



5 September 2025

Dr Keith Kendall
Chair
Australian Accounting Standards Board
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Submitted via email: standard@asb.gov.au

Dear Dr Kendall

Invitation to Comment (ITC) 55 Post-Implementation Review of AASB 16 Leases

The Institute of Public Accountants (IPA) welcomes the opportunity to provide comments on the above ITC.

General Comment

Overall, IPA is of the view that the costs and benefits of the leases Standard are largely as the IASB expected. That is, the Standard has met its objective and its core principles are clear and improve the quality and comparability of financial information about leases, while the initial implementation cost was higher compared to the on-going costs of applying the requirements.

IPA notes the costs are disproportionately higher for SMEs and NFP entities, which have less resources to invest in understanding the requirements, make the necessary judgements (for which there are many) and developing the necessary IT systems to account for the leases. We also think the ongoing costs of applying the requirements disproportionately affect SMEs and NFP entities compared to the larger and better resourced entities.

Despite the above, IPA is of the view that the benefits of improved quality of financial information for leases outweigh the initial and on-going costs of applying the Standard. That is, the Standard requires a lessee to initially recognise all leases (operating and financial leases) on the balance sheet, and subsequently account for them through the profit and loss and balance sheet. This essentially accounts for the substance of a lease as an entity's financial obligation that is associated with the lease assets and liabilities. Such information is useful to users in assessing an entity's assets and liabilities and how management finances and manages its assets in delivering the entity's objectives. The Standard, therefore, increases the transparency and quality of financial information on leases.

To reduce the disproportionate cost to SMEs and NFP entities in applying the requirements, IPA recommends that the IASB and AASB provide guidance in areas where these entities find challenging when applying judgment. For examples, determining the lease term, Incremental borrowing rates, discount rates and interest rates implicit in a lease and variable lease payments, including those that are linked to Consumer Price Index.

Further details of our comments on the above are contained in the related questions in Attachment 1.

SPECIFIC COMMENT

Our responses to the specific questions in the ITC are in Attachment 1.

For any questions relating to this submission, please contact Vicki Stylianou, Group Executive Advocacy and Professional Standards, Institute of Public Accountants at vicki.stylianou@publicaccountants.org.au.

Yours sincerely



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Attachment 1 – IPA’s responses to ITC 55 specific questions

SECTION 1: AASB GENERAL MATTERS FOR COMMENT

Q1. Are there any regulatory issues or other issues arising in the Australian environment that adversely affect the application of AASB 16 Leases?

IPA is not aware of any regulatory issues or other issues arising in the Australian environment that adversely affect the application of AASB 16 .

Q2. Does the application of the requirements in AASB 16 result in major auditing or assurance challenges?

As stated in IPA’s comment to Question 1 of “Section 3: IASB Request for Information”, the cost of implementing the leases Standard was high as an entity needed to:

- Apply the new accounting model to many contracts
- Apply significant judgment to determine the discount rates and lease terms and
- Implement IT solutions to capture the data and perform the necessary calculations for the lease accounting.

These implementation costs were disproportionately higher for SMEs and NFP entities, which have less resources to invest in understanding the requirements, experience in make the necessary judgements (for which there are many) and developing the necessary IT systems to account for the leases.

IPA’s observations are that the larger and well-resourced entities were better able to apply the requirements of AASB 16, and therefore better able to address any auditing or assurance challenges that arise. In contrast, SMEs and NFP entities were likely to have more auditing or assurance challenges, particularly in evidencing that the data and IT systems that capture the data and perform the necessary calculations for the lease accounting are accurate and consistent.

Q3. Are the requirements in the best interests of the Australian economy

IPA is of the view that overall, AASB 16 improves financial reporting by requiring a lessee to initially recognise all leases (operating and finance leases) on the balance sheet, and subsequently account for them through the profit and loss and balance sheet. This essentially accounts for the substance of a lease as an entity’s financial obligation associated with the lease asset and liabilities. Such information is useful to users in assessing an entity’s assets and liabilities and how management finances and manages its assets in delivering the entity’s objectives. The standard, therefore, increases the transparency and quality of financial information on leases.

SECTION 2: NFP AND PUBLIC SECTOR TOPICS FOR COMMENT

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

Q1. 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?

The correct initial recognition and subsequent accounting of leases under AASB 16 requires the collection and input of accurate data for the necessary calculations. This data capture, calculation and associated disclosures are greater under the current AASB 16 than the previous AASB 117. Consequently, there would still be ongoing costs in applying AASB 16 and auditing and regulating its applications. Given in general, the resources of NFP and smaller entities are less compared to larger private sector entities, these costs would have a disproportionately greater impact on NFP and smaller entities. However, these costs would be considerably less compared with the costs in the initial application of AASB 16. However, IPA is of the view that the accounting requirements for leases under AASB 16 result in financial statements that are more useful than financial statements prepared under the previous AASB 117. Therefore, the ongoing costs would justify their accounting treatment.

Topic 2: Determining the lease term

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

Q2. the application of the requirements in practice by NFP and public sector entities?

Q3. whether differences in application exist in practice in the NFP and public sector?

Q4. 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.

Determining the lease term requires an understanding and application of the generally accepted accounting principles of what constitutes “significant” for determining “insignificant penalty” and “reasonable” certainty to exercise an option to extend a lease.

As per IPA’s comment to Questions 1(c) and 2 of “Section 3: IASB Request for Information”, SMEs and NFP entities are likely to have less resources and experience in understanding and applying the requirements, compared to the larger entities. Consequently, a lessee’s application of judgment by SMEs and NFP entities may find it challenging in determining the lease term. Consequently, IPA recommends that the AASB develop further guidance in their area. We also commend the AASB in its simplification of lease accounting for the proposed Tier 3 reporting entities.

Topic 3: Lease modifications

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

Q5. the application of the requirements in practice by NFP and public sector entities?

Q6. whether differences in application exist in practice in the NFP and public sector?

Q7. 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.

As per IPA's comment to Question 4 of "Section 3: IASB Request for Information".

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

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

Q8. 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?

Q9. whether differences in application exist in practice in the NFP private sector?

Q10. 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.

As per IPA's comment to Question 2 of "Section 1: AASB General Matters for Comment", SMEs and NFP entities are likely to have less resources to invest in understanding the requirements and experience in making the necessary judgements in accounting for the leases. This extends to determining the incremental borrowing rate. Given these challenges, it is likely there would be differences in applying the requirements in the NFP private sector.

Topic 5: NFP public sector concessionary leases

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

Q11. whether there are any reasons to remove the current accounting policy choice to measure initially concessionary ROU assets at either cost or fair value?

Q12. whether the temporary accounting policy choice for NFP public sector entities should be made permanent?

Q13. 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.

IPA have no comments on this topic.

Topic 6: Sale and leaseback arrangements

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

Q14. the application of the requirements in practice by public sector entities?

Q15. whether differences in application exist in practice in the public sector?

Q16. 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.

IPA have no comments on this topic.

Topic 7: Other matters

Q17. 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.

IPA has no further comments.

SECTION 3: IASB 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.

IPA is of the view that:

- (a) The core principles in the leases standard are sufficiently clear and the Standard has achieved its objective of ensuring that lessees and lessors provide relevant leases information that faithfully represents those transactions. This is because, the Standard requires lessees to:
 - Recognise all lease assets (as right-of-use assets) and lease liabilities in the statement of financial position, irrespective of whether it is an operating or financial lease
 - Recognise the depreciation of leased assets and interest on lease liabilities over the lease term in the statement of profit or loss and
 - Classify the cash payments in the statements of cashflows.
- (b) The overall improvements to the quality and comparability of financial information about leases are largely as the IASB expected in that it reduced the need for investors and analysts to adjust amounts reported by lessees. While this is important, it is less relevant to IPA members who are small-to-medium enterprises (SMEs) and not-for-profit (NFP) entities. Instead, the leases Standard improves financial reporting for IPA members by requiring a lessee to initially recognise all leases (operating and financial leases) on the balance sheet, and subsequently account for them through the profit and loss and balance sheet. This essentially accounts for the substance of a lease as an entity's financial obligation that is associated with the lease assets and liabilities. Such information is useful to users in assessing an entity's assets and liabilities and how management finances and manages its assets in delivering the entity's objectives. The Standard, therefore, increases the transparency and quality of financial information on leases.
- (c) However, the cost of implementing the leases Standard was high (as expected), as an entity needed to:
 - Apply the new accounting model to many contracts
 - Apply significant judgment to determine the discount rates, lease terms and other inputs for the calculation of the necessary lease information to be reported and
 - Implement IT solutions to capture the data and perform the necessary calculations for the lease accounting.

While these costs are high for many entities, they are disproportionately higher for SMEs and NFP entities, which have less resources to invest in understanding the requirements, make the necessary judgements (for which there are many) and developing the necessary IT systems to account for the leases. We also think the ongoing costs of applying the requirements disproportionately affect SMEs and NFP entities compared to the larger and better resourced

entities. This is despite our agreement that the overall ongoing costs of applying the requirements and auditing and enforcing their application are largely as the IASB expected.

On balance, IPA is of the view that the benefits of improved quality of financial information for leases outweigh the initial and on-going costs of applying the Standard. It is for this reason that IPA supports the simplified lease accounting by the standard-setters. In particular, the Australian Accounting Standards Board's (AASB) proposed simplified reporting for smaller (Tier 3) entities, which encompasses the simplified accounting and disclosures for leases.

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).

IPA is of the view that:

- (a) The usefulness of financial information from a lessee's application of judgement is largely as the IASB expected. However, this usefulness is predicated on an entity being able to understand the requirements so that judgement can be applied correctly and consistently across the entity's leases. Consistent with our response to Q1, SMEs and NFP entities are likely to have less resources and capacity to do so compared to the larger entities. Consequently, a lessee's application of judgment by SMEs and NFP entities may result in a significant negative effect on the usefulness of financial information where the entity does not have the necessary resources to comply with the requirements.
- (b) Overall, the requirements in leases Standard do provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently for entities that have experience in accounting for finance leases. However, where entities that traditionally have only operating leases, in particular SMEs and NPE entities, there is a considerable learning of the requirements to be applied correctly and accurately. This is because every input for the leased asset and leased liability calculations require judgement. For examples, judgements are required for determining the:
 - Lease term – in particular where the lease includes clauses relating to penalties and an option to extend a lease
 - Incremental borrowing rates, discount rates and interest rates implicit in a lease and
 - Variable lease payments, including those that are linked to Consumer Price Index.The incorrect application of judgement in any of the above may change the amount of leased assets and leased liabilities recognised initially and their subsequent accounting.

- (c) To improve the usefulness of financial information, the IASB could provide more guidance, especially for SMEs, on the key matters and/principles to consider when applying judgement in the example areas outlined in (b). IPA notes that it is not within the remit of the IASB to set standards for the NFP sector. However, we think that the guidance sought for SMEs could be written in a manner that would allow the NFP sector to apply.

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.

Overall, IPA is of the view that the required classification and presentation in the statement of cash flows are useful and 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. However, preparers and users, especially the SMEs and NFP entities, may find the required classification and presentation in the statement of cash flows complex and difficult on the initial implementation of the leases Standard.

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.

IPA is of the view that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected for the larger entities. However, for SMEs and NFP entities, the ongoing costs are significantly higher than expected, especially in remeasuring the carrying amount of the lease liability to reflect any reassessment or lease modification, unless a lease modification is accounted for as a separate lease. The complexity involved in a reassessment or lease modification has resulted in some SMEs and NFPs adopting business practices, where there is a modification to an existing lease, the entity enters into a new lease for the modified terms and accounts for it as a new lease. The practice thereby eliminates the need for the entity to remeasure the carrying amount of lease liability to reflect any reassessment or lease modification. Additionally, many of the SMEs and NFP entities would not have IT solutions that cater for a reassessment or lease modification. These entities, instead, would need to capture the data in another IT application, such as a spreadsheet and then manually reconcile the two IT systems.

Consistent with our comments in Q1 above, we think that there is merit in retaining the reassessment or lease modification requirements. However, IPA supports the simplified lease accounting by the standard-setters. In particular, the AASB's proposed simplified reporting for smaller (Tier 3) entities, which encompasses the simplified accounting and disclosures for leases.

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.

IPA is of the view that the transition requirements provided sufficient flexibility to allow an entity to select the transition provisions that are appropriate to their circumstance. That is, the Standard permits a lessee to elect to apply the Standard either “fully” retrospectively or retrospectively (without stating comparative financial information). The Standard also includes simplifications and practical expedients to provide cost relief for entities implementing the Standard.

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.

Rent concessions occur more often for NPF entities than they do for SMEs. IPA notes that a lessee can 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 liability under either:

- IFRS 9 *Financial Instruments* to the extinguished part of the lease liability or
- Lease modification requirements under IFRS 16

Both methods are difficult to navigate and apply for SMEs and NFP entities. We therefore recommend the IFRS Interpretations Committee consider undertaking a narrow-scope standard-setting project to clarify how a lessee distinguishes a lease modification under IFRS 16 or an extinguishment under IFRS 19.

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.

IPA supports the requirement 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 or lessor. We also agree with the IASB’s rationale for this accounting, so as to restrict the amount of the gain recognised on the sale of the asset in a sale and thereby reduce the incentive to structure such a transaction to achieve a preferred accounting outcome.

However, some SMEs and NFP entities that enter into a sales and leaseback find the calculations complex and the accounting challenging. This is particularly when there is a partial gain or loss in a sale and leaseback transaction, where the accounting is inconsistent under the requirements of IFRS 15 *Revenue from Contracts with Customers* and IFRS 16. Additionally, some NFP entities found it challenging to account for when an asset is sold or transferred for nominal consideration.

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.

Refer to IPA’s comments for Question 6.2.

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.

IPA has no further comments.