompanied by guidance on the assessment of repurchase options in determining whether a sale has occurred.

This approach, in our view, can be argued to be more consistent with lessor accounting, which does not restrict gain recognition at commencement of a finance lease, and would address many practical application issues that exist under the current approach.

## 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.

In our response to the Board’s Request for Information on its post-implementation review of IFRS 15, we highlighted cross-cutting issues between IFRS 15 and IFRS 16, including the two standards’ differing approaches to modifications and recognition of income when collectability is not considered probable. Whilst those issues remain relevant and unresolved, there are other questions on the interactions between IFRS 16 and requirements of other standards:

- It is not clear how the requirements of IAS 16 *Property, Plant and Equipment* on depreciation apply to right-of-use assets when lease payments include both fixed and variable components, in particular whether there is any mechanism that can (or should) mitigate the effect of ‘back loading’ of depreciation when variable lease payments become in-substance fixed over the course of the lease, or when a lease is structured with fixed lease payments early in the lease term and variable payments in later periods.
- Particularly in respect of renewable energy generating assets, which are rapidly becoming more significant to the global economy, the application of the ‘purpose and design’ concept in the context of an asset (rather than, as it was originally devised for IFRS 10 *Consolidated Financial Statements*, an entity) remains challenging. For example, employing an engineer to lay out a solar array in the most efficient manner might be more likely to be seen as ‘design’ of that asset than as ‘design’ of the entity in which it is housed. It is unclear whether the concept of control under each IFRS Accounting Standard might be expected to differ due to this distinction.
- Applying the requirements of paragraph 45(c) in circumstances where only some (potentially, only a small proportion of) lease payments are amended can, as a result of revising the discount rate for the lease liability as a whole, give an outcome that is inconsistent with that applied to other financial liabilities under IFRS 9, which distinguishes between modifications that are significant and those that are not, and can be viewed as overstating the extent to which an entity’s financial position has changed.

We believe these relatively discrete issues may be suitable for referral to the IFRS Interpretations Committee if not addressed by means of a limited scope standard-setting project as part of the post-implementation review of IFRS 16.