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Dr Andreas Barckow
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UNITED KINGDOM
(submitted via the IASB website)

15 October 2025

Dear Dr Barckow,

AASB submission on IASB Request for Information on Post-implementation Review of IFRS 16 *Leases*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on the International Accounting Standards Board (IASB) Request for Information on Post-implementation Review of IFRS 16 *Leases* issued in June 2025.

In formulating these comments, the views of Australian stakeholders were sought and considered. This included the following outreach activities:

(a) consultation with the AASB Project Advisory Panel, comprising subject matter experts across a range of stakeholder groups;

(b) consultation with the AASB User Advisory Committee, comprising a range of primary users of financial statements;

(c) three roundtables with participation from over 150 stakeholders;

(d) written submissions to AASB from Australian stakeholders; and

(e) other targeted consultations.

The AASB acknowledges the IASB's efforts to assess whether the effects of applying the IFRS 16 requirements on stakeholders are as intended when the standard was developed.

Overall, we agree that IFRS 16 has largely met its objective of improving the transparency and comparability of financial statements by requiring lessees to recognise most leases in the statement of financial position. However, feedback from our stakeholders indicates that these benefits are being undermined by inconsistent application and limited transparency about the significant judgements made by management, which in turn reduces comparability across entities. Stakeholders consistently reported higher than expected ongoing costs and continued use of pre-IFRS 16 measures for internal decision-making and communication to investors. Therefore, we recommend the following targeted improvements aimed at simplifying the Standard and reducing application costs:

(a) clarifying within the Standard that continuous reassessment of the lease options is not required, by incorporating the IASB's stated intention – as explained in paragraph BC 185 – into the main body of the Standard;

(b) removing the requirement to use the interest rate implicit in the lease when discounting lease payments;

(c) simplifying the subsequent measurement of lease liabilities by recognising the changes in lease payments resulting from movements in rates or indices directly in the income statement in the period they are incurred; and

(d) clarifying how the IFRS 15 *Revenue from Contracts with Customers* control criteria should be applied in sale and leaseback transactions.

In addition to these targeted improvements, we have also identified areas where additional guidance could improve consistency in application, reduce compliance costs and enhance the usefulness of financial information for users.

Our detailed recommendations and responses to the specific questions for respondents are in the Appendix to this letter. If you have any questions regarding this letter, don't hesitate to contact me or Helena Simkova, Director (hsimkova@aasb.gov.au).

Yours sincerely,

Dr. Keith Kendall
AASB Chair

APPENDIX

AASB responses to questions raised in the IASB Request for Information on Post-implementation Review of IFRS 16 *Leases*

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.**

The AASB acknowledges that IFRS 16 has contributed to enhanced transparency and comparability in financial reporting by requiring the recognition of leases on the statement of financial position. 62% of 108 responding stakeholders agreed that IFRS 16 result in providing useful information that faithfully represents the underlying economic activities. However, feedback from our stakeholders indicates that the benefits of the Standard are being undermined by practical challenges.

Stakeholders have raised concerns regarding the significant level of judgement required in applying certain aspects of IFRS 16. This has led to inconsistent application across entities, diminishing comparability and reducing the transparency of financial statements. Many stakeholders continue to rely on pre-IFRS 16 metrics in internal and external communication, largely due to the perception that the IFRS 16 accounting model does not accurately reflect the business operations – for example, rental costs are no longer reflected in EBITDA, a key performance measure for many entities.

Stakeholders also reported that the complexity of the Standard has adversely affected its usefulness for key users of financial statements. The extensive judgement required and frequent remeasurement triggers (e.g. inflation-related rental adjustments) often necessitate manual processing due to leasing system limitations. This has resulted in a significant administrative burden, with some entities requiring dedicated full-time resources or engaging external consultants to ensure compliance. Consequently, the ongoing costs of applying IFRS 16 have been significantly higher than initially anticipated by the IASB and these costs are considered disproportionate to the resulting benefits.

The AASB recommends that future improvements to IFRS 16 focus on simplifying specific requirements and enhancing the clarity of guidance. Detailed suggestions for targeted improvements are provided in our responses to specific questions.

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).

As noted above, stakeholders have reported that the significant level of judgement required under IFRS 16 undermines the comparability and transparency of financial statements. Many stakeholders indicated that the Standard does not provide sufficiently clear guidance to support the exercise of judgement – 39% of 97 responding stakeholders disagreed that the guidance is clear and 46% of 87 responding stakeholders disagreed that the requirements can be applied consistently.

The AASB observed that the areas presenting the greatest challenges for lessees include determining the lease term, discount rate and unit of account. Providing additional guidance in these areas could reduce inconsistency in application and support more consistent and transparent financial reporting.

In addition, although the requirement to reassess lease liabilities due to movements in indices or rates is generally well understood, stakeholders have indicated that the resulting accounting outcomes may not provide decision-useful information to key users of financial statements.

The AASB considers that targeted improvements in these areas would help reduce the burden on preparers and enhance the usefulness of the information provided to financial statement users. Detailed suggestions are provided in the relevant sections below.

Lease term determination

Stakeholders expressed strong concerns about the subjectivity involved in assessing lease terms, particularly when contracts include extension or termination options. Entities find it challenging to assess extension options in long-term leases, especially when economic incentives are complex or evolve over time. Applying the 'reasonably certain' threshold requirement is inherently judgement-based and the lack of guidance or illustrative examples has led to inconsistent interpretations. As a result, some entities are reassessing lease extension options more frequently than intended, recalculating lease liabilities and right-of-use (ROU) assets on a continuous basis, which increases the administrative burden.

This practice does not reflect the IASB's intended approach, as outlined in paragraph BC185 of the Basis for Conclusions, which clarifies that reassessment should occur only when a significant event or change in circumstances arises that is within the lessee's control. To address this misinterpretation, we recommend that the IASB incorporate the explanation in paragraph BC185 directly into the body of the Standard to clarify that continuous reassessment is not required.

Furthermore, we also encourage the IASB to enhance the guidance by including examples of significant events or changes in circumstances (similar to those provided in Accounting Standard Codification (ASC) Topic 842, *Leases*). This would assist preparers in applying the reassessment requirement consistently and in accordance with the Standard's intent.

Discount rate determination

Stakeholders identified discount rate determination as a significant practical challenge. In practice, the interest rate implicit in the lease is rarely used due to the difficulty of obtaining lessor-specific inputs, such as the estimated residual value of the underlying asset or initial direct costs. Consequently, most entities default to using the incremental borrowing rate (IBR), even when the implicit rate might technically be determinable, due to the disproportionate effort required to substantiate it. This was confirmed during our outreach, where 76% of respondents (from a total of 76 stakeholder responses) indicated that they use the IBR as the discount rate.

Feedback also highlighted that the significant judgement involved in estimating the interest rate implicit in the lease undermines the comparability and reliability of lease accounting outcomes and increases compliance costs. Additionally, stakeholders reported that subsidiaries frequently adopt discount rates provided by their parent entities, even when those rates do not reflect local market conditions or the subsidiary's specific credit profile. This practice further exacerbates comparability issues and may distort the measurement of lease liabilities and ROU assets.

These findings reinforce the need for simplification and clearer guidance on discount rate determination under IFRS 16. The AASB recommends that the IASB consider removing the requirement to use the interest rate implicit in the lease, given its limited practical use and the challenges entities face in determining it. Removing this requirement would simplify the Standard and reduce complexity.

In addition, we suggest that the IASB provide guidance on when it may be appropriate for subsidiaries to use their parent's IBR, particularly when lease pricing is demonstrably influenced by the parent's credit standing or involvement in negotiations.

Unit of account determination

Stakeholders reported difficulties in identifying the appropriate unit of account in certain lease arrangements. These issues are particularly acute when contracts contain both lease and non-lease components. While we acknowledge that the unit of account determination is not specific to IFRS 16, it plays a critical role in lease accounting by determining how leases are recognised and measured. The AASB acknowledges that the *Conceptual Framework for Financial Reporting* provides general guidance on unit of account; however, its application within IFRS 16 is not well understood in practice.

Given the importance of the concept to the application of IFRS 16, the fact that it is not well understood and the diversity in practice observed across industries, we recommend that the IASB consider providing additional guidance on how the unit of account concept should be applied in the context of lease accounting.

Variable lease payments

Stakeholders reported that the current requirements for variable lease payments linked to indices or rates create significant operational complexity. Many accounting systems are not equipped to manage the subsequent remeasurement of lease liabilities triggered by changes in indices or rates, resulting in manual adjustments, increased record-keeping and higher compliance costs.

In industries subject to volatile indices (for example, shipping), the remeasurement requirement introduces volatility into the statement of financial position that does not reflect underlying business operations. This impairs comparability and complicates financial analysis.

Stakeholders also highlighted inconsistent practices in accounting for variable lease payments that become in-substance fixed during the lease term, particularly regarding whether such payments should be included in the lease liability similarly to fixed payments.

We recommend that the IASB consider simplifying IFRS 16 requirements for leases that contain variable payments linked to rates or indices by removing the remeasurement obligation. Instead, changes in such payments could be recognised directly in the income statement in the period they are incurred. This approach would reduce operational complexity, improve process automation and lower ongoing compliance costs. It would also align IFRS 16 more closely with ASC 842, while continuing to provide decision-useful information.

In addition, we encourage the IASB to provide further guidance on when variable payments should be treated as in-substance fixed payments to reduce diversity in practice and support consistent application.

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, the AASB considers that IFRS 16 has enhanced the transparency of cash flow information related to leases. However, some users have expressed concerns that the classification of principal lease payments as financing cash outflows does not align with the nature of business operations. These users view such payments as arising from operating activities and consider the current classification to be inconsistent with how entities manage and report their operating cash flows.

Additionally, certain users find the separation of lease payments into principal and interest components to be less helpful for understanding an entity's operational cash flows. As a result, these users frequently reverse the effects of IFRS 16 or apply other adjustments when analysing cash flow information, in order to better reflect their view of the entity's operating performance.

We recommend that the IASB consider this feedback from the IFRS 16 PIR in the context of its ongoing project on the *Statement of Cash* Flows when considering potential amendments to IAS 7 *Statement of Cash Flows*.

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.**

As previously discussed, the AASB considers that the ongoing costs of applying the lease measurement requirements under IFRS 16 are higher than initially expected by the IASB. Of the 62 stakeholders who responded to this question during our outreach, 56% assessed these costs as high or very high.

Stakeholder feedback indicates that the remeasurement of lease liabilities is one of the main drivers of these higher costs, largely due to system limitations that often necessitate manual adjustments. In addition, the widespread practice of reversing IFRS 16 effects for both internal and external reporting purposes contributes to the overall cost burden. Many entities choose to outsource lease accounting as the interpretation and application of the Standard often require technical expertise that may not be available internally.

The AASB recommends that the IASB considers targeted simplifications, as outlined in our response to Question 2, to help reduce the cost of application and support more efficient and consistent application.

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.**

The AASB considers that the transition requirements and practical expedients in IFRS 16 generally worked well and provided meaningful relief to preparers. We recommend that the IASB continue to offer similar transitional relief in future standard-setting activities where appropriate.

However, stakeholders noted that grandfathering of previous lease classifications created application challenges in subsequent periods, such as when grandfathered leases were modified or renegotiated. We recommend that if similar grandfathering relief is provided in the future, the IASB considers providing additional explanatory guidance where grandfathering or similar practical expedients could be affected by subsequent measurements.

Further, stakeholders noted that early technology solutions were not fully developed to support the implementation of IFRS 16, resulting in delays and increased manual effort. To mitigate similar issues in future projects, we recommend that the IASB considers extending the implementation period when introducing a new standard or a significant amendment. Where possible, the IASB should also engage with software providers during the consultation process to support the timely development of compliant systems.

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.

During the COVID-19 pandemic, in Australia lease concessions involving the forgiveness of lease receivables were amongst the most commonly observed. Stakeholders acknowledged the usefulness of the IFRS Interpretations Committee's Agenda Decision *Lessor Forgiveness of Lease Payments*, but noted that inconsistencies in application persist. In particular, there remains uncertainty regarding whether the lessee should account for such concessions as lease modifications under IFRS 16 or as derecognition of the financial liability under IFRS 9 *Financial Instruments*.

However, given that these types of concessions are no longer prevalent and in light of other competing priorities, we do not propose any further action at this time.

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.**

The AASB notes that sale and leaseback transactions are not commonly encountered across all industries, though they may be more prevalent in specific sectors. Stakeholder feedback highlighted that determining whether control of the asset has transferred is particularly challenging in these arrangements. This difficulty arises because the criteria outlined in IFRS 15 *Revenue from Contracts with Customers* are not easily applicable to sale and leaseback arrangements, especially in cases involving substitution rights, renewal periods or partial asset disposal. Feedback indicated diversity of views and inconsistent application.

Another area of complexity relates to the assessment of above- or below-market lease terms and the identification of a separate financing component within the arrangement. Since lease payments are often used as a reference point to determine the asset market value, relying on the same payments to assess market pricing introduces conceptual inconsistency.

Additionally, stakeholders noted potential diversity in practice regarding sale and leaseback arrangements involving an asset constructed by the lessee. There are differing views on whether such assets qualify for sale and leaseback accounting and how to determine the lease commencement date.

The AASB recommends that the IASB provides further clarification on the application of control criteria in the context of sale and leaseback transactions.

If further guidance is developed, we recommend that the IASB also considers:

(a) clarifying how to determine the market value of the asset in these transactions, avoiding circular referencing; and

(b) addressing whether an asset under construction by the lessee qualifies for sale and leaseback accounting and how to determine the lease commencement date in such cases.

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.**

We agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in more useful information. While we acknowledge that calculating partial gains involves significant judgement and can be operationally challenging, we consider this approach preferable to recognising the full gain. Recognising the full gain would risk overstating income and misrepresenting the underlying economic substance of the transaction, particularly where the seller-lessee retains significant rights of use through the leaseback arrangement.

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 of IASB RIF.

Reassessment of Failed Sale and Leaseback Transactions

Stakeholder feedback has highlighted potential inconsistencies in the application of accounting requirements for sale and leaseback transactions where the sale criteria are not initially met, but subsequent changes occur in relation to the underlying asset. These changes may include revisions to the asset's useful life, asset replacement, or lease term that significantly exceed the asset's remaining useful life. Stakeholders expressed concerns about the lack of clarity on whether such changes should trigger a reassessment of the original accounting treatment. While this issue may not be widespread, the AASB recommends that, should the IASB decide to provide further guidance on sale and leaseback transactions, it considers addressing this topic to promote greater consistency in practice.