iGAAP in Focus
Financial reporting

IASB seeks views on the post-implementation review of IFRS 16

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This *iGAAP in Focus* outlines the Request for Information (RFI) *Post-implementation Review of IFRS 16 Leases*, published by the International Accounting Standards Board (IASB) in June 2025.

- The IASB launched a call for stakeholders' feedback on its post-implementation review (PIR) of IFRS 16 *Leases*
- In particular, the IASB is asking questions on the following areas:
  - Overall assessment of IFRS 16
  - Usefulness of information resulting from a lessee's application of judgement
  - Usefulness of information about a lessee's lease-related cash flows
  - Ongoing costs for a lessee of applying the measurement requirements
  - Potential improvements to future transition requirements
  - Other matters relevant to the assessment of the effects of IFRS 16
- The RFI is open for comments until 15 October 2025.

For more information please see the following websites:

www.iasplus.com
www.deloitte.com

Background

IFRS 16 *Leases* was issued in 2016 and became effective for annual periods beginning on or after 1 January 2019. IFRS 16 was developed jointly with the US Financial Accounting Standards Board (FASB) and created a comprehensive and robust framework for the recognition, measurement and disclosure of leases.

In 2024, the IASB started its PIR of IFRS 16. The IASB now published an RFI seeking information on the matters identified in the first phase of the PIR and any other information relevant to the PIR.

Questions for stakeholders

Overall assessment of IFRS 16

IFRS 16 sets out 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 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.

To meet the objective, IFRS 16 introduced a single lessee accounting model in which a lessee accounts for all leases as providing finance, meaning that 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:

- to recognise lease assets (right-of-use assets) and lease liabilities in the statement of financial position
- to recognise depreciation of lease assets and interest on lease liabilities over the lease term in the statement of profit or loss
- to classify cash payments in the statement of cash flows for:
  - the principal portion of lease liabilities within financing activities
  - 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 *Leases*. 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.

> **Observation**
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> Initial feedback suggests that IFRS 16 is working as intended, has achieved its objective and has improved financial reporting. Most users said that 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). However, many preparers said it is unclear whether IFRS 16 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 coordination between the accounting and business functions.

The IASB asks stakeholders whether IFRS 16 is meeting its objective and whether its core principles are clear. Stakeholders are also asked whether the overall improvements to the quality and comparability of financial information about leases are largely as the IASB expected.

The IASB would also like to know whether the overall ongoing costs of applying the requirements, including auditing and enforcing their application are largely as the IASB expected.

Usefulness of information resulting from a lessee's application of judgement

IFRS 16 introduced a new definition for the lease term, new requirements for discount rates and new requirements for variable lease payments.

Observation

Initial feedback suggests that determining the lease term involves complex judgements. Many stakeholders said 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.

Stakeholders also noted that interest rates implicit in leases are not directly observable or cannot be readily determined.

In addition, some stakeholders found it sometimes difficult to determine whether variable lease payments are variable lease payments that depend on an index or rate, variable lease payments linked to future performance or use of an underlying asset, or in-substance fixed lease payments.

The IASB asks stakeholders whether they agree that the usefulness of financial information resulting from lessees' application of judgement is largely as the IASB expected. If stakeholders consider that lessees' application of judgement has a significant negative effect on the usefulness of financial information, stakeholders are asked to explain why.

The IASB also asks stakeholders whether they 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 and to explain the reasons if they should disagree.

If stakeholders believe that the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, they are asked to explain:

- which amendments the IASB should make to the requirements and how the benefits of the solution would outweigh the costs, or
- what additional disclosures about lessees' application of judgement should be required and how the benefits of these disclosures would outweigh the costs.

Usefulness of information about lessees' lease-related cash flows

IFRS 16 introduced requirements that prescribe how an entity should classify cash payments related to leases in the statement of cash flows. IFRS 16 also introduced disclosure requirements about the total cash outflow for leases, as well as additional qualitative and quantitative information about an entity's leasing activities.

Observation

Initial feedback suggests that IFRS 16 has improved the transparency and quality of information about leases that lessees present and disclose in the financial statements. However, some stakeholders raised concerns about the presentation of lease-related cash flows in the statement of cash flows and the related disclosures. These stakeholders said that the presentation of lease-related cash flows in the statement of cash flows is complex for users to analyse.

The IASB asks stakeholders whether they 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. Stakeholders with the view that the improvements are significantly lower than expected, are asked to explain the reasons for their view.

Ongoing costs for lessees of applying the measurement requirements

IFRS 16 introduced new requirements for discount rates, for the subsequent measurement of a lease liability, for the reassessment of a lease liability and for lease modifications.

Observation

Initial feedback suggests that determining the discount rate a lessee should use (i.e. the lessee's incremental borrowing rate) remains costly and challenging due to complexity. Some stakeholders 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 also expressed concerns about the cost-benefit balance of the requirements for subsequent measurement of the lease liability.

The IASB asks stakeholders whether they agree that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected. If stakeholders think that the ongoing costs are significantly higher than expected, they are asked to explain the reasons for that view, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs, and how they propose that the IASB reduce these costs without a significant negative effect on the usefulness of financial information about leases.

Potential improvements to future transition requirements

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 permitted a lessee to apply the standard either:

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

Observation

IInitial feedback suggests that entities have used both transition methods, with the modified retrospective approach (without restating comparative information) being the more commonly used approach for cost-benefit reasons. Stakeholders also said that the practical expedients are helpful.

The IASB asks stakeholders whether, based on their experience with the transition to IFRS 16, they would recommend that the IASB should do anything differently when developing transition requirements in future standard-setting projects. If so, stakeholders are asked to explain how their idea would ensure that users have enough information to allow them to understand the effect of any new requirements on the entity's financial performance, financial position and cash flows, and that preparers can appropriately reduce their transition costs when implementing new requirements for the first time.

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

Perspectives on applying IFRS 16 with IFRS 9 Financial Instruments to rent concessions

The IFRS Interpretations Committee (IFRS IC) discussed how a lessor and a lessee account for a rent concession in which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract, resulting in partial extinguishment of the lessee's lease liability. That discussion highlighted that a rent concession may be accounted for applying either IFRS 9 (as a partial extinguishment) or IFRS 16 (as a lease modification). As a result, the IFRS IC recommended that the IASB should consider a narrow-standard setting project to clarify how a lessee distinguishes which standard applies to a rent concession. As part of the *Annual Improvements to IFRS Accounting Standards* issued in July 2024, the IASB amended IFRS 9 to clarify that, when a lessee has determined that a lease liability has been extinguished in accordance with IFRS 9, the lessee is required to apply IFRS 9:3.3.3 and recognise any resulting gain or loss in profit or loss. At the time the IASB concluded that clarifying that interaction between IFRS 9 and IFRS 16 is beyond the scope of an annual improvement.

Observation

Initial feedback suggests that 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.

The IASB asks stakeholders how often they have observed this type of rent concession and whether they have observed diversity in how lessees account for rent concessions that has had, or that stakeholders expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information.

If stakeholders think that the IASB should act to improve the clarity of the requirements, they are asked to describe their proposed solution and explain how the benefits of the solution would outweigh the costs.

Perspectives on applying IFRS 16 with IFRS 15 Revenue from Contracts with Customers when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale
In the PIR 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. Situations identified as giving rise to difficulties in practice include, among others:

- a leaseback transaction with seller-lessee's renewal options that extend for substantially all the remaining economic life of the underlying asset

- leaseback of an asset that differs from the asset sold (e.g. sale of an unrenovated building, and leaseback of a renovated building).

The IASB asks stakeholders how often they have observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale. Stakeholders are also asked whether they have observed diversity in seller-lessees' assessments of the transfer of control that has had, or that stakeholders expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information.

If stakeholders think that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, they are asked to describe their proposed solution and explain how the benefits of the solution would outweigh the costs.

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 only to the rights transferred to the buyer-lessor.

Observation
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.

The IASB asks stakeholders whether they agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information. Stakeholders are also asked what new evidence or arguments they have 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.

If stakeholders think that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, they are asked to describe their proposed solution.

Other matters
The IASB asks stakeholders whether there are any further matters that the IASB should examine as part of the PIR of IFRS 16. If so, stakeholders are asked to explain why, considering the objective of a PIR as set out in the *Due Process Handbook*.

Comment period and next steps
The RFI is open for comments until 15 October 2025.

After the comment period ends, the IASB will consider comments from the public consultation along with information gathered from any additional analysis and consultation. The IASB will then publish a report and feedback statement summarising its findings and next steps. The next steps can include referring a matter to the IFRS IC, providing materials to support the consistent application of the requirements or considering possible standard setting.

Further information

If you have any questions about the RFI, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus.*

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