Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Post-implementation review IFRS 16 *Leases***	**Meeting:**	AASB October 2025 (M215)
Topic:	**Staff analysis of the feedback received on ITC 55 – for-profit private sector entities and other stakeholders that responded to the questions in the IASB's RFI only**	**Agenda Item:**	4.1
		Date:	23 September 2025
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		Decision-Making:	High
		Project Status:	Comment letter drafting

The objective of this paper

1 The objective of this staff paper is:

(a) to summarise the feedback received from Australian **for-profit private sector stakeholders** and **other stakeholders** in response to the questions in the International Accounting Standards Board (IASB) Request for Information on the Post-implementation Review of IFRS 16 *Lease* (the PIR); and

(b) for the Board to consider the staff analysis of the feedback and decide on the matters for inclusion in the AASB's comment letter to the IASB.

Structure of This Paper

2 This Staff Paper is set out as follows:

(a) Summary of staff recommendations (paragraphs 3 to 4)

(b) Background (paragraphs 5 to 9)

(c) Attachments (paragraph 10)

(d) Outreach activities (paragraphs 11 to 13)

(e) High-level summary of stakeholder feedback, staff analysis and recommendations (paragraphs 14 to 159)

(f) Next steps (paragraph 162)

(g) Appendix A Summary of feedback on ITC 55 (for-profit private sector and other stakeholders that responded to the questions in the IASB's RFI only)

Summary of staff recommendations

3 After considering feedback from for-profit private sector stakeholders and other stakeholders that responded to the questions in the IASB's RFI in response to ITC 55 *Post-implementation Review of AASB 16* Leases, staff recommend suggesting:

(a) **Overall assessment** – it is unclear whether the objective of IFRS 16 was fully met and that improvements targeting the most judgement-intensive areas of the Standard and providing clearer guidance and illustrative examples in some areas should be considered (paragraphs 22–26).

(b) **Lease terms and extension options** – incorporating paragraph BC185 into the body of IFRS 16 and assessing whether additional illustrative examples, similar to those in US GAAP (ASC 842), are needed to clarify what constitutes a significant change in circumstances (paragraphs 38 and 39).

(c) **Discount rate determination** – removing the requirement to use the interest rate implicit in the lease due to its limited practical application and the challenges entities face in determining it. Also, suggest providing guidance on when it may be appropriate for a lessee subsidiary to use its parent's incremental borrowing rate (IBR) (paragraphs 55–57).

(d) **Variable lease payments** – amending the treatment of subsequent changes in lease payments due to rate or index movements, so that such changes are recognised in profit or loss in the period incurred and providing further guidance or examples on reassessing variable lease payments as in-substance fixed payments to support consistent application and reduce diversity in practice (paragraphs 78–83).

(e) **Unit of account** – providing guidance on applying the unit of account concept within the context of lease accounting (paragraph 91).

(f) **Cash flow information** – consider feedback from the IFRS 16 PIR and the IASB's Statement of Cash Flows project before determining whether changes to IFRS 16 are needed regarding lessee lease-related cash flow disclosures (paragraphs 101 and 102).

(g) **Transition requirements** – acknowledging that the transition relief and practical expedients generally worked well and that the IASB should provide similar transition relief and practical expedients in future standard-setting activities where appropriate (paragraph 112). Regarding the grandfathering practical expedient, that additional explanatory guidance be considered where grandfathering could be affected by the ongoing application of a standard (paragraph 114). Finally, the implementation period is extended when a new standard or significant amendment is introduced (paragraphs 116 and 117).

(h) **Sale and leaseback transactions** – consider clarifying how the IFRS 15 control criteria should be applied in respect of sale and leaseback transactions (paragraph 128) and that if the IASB decides to provide more guidance on sale and leaseback arrangements, they could consider providing guidance on reassessing the financial liability in a failed sale and leaseback transaction and sale and leasebacks involving asset construction (paragraphs 129, 137 and 139)

4 In addition, staff do not recommend suggesting that the IASB take any action on the following topics:

(a) Adequacy of disclosures for significant judgements (paragraph 87);

(b) Revisiting the Type A/B lease distinction (paragraph 92);

(c) Lease modifications (paragraph 93);

(d) Incorporating IFRS Interpretation Committee Agenda Decisions into IFRS 16 (paragraph 94);

(e) Accounting for rent concessions (paragraph 122);

(f) Gain or loss recognition in a sale and leaseback transaction (paragraph 133);

(g) Lessor accounting (paragraph 145);

(h) Intangible assets and classification boundaries (paragraph 147);

(i) Short-term and low-value lease exemptions (paragraph 151);

(j) Bundled and complex arrangement (paragraph 156);

(k) Use of lease liabilities and performance metrics (paragraph 159);

(l) Lease commencement in asset construction arrangements (paragraph 160); and

(m) Lease incentives (paragraph 161).

Background

5 The IASB began the PIR of the IFRS 16 in June 2024.

6 During Phase 1 in 2024, the AASB performed limited targeted outreach with some preparers, auditors and users to identify matters that the IASB should examine within the context of the objectives of the PIR.

7 In June 2025, the IASB published a Request for Information on its PIR of IFRS 16. The due date for comments is 15 October 2025.

8 At its November 2024 meeting, the AASB agreed to submit a comment letter to the IASB on the PIR, subject to the feedback received from the stakeholders.

9 In June 2025, the AASB issued ITC 55 on AASB 16 *Leases* that included the IASB Request for Information. The ITC 55 comment period closed on 5 September 2025.[1]

1 In Australia, the IASB Request for Information was issued as part of ITC 55, which comprises three sections: (1) AASB general matters, (2) not-for-profit (NFP) and public sector topics, and (3) the IASB Request for Information.

Attachments

10 The following documents are included for reference purposes:

(a) Literature review on the adoption of IFRS 16 (AASB 16) (Agenda Paper 4.2).

(b) Disclosure Initiative Project Advisory Panel meeting minutes (Agenda Paper 4.3 in supplementary folder).

(c) Selected written submissions on ITC 55 (Agenda Paper 4.4 in supplementary folder).[2]

Outreach activities

11 Ten written submissions were received on ITC 55. Two of the submissions provided feedback from a for-profit perspective and two of the submissions responded to the questions in the IASB's RFI, which is included in Section 3 of ITC 55. Feedback that is specific to NFP and public sector entities is not considered in this Agenda Paper. Instead, this feedback will be included in a future NFP- and public sector-specific Board paper.

12 Staff conducted the following outreach activities to gather views from stakeholders:

(a) 3 June 2024 - AASB User Advisory Committee (UAC) meeting – members discussed their user experience of IFRS 16.

(b) 25 Nov 2024 - AASB UAC meeting – members provided feedback to AASB staff on the first phase (identifying matters to be examined) of the PIR.

(c) 10 July 2025 – AASB staff observed discussions at an Accounting Research Group meeting.

(d) 6 August 2025 – Disclosure Initiative Project Advisory Panel meeting (DIPAP). Six DIPAP members provided feedback to AASB staff on the PIR of AASB 16.

(e) Three virtual joint roundtables were held with CA ANZ, CPA Australia and the NZ External Reporting Board in August and September 2025. Stakeholders provided feedback to AASB staff on the PIR of AASB 16 (233 attendees).

(f) AASB staff arranged and observed three IASB staff meetings with Australian financial statement users in August and September 2025 to gather views from a user perspective.

(g) Other targeted meetings.

13 This paper only summarises feedback received from **for-profit private sector stakeholders** and **other stakeholders that responded to the questions in the IASB's RFI** as part of the AASB's PIR of AASB 16. The feedback presented in this paper is intended to inform the AASB's comment

2 Since this paper focuses only on feedback that is relevant to the IASB (i.e. feedback from private sector for-profit stakeholders and other stakeholders that responded directly to the IASB/responded to the questions in the IASB's RFI), Agenda Paper 4.4 only included four of the ten submissions received in response to ITC 55. Feedback that is specific to NFP and public sector entities will be presented to the Board at a later meeting.

letter to the IASB on their PIR of IFRS 16, highlighting practical challenges, areas of judgment, and suggestions for improvement based on stakeholder experience with the Standard.[3]

High-level summary of stakeholder feedback, staff analysis and recommendations

14 There are six sections in the PIR, each with explanatory material and corresponding numbered questions. Staff have considered all feedback received (Phase 1 and Phase 2) in providing their recommendations to the Board.

15 The following paragraphs of this staff paper (16 to 161) present only a high-level summary of stakeholder feedback. Please refer to Appendix A for a detailed summary of feedback received from for-profit private sector stakeholders and other stakeholders that responded to the questions in the IASB's RFI received on each topic.

Topic 1: Summary of Stakeholder Feedback – Overall assessment of IFRS 16

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.**

16 Staff identified the following issues raised by stakeholders. For detailed feedback, see Topic 1: Detailed Stakeholder Feedback – Overall assessment of IFRS 16 in Appendix A.

<u>Summary of stakeholders' feedback and staff analysis</u>

17 The primary objective of IFRS 16 is to improve transparency and comparability in lease accounting by requiring lessees to recognise most leases on the statement of financial position. Most of the stakeholders indicated that, in general, the Standard has achieved its objectives. A polling question was conducted across three roundtables to assess whether IFRS 16 provides useful information that faithfully represents underlying economic activities. Of the 108 respondents, 67 (62%) agreed, 16 (15%) disagreed, and 25 (23%) were unsure.

18 However, many stakeholders reported that the Standard has introduced significant operational complexity, particularly in areas requiring judgment—such as determining the lease term, selecting the discount rate, and accounting for lease modifications. These complexities have led to inconsistent application across entities and industries, which in turn has reduced the comparability of financial statements. While this does not indicate a fundamental flaw in the

3 As part of the outreach activities, staff also collected feedback about the experiences of NFP and public stakeholders. This feedback will be presented to the Board at a later meeting.

Standard, it does present practical challenges for users, many of whom continue to rely on pre-IFRS 16 measures for internal decision-making.

19 In addition, the stakeholders reported higher than expected ongoing costs (see Topic 4: Summary of Stakeholder Feedback – Ongoing costs for lessees of applying the measurement requirements below for more information). The feedback indicates that the complexity of the Standard affects the cost of its application.

20 Some users expressed a preference for the accounting treatment required under the previous Standard (IAS 17 *Leases*), as they consider leases to be part of an entity's operating activities, and suggested reverting to the previous Standard. For detailed feedback, see Topic 1: Detailed Stakeholder Feedback – Overall assessment of IFRS 16.

21 The objective of IFRS 16, as stated in paragraph 1 of the Standard, is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents lease transactions, enabling users of financial statements to assess the effect of leases on an entity's financial position, performance, and cash flows. According to the Basis for Conclusions (paragraphs BC1–BC4), the previous lease accounting model under IAS 17 was criticised for lacking transparency, comparability, and faithful representation. Operating leases were not recognised on the statement of financial position, prompting users to make their own adjustments—often using estimation techniques—to assess financial leverage and capital employed. This created information asymmetry and reduced comparability, as economically similar transactions were accounted for differently.

<u>Staff recommendation on the AASB response to the IASB</u>

22 Staff consider that the overall objective of IFRS 16, to improve transparency and comparability of financial statements by recognising all leases on the statement of financial position, was largely met. However, many stakeholders reported that the complexity of the standard and the significant judgment required reduce comparability of financial statements and can lead to diversity in interpretation.

23 Many stakeholders also reported that compliance with IFRS 16 results in high ongoing costs, which was not the intent of IASB when the standard was developed.

24 Given the feedback on the complexity of the Standard and high costs, it is unclear whether the objective of IFRS 16 was fully met.

25 Considering the significant investments in the implementation of IFRS 16 and the potential disruption to the market that any significant change could introduce, staff do not consider reverting to IAS 17 to be warranted. In addition, the feedback from preparers did not indicate a need.

26 Instead, staff consider that improvements should target the most judgement-intensive areas of the Standard, particularly the determination of lease terms and discount rates. Further, providing clearer guidance and illustrative examples in some areas would promote greater consistency and comparability without altering the Standard's underlying principles. Staff will address individual questions under subsequent topics.

Question for Board members	
Q1	Do the Board members agree with the staff's recommendation in paragraphs 22–26? If not, how do the Board members want to respond to the questions?

Topic 2: Summary of Stakeholder Feedback – Usefulness of information resulting from lessees' application of judgement

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).**

27 Staff identified the following issues raised by stakeholders. For each issue, staff provide a brief summary of the feedback received, followed by an analysis of the issue and recommendations on the AASB's response to the IASB. For detailed feedback, see Topic 2: Detailed Stakeholder Feedback – Usefulness of information resulting from lessees' application of judgement in Appendix A.

Lease Terms and Extension Options (paragraphs A24–A28 in Appendix A)

<u>Summary of stakeholders' feedback and staff analysis</u>

28 Stakeholders have raised concerns about the complexity of lease extension options assessment and the practical application of the 'reasonably certain' threshold in determining and reassessing lease terms under IFRS 16. They noted that this threshold is inherently subjective, leading to inconsistent application across entities. Some specific examples include the fact that assessing the lease term can be particularly difficult for long-term leases with extension options and that lessees continuously reassess lease extension options. As a result, the lease liability and right of use (ROU) asset balances are being recalculated frequently. A stakeholder also raised concerns about the lack of guidance on how to assess whether a penalty is insignificant when considering termination conditions.

29 Under IFRS 16 paragraphs 18–19, the lease term is defined as the non-cancellable period of the lease plus any optional extension periods the lessee is reasonably certain to exercise and

any optional termination periods the lessee is reasonably certain not to exercise. This assessment requires consideration of all relevant facts and circumstances that create an economic incentive for the lessee. The IASB reaffirmed this approach in paragraphs BC156 and BC157, concluding that the lease term should reflect the lessee's reasonable expectation of the period during which the underlying asset will be used, as this provides the most useful information. After evaluating alternative thresholds—such as 'more likely than not' and 'significant economic incentive'—the IASB retained the reasonably certain threshold from IAS 17 to balance conceptual integrity with practical feasibility. In doing so, the IASB acknowledged that applying the concept of reasonably certain requires judgement. Therefore, they decided to provide application guidance in IFRS 16 to help entities apply the concept.

30 In relation to extension options, paragraph 20 of IFRS 16 states that a lessee shall reassess whether it is reasonably certain they will exercise or not exercise an extension option only when a significant event or change in circumstances occurs that is within the lessee's control. Paragraph B37 further explains that this reassessment should be based on all relevant economic incentives. Examples of such events or changes include unanticipated leasehold improvements, major customisation of the leased asset, subleasing beyond the previously determined lease term, or business decisions that directly influence the lessee's intention to exercise or not exercise a lease option.

31 The IFRS Interpretations Committee's November 2019 Agenda Decision clarified that under IFRS 16, the lease term includes the non-cancellable period plus any periods covered by options to extend or terminate the lease, if the lessee is reasonably certain to exercise or not exercise those options. In making this assessment, entities should consider the broader economic incentives of the contract—not just contractual termination payments—to determine whether it is reasonably certain that options will be exercised or not. The Committee concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine the lease term of cancellable and renewable leases.

32 Staff acknowledge stakeholder concerns regarding determining the lease term for long-term leases with extension options. However, note that the reasonably certain threshold is inherently judgment-based and reflects the principles-based nature of IFRS Accounting Standards.

33 In response to feedback indicating that lessees are continuously reassessing lease extension options, staff note that this was not how the IASB intended the reassessment requirement to apply. Paragraph BC185 sets out the IASB's acknowledgement that requiring reassessment of lease options at every reporting date would be burdensome for entities with many leases. Instead, IFRS 16 requires reassessment only when a **significant event** or **change in circumstances** occurs that affects the lessee's certainty about exercising options (e.g., to extend, terminate, or purchase). Importantly, reassessment is required only if the event or change is within the lessee's control, thereby avoiding reassessment triggered by market-based factors or external conditions. This approach is similar to IAS 36 *Impairment of Assets*, which requires impairment testing only when there are indicators of impairment, rather than at each reporting date.

34 Based on discussions with stakeholders, staff understand that the IASB's intended application of the reassessment requirement is not well understood in practice, particularly that a continuous reassessment is not required, as well as what is meant by a significant change. As a result, the requirement is often applied incorrectly, leading to additional work for preparers in recalculating lease liabilities and ROU asset balances. This can also introduce unnecessary volatility into the financial statements.

35 Staff note that ASC 842 uses a similar conceptual approach to determining lease terms and extension options. ASC 842 requires entities to assess lease terms based on whether it is reasonably certain that options will be exercised, considering a comprehensive set of economic factors—contract-based, asset-based, market-based, and entity-specific. ASC 842 includes examples and also emphasises that such assessments typically involve interrelated factors rather than isolated evaluations.

36 Given the similarity in the accounting models, the examples of factors to consider in ASC 842 could be helpful in illustrating what might constitute a significant change.

37 In response to stakeholder feedback about the complexity of assessing whether the lease termination penalty is insignificant, staff acknowledge that IFRS 16 does not provide specific guidance on this matter. However, staff are of the view that defining insignificant would be challenging as the assessment must be made in the context of an individual entity's circumstances.

<u>Staff recommendation on the AASB response to the IASB</u>

38 Staff recommend suggesting that the IASB consider incorporating paragraph BC185 of the Basis for Conclusions into the body of IFRS 16 to support lessees in applying the reassessment requirements. While BC185 provides helpful clarification on how the IASB intended the reassessment requirement to operate in practice, many stakeholders may not refer to or be aware of this material. Including the guidance directly in the Standard would improve understanding by clarifying that reasonably certain does not imply continuous reassessment or automatic re-evaluation in response to market changes or incentives. Rather, reassessment should only occur when there is a significant change in circumstances within the lessee's control. This clarification could help reduce misinterpretation, lower the frequency of reassessment, and ease the overall compliance burden.

39 In addition, while staff do not consider the ASC 842 guidance on assessing the reasonably certain threshold to be directly applicable to entities applying IFRS Accounting Standards – given the rules-based nature of ASC 842 compared to the principles-based approach of IFRS – staff believe that the examples provided in ASC 842 could be helpful in illustrating how the IASB intended the threshold to be applied. Specifically, these examples could clarify what constitutes a significant change in circumstances, and equally, what does not. As such, staff recommend suggesting that the IASB consider whether providing additional examples, similar to those in ASC 842, is warranted.

Discount Rate Determination (paragraphs A30 and A31 in Appendix A)

<u>Summary of stakeholders' feedback and staff analysis</u>

40 Stakeholders identified discount rate determination as a significant challenge in applying IFRS 16. Feedback suggests that in practice, most entities default to the IBR due to the difficulty of determining the interest rate implicit in the lease, which often requires access to lessor-specific information that is not available.

41 Additionally, some stakeholders noted that entities without a borrowing history, such as private equity entities, subsidiaries or smaller entities, face further challenges in estimating an appropriate IBR.

42 It was also noted that subsidiaries often use discount rates applied by their parent companies, even when those rates may not reflect local market conditions.

43 Stakeholders expressed a strong preference for simplifying the discount rate requirements in IFRS 16, noting that the implicit rate is rarely used in practice and often leads to unnecessary effort. Staff consider that removing the requirement to use the implicit rate, and instead allowing entities to default to the IBR, would reduce complexity and improve consistency without significantly affecting financial reporting outcomes.

44 Paragraph 26 of IFRS 16 requires lessees to use the interest rate implicit in the lease if it can be readily determined; otherwise, they must use the IBR. According to paragraphs BC160–BC162, the IASB's objective in specifying the lease discount rate is to reflect how the lease contract is priced.

45 The interest rate implicit in the lease incorporates factors such as the lessee's credit standing, lease term, collateral quality, and economic conditions. However, it also depends on lessor-specific inputs—such as residual value estimates, tax effects, and initial direct costs—which are often not available to lessees. Consequently, IFRS 16 permits the use of the IBR when the implicit rate cannot be readily determined. The IBR is intended to reflect the lease's terms and conditions and may be based on observable benchmarks (e.g. borrowing rates for similar assets or property yields), but must be adjusted to reflect the specific characteristics of the lease.

46 IFRS 16 provides limited guidance on how to determine the IBR beyond its definition: *'the rate of interest that a lessee would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.'*

47 In the absence of prescriptive requirements, preparers must exercise significant judgment in estimating the IBR. This can result in inconsistent application across entities and reporting periods. The variability in approaches may also reduce the comparability and reliability of financial information.

48 For example, a lower discount rate increases the present value of lease liabilities and ROU assets, which in turn affects key financial metrics such as leverage ratios, asset turnover, and EBITDA. As a result, the judgment involved in determining the IBR not only introduces variability but also has implications for users of financial statements who use these metrics to assess an entity's financial position and performance.

49 The lack of detailed guidance on determining the IBR also contributes to reduced comparability across entities and over time. In practice, entities may apply different methodologies, assumptions, or benchmarks – even for leases with similar characteristics – resulting in significant variation in discount rates. This inconsistency can impair the usefulness of financial statements for investors, analysts, and other stakeholders who rely on comparability to assess performance, financial position, and risk across reporting periods and between entities.

50 These challenges also have practical implications for preparers. Estimating an appropriate IBR often requires considerable effort in sourcing market data, applying financial modelling techniques, and documenting key assumptions. For entities with limited resources, such as smaller entities, subsidiaries, or those without a borrowing history, this can place additional strain on internal controls, audit readiness, and financial reporting timelines. The absence of

clear guidance may also lead to increased scrutiny from auditors and regulators, further elevating compliance costs.

51 The choice of discount rate, whether the interest rate implicit in the lease or the IBR, can materially affect the measurement of lease liabilities and ROU assets. This impact is particularly significant for long-term leases or those with variable payment structures, such as those involving escalation clauses or contingent payments.

52 The IFRS Interpretations Committee addressed the issue of IBR determination in its September 2019 Agenda Decision. It confirmed that judgment is required and that it is consistent with the IASB's intent for entities to refer to readily observable rates with similar payment profiles as a starting point. For example, many leases are amortising in nature, so using rates from amortising instruments—such as government bonds or loans with similar terms—may be appropriate. The Committee concluded that IFRS 16 provides adequate guidance and did not propose amendments to the Standard, reinforcing the expectation that preparers apply judgment based on available market data.

53 Staff note that ASC 842 similarly requires lessees to use the rate implicit in the lease when readily determinable, and otherwise to use the IBR. However, it also introduces a simplification for non-public business entities, allowing them to elect a risk-free discount rate as an accounting policy by asset class (ASC 842-20-30-3). This option provides a practical alternative for entities that may lack the data or resources to estimate a reliable IBR.

54 In contrast, and as noted in paragraph 46, IFRS Accounting Standards offer limited guidance. They also do not include similar simplification options. The FASB, in paragraph BC201 of ASU 2016-02, acknowledged that it may be reasonable for a subsidiary to use the parent's IBR, particularly when the parent was involved in lease negotiations or provided a guarantee, and the parent's credit standing influenced the lease pricing. Example 2 in ASC 842-20-55 further illustrates that even without a formal guarantee, the parent's involvement may justify using its rate if it materially influenced lease pricing.

Staff recommendation on the AASB response to the IASB

55 In summary, staff recommend suggesting that the IASB consider removing the requirement for entities to use the interest rate implicit in the lease, given its limited practical use and the challenges entities face in determining it. Further, as noted above, in practice, most entities default to using the IBR, as the implicit rate is often not readily available or determinable. Removing this requirement would simplify the Standard, reduce complexity, and reduce burden by avoiding situations where entities attempt to calculate the implicit rate, only to ultimately revert to the IBR, as the implicit rate cannot be determined. Staff do not expect this change to significantly affect practice, as it is understood that the use of the implicit rate is already limited. Instead, staff consider that removing the implicit rate requirement would make the Standard easier to apply, particularly for entities with limited resources.

56 Whilst stakeholders observed that some entities (e.g. private equity entities, subsidiaries and smaller entities) face challenges in determining the IBR, staff do not recommend any simplifications or alternatives, such as entities electing to use a risk-free discount, as is available to non-public entities under ASC 842. Staff consider that all entities, including those without a borrowing history, should be able to estimate their borrowing costs using available market data and reasonable assumptions. Introducing a risk-free rate option could reduce comparability and undermine the principles that the discount rate should reflect the

economics of the lease. Instead, staff support maintaining a consistent approach to IBR estimates across all entities.

57 Finally, staff recommend suggesting that the IASB provide guidance about when it may be appropriate for a lessee subsidiary to use its parent's IBR, particularly when lease pricing is demonstrably influenced by the parent's credit standing or involvement in negotiations. Such clarification would enhance consistency and reduce uncertainty in group reporting scenarios. Staff consider this a practical approach that could be explored, especially for group entities operating under centralised financing arrangements.

Variable Lease Payments (paragraph A32–A34 in Appendix A)

Summary of stakeholders' feedback and staff analysis

58 In relation to variable lease payments, stakeholders did not raise any significant concerns about the initial measurement of lease liabilities and ROU assets. However, the subsequent measurement of lease liabilities and ROU assets remains an area of concern.

59 Stakeholders raised concerns about the complexity and volatility associated with variable payments linked to indices or rates under IFRS 16.

60 They also reported that their accounting systems are often unable to manage subsequent remeasurements. As a result, entities frequently resort to manual workarounds, such as Excel spreadsheets and similar tools.

61 Further, stakeholders noted that fluctuating indices, such as CPI or industry-specific benchmarks, can introduce volatility into the statement of financial position, particularly when lease liabilities are reassessed and remeasured periodically. This volatility may not reflect the underlying business operations and may complicate financial analysis and performance tracking. Similarly, remeasuring lease liabilities gives rise to changes in the amounts recognised in the financial statements, even when there is no change in the lease contract itself.

62 Although the accounting treatment for index-linked variable lease payments is generally well understood, some preparers call for simplification, particularly in industries with significant exposure to variable indices (e.g., shipping). These stakeholders noted that even with a clear understanding of the requirements, the operational burden and resulting volatility can be challenging to manage in practice.

63 Stakeholders also raised concerns about the perceived inconsistency in the treatment of certain variable and fixed payments. For example, a lease agreement with annual increases linked to CPI may be accounted for differently than a lease with fixed X% annual increases, despite the fixed rate increase being a reasonable approximation of CPI. In such cases, the initial measurement of lease liabilities and ROU assets could differ materially, even though the lease agreements are economically similar. This inconsistency may affect comparability, transparency and faithful representation in financial reporting.

64 Stakeholders also requested clearer guidance on several aspects of lease accounting to improve consistency and comparability. They specifically highlighted the need for clarification on when variable lease payments should be reassessed and treated as in-substance fixed payments after lease commencement, the impact of such remeasurements on the depreciation of ROU assets, and the criteria used to classify lease payment structures. In their

view, addressing these areas would help reduce uncertainty and support more consistent application of IFRS 16 across different entities.

65 IFRS 16 requires that variable lease payments based on an index or rate (e.g., CPI) be included in the initial measurement of the lease liability. As explained in paragraph BC165 of the Basis for Conclusions, the IASB determined that such payments should be included because they are unavoidable and do not depend on the lessee's future actions. The uncertainty relates to how the liability should be measured, rather than whether it exists. This principle supports consistent recognition but may contribute to the complexity and volatility highlighted by stakeholders.

66 In contrast, variable payments based on usage or performance (e.g., sales) are excluded from the measurement of the initial lease liability. Instead, they are recognised in profit or loss when incurred. As explained in paragraphs BC168 and BC169 of the Basis for Conclusions, this approach reflects cost-benefit considerations and the measurement uncertainty associated with such payments, particularly given the volume of leases. To reduce complexity, paragraphs BC189 and BC190 clarify that lease liabilities linked to indices or rates should be reassessed only when there is a change in the cash flows resulting from a change in the reference index or rate, rather than at each reporting date. IFRS 16 Example 14 provides practical guidance on how to account for both types of variable lease payments, to help entities navigate these distinctions.

67 Stakeholders proposed three possible alternatives to address their concerns about the complexity of accounting for index-linked variable lease payments. These were:

(a) adjust the discount rate at initial recognition to reflect expected future changes in the index or rate;

(b) exclude index-linked variable payments from the measurement of the lease liability entirely, treating them similarly to usage- or performance-based payments; or

(c) adopt an approach similar to ASC 842.

68 Adjusting the discount rate at initial recognition to reflect expected future changes in the index or rate (paragraph 67(a)) could reduce the need for the subsequent remeasurement of lease liabilities. It may also improve the comparability at initial recognition for leases with similar terms. However, it would introduce significant judgment in forecasting future index movements or economic conditions, potentially reducing comparability and increasing complexity. It may also result in higher application costs for preparers.

69 Staff note that the IASB previously considered a similar approach in its 2010 Exposure Draft. At that time, the IASB proposed requiring lessees to include all lease payments in the initial measurement of the lease liability, including those based on future performance or usage (see paragraphs BC168 and BC169).

70 Stakeholders raised concerns that forecasting future events, such as sales volumes or usage levels, would be difficult to estimate and would be subject to a high level of measurement uncertainty (BC169). In response, the IASB revised its proposal and decided not to require the inclusion of such variable payments in the initial measurement of the lease liability.

71 For similar reasons, staff consider that adjusting the discount rate to reflect expected future index movements would likely introduce additional cost, complexity, and judgment, without a

clear improvement in comparability or faithful representation of the accounting for lease arrangements.

72 Excluding index-linked variable payments from the measurement of the lease liability entirely, and treating them similarly to usage- or performance-based payments (paragraph 67(b)), would simplify both initial and subsequent measurement and reduce volatility in the statement of financial position. However, it could materially understate the lessee's financial obligations and conflict with the principle outlined in paragraph BC165 that lease liabilities should reflect unavoidable cash flows. While this option may reduce complexity, it may compromise faithful representation.

73 Adopting an approach similar to ASC 842(paragraph 67(c)) may be appropriate because under ASC 842, index- or rate-lined variable payments are included in the initial measurement of the lease liability, similar to IFRS 16. However, subsequent changes in such payments are treated differently, and the lease liability and ROU asset are generally not remeasured. Instead, they are recognised in the profit or loss as incurred, unless there is a lease modification, a change in lease term, or a reassessment of options (e.g. purchase rights), as outlined in ASC 842-10-35-4 and 35-5.

74 Staff consider that an approach that does not require an entity to remeasure lease liabilities and ROU assets for changes in rates or indexes would simplify the application of the Standard, thereby decreasing costs and reducing the operational burden. Such an approach would also address stakeholder concerns that the current leasing model leads to higher lease expenses in the earlier years of a lease and lower expenses in later years, which is at odds with how lease payments typically work in practice (i.e., lease payments would be expected to increase over the lease term). If remeasurement is not required, expenses in later lease periods are likely to be higher, better reflecting the actual pattern of lease payments.

75 Staff acknowledge that while such an approach could result in an overstatement or understatement of the lease liability and ROU asset, there may not be a material effect on the entity's net asset position. Further, there may not be a material effect on the entity's profit or loss, as the total expense would be recognised in a different pattern. However, for longer-term lease arrangements, the potential for overstatement or understatement of the net asset position or profit or loss could be more significant. However, staff consider that this risk could be mitigated through additional disclosures if necessary.

76 In terms of in-substance fixed lease payments, IFRS 16 paragraph B42 explains that these are payments that appear variable in form but are unavoidable in substance, and therefore must be included in lease payments under IFRS 16. These arise when variability lacks genuine economic substance—such as payments triggered by events that are certain to occur (e.g. an asset being operational), or when variable payments become fixed after lease commencement. It also applies when only one realistic payment option exists, making the payment effectively fixed, or when multiple realistic options exist but the lessee must make at least one, then the lowest discounted payment is treated as fixed. These principles ensure that lease liabilities reflect the substance of the lessee's economic obligations, even if the payment terms are structured to appear variable.

77 Staff note that IFRS 16 does not provide clear guidance on when variable payments become fixed after lease commencement, which has led to diversity in practice. This inconsistency creates challenges in ensuring comparability and faithful representation of lease liabilities.

Staff recommendation on the AASB response to the IASB

78 Staff consider that IFRS 16 is conceptually sound and provides foundational guidance and illustrative examples to support the consistent application of variable lease payment requirements.

79 However, as stakeholders continue to find certain aspects of the Standard difficult to apply in practice, staff recommend suggesting that the IASB retain the current initial measurement requirements but consider amending the treatment of subsequent changes in lease payments due to rate or index movements. Specifically, staff suggest that such changes be recognised directly in profit or loss in the period in which they are incurred, rather than requiring remeasurement of the lease liability and ROU asset. Staff acknowledge that recognising the changes in profit or loss in the period they arise may introduce some volatility. However, since these changes represent the true-up for the reporting period, they are not expected to be material.

80 Staff consider that this approach would reduce complexity and ease the operational burden for preparers. While it may introduce volatility in profit or loss, it offers a pragmatic balance between conceptual integrity and practical application. This treatment would also align more closely with how entities manage such costs operationally.

81 Staff do not recommend pursuing the suggestion to adjust the discount rate at initial recognition to reflect expected future changes in the index or rate, nor the suggestion to exclude index-linked variable payments from the lease liability entirely. As discussed above, both approaches would introduce significant judgment, reduce comparability, or compromise faithful representation. These alternatives may also conflict with the principle that lease liabilities should reflect unavoidable cash flows.

82 Simplifying the subsequent accounting for index-linked rates would also negate the need for the IASB to consider providing additional guidance on the impact of such remeasurements on depreciation of ROU assets and the criteria used to classify lease payment structures. Staff consider that this simplification would address stakeholder concerns more effectively than issuing further interpretive guidance, and would support more consistent and transparent application of IFRS 16 across different entities.

83 Finally, staff recommend suggesting that the IASB consider providing additional guidance or illustrative examples to support consistent application of the requirements for reassessing variable lease payments and determining when they should be treated as in-substance fixed payments after lease commencement. This would help reduce diversity in practice, particularly in complex or long-term lease arrangements.

Adequacy of Disclosures for Significant Judgements (paragraph A35 in Appendix A)

Summary of stakeholders' feedback and staff analysis

84 Stakeholders have expressed concerns regarding the adequacy of disclosures under IFRS 16, particularly in relation to the judgments that significantly influence the measurement of lease liabilities and ROU assets. Although paragraphs 51–60A of IFRS 16 prescribe disclosure requirements—including details on assumptions, the basis for judgements about lease terms and discount rates, maturity analyses, variable lease payments not included in lease liabilities, and other quantitative and qualitative disclosures—stakeholders observed that the application of these requirements in practice is inconsistent. This inconsistency has led to

reduced transparency and comparability across entities, undermining the usefulness of financial statements for users.

85 Staff noted that ASC 842-20-50 contains similar disclosure requirements. However, it goes further by requiring lessees to disclose a reconciliation of the undiscounted future lease payments to the lease liabilities recognised in the balance sheet. This reconciliation enhances transparency by helping users understand how future cash flows translate into the reported lease liabilities.

86 If a reconciliation similar to that required under ASC 842 were introduced in IFRS 16, it could enhance transparency and facilitate better comparability across entities. However, the information required by ASC 842 and the existing IFRS 16 maturity analysis is broadly similar, with the main difference being that under IFRS 16, no reconciliation to the recognised lease liability is required.

<u>Staff recommendation on the AASB response to the IASB</u>

87 Staff consider that inconsistent application of disclosure requirements is best addressed through education and enforcement, and is primarily a matter for auditors and regulators. Further, staff do not consider that inconsistent application can be effectively addressed by requiring additional disclosures, nor is it a matter that a standard-setter can resolve through amendments alone. For these reasons, staff do not recommend suggesting any changes to the disclosure requirements in IFRS 16.

Unit of Account (paragraph A36 in Appendix A)

<u>Summary of stakeholders' feedback and staff analysis</u>

88 Some stakeholders noted that in sectors such as telecommunications, identifying the appropriate unit of account—for example, treating individual antenna spots as separate leases—creates substantial complexity. This has led to the recognition of tens of thousands of leases, significantly increasing the administrative burden and system requirements for lessees. Stakeholders indicated that, although practice has evolved, industry-specific challenges remain. One stakeholder suggested that the IASB should provide thought leadership to address these ongoing challenges.

89 Staff understand that the accounting outcome can be different depending on the unit of account (e.g. land, land and buildings or a floor within a building), and that the unit of account is critical for lease accounting as it determines how a lease is recognised and measured.

90 The *Conceptual Framework for Financial Reporting* (paragraphs 4.48–4.55) provides guidance on the unit of account, defining it as the specific asset, liability, or group of rights and obligations to which recognition and measurement principles are applied. The unit of account should be selected to provide useful and faithfully representative information, considering factors such as economic interdependence, business use, and cost-benefit constraints. It is important to note that units of account may vary for recognition, measurement, and presentation purposes, and may change when components of an asset or liability are transferred.

Staff recommendation on the AASB response to the IASB

91 Staff consider that how the unit of account should be applied in the context of IFRS 16 and lease arrangements is not well understood, and that it is an issue in practice. Given the importance of the concept to the application of accounting standards and IFRS 16 in particular, staff recommend suggesting that the IASB consider providing guidance on how the unit of account should be applied in the context of lease accounting.

Other feedback (paragraph A37 –A39 in Appendix A)

92 One stakeholder suggested revisiting the Type A/Type B lease distinction that was included in the IASB's 2013 Exposure Draft to better reflect differences between asset types and improve comparability. They noted that removing this distinction has increased reliance on disclosures and complicated reporting. However, in response to feedback received on the 2013 Exposure Draft, the IASB concluded that all leases create similar rights and obligations for lessees. Hence, a single accounting model improves consistency, comparability, and simplicity. Staff consider this rationale still valid and do not recommend suggesting any changes.

93 One stakeholder noted that lease modification requirements are not well understood, and additional guidance should be provided. Staff acknowledge that lease modification may be a complex area requiring significant judgment. However, staff noted that the IASB developed five illustrative examples addressing the accounting for lease modifications. Therefore, staff do not consider that issuing additional guidance would resolve the issue.

94 One professional accounting body noted that since the introduction of IFRS 16, the IFRS Interpretations Committee has issued six Agenda Decisions to clarify complex areas of lease accounting. They expressed concern that relying on Agenda Decisions to address interpretative challenges may lead to fragmented and inconsistent guidance, and recommended incorporating their substance into the Standard to improve clarity and usability. Staff acknowledge that while Agenda Decisions highlight interpretative challenges, they are developed in response to specific fact patterns and are not intended to be broadly applicable. Incorporating them into IFRS 16 could compromise the Standard's flexibility and is not aligned with the objectives of a PIR, which focuses on assessing overall effectiveness. Therefore, staff do not recommend suggesting that the IASB incorporate IFRS 16-related Agenda Decisions into the Standard.

Question for Board members

Q2 Do the Board members agree with the staff analysis and recommendations to suggest the IASB consider amendments to IFRS 16:

(a) lease terms and extension options (paragraphs 38 and 39);

(b) discount rate determination (paragraphs 55–57);

(c) variable lease payments (paragraphs 78–83); and

(d) unit of account (paragraph 91).

If not, how do the Board members want to respond to the questions?

Q3	Do the Board members agree with the staff analysis and recommendations not to include the following issues raised by the stakeholder in the AASB's comment letter to the IASB:
(a)	adequacy of Disclosures for Significant Judgements (paragraph 87); and
(b)	other feedback (paragraphs 92–94).
If not, how do the Board members want to respond to the questions?	

Topic 3: Summary of Stakeholder Feedback – Usefulness of information about lessees' lease-related cash flows

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.

95 Staff identified the following issues raised by stakeholders. For each issue, staff provide a brief summary of the feedback received, followed by an analysis of the issue and recommendations on the AASB's response to the IASB.

<u>Summary of stakeholders' feedback and staff analysis </u>(paragraphs A42– A46 in Appendix A)

96 Stakeholders have expressed mixed views on the usefulness of lease-related cash flow information under IFRS 16. Some observed that the split of lease payments into principal and interest components, as required by IFRS 16, introduces complexity, obscuring operational cash insights as users find it challenging to identify total lease payments. While the disaggregation aligns with the accounting model, it may not always provide the most decision-useful information for users of financial statements.

97 IFRS 16 paragraph 50 requires that, in the statement of cash flows, a lessee must classify principal lease payments as financing activities, and interest payments in accordance with IAS 7 *Statement of Cash Flows*—typically as operating or financing activities depending on the entity's accounting policy. This classification reflects the nature of the lease liability and is intended to align with the presentation of lease expenses in the income statement. The IASB's reasoning, as set out in paragraphs BC210 and BC211, is that the presentation of lease-related cash outflows should be consistent with the recognition of the lease liability and ROU asset. This approach ensures consistent treatment across the statement of financial position, income statement, and statement of cash flows, and enhances comparability with other financial liabilities.

98 Staff considered the requirement in US GAAP, and noted that under ASC 842, principal repayments on finance leases are classified as financing activities, and principal repayments of operating leases are generally classified as operating activities. At the same time, interest payments follow general interest paid guidance (typically operating or financing). The different classification under US GAAP is driven by the ASC 842 dual lease accounting model, which distinguishes between operating and finance leases (unlike IFRS 16's single lessee model). However, the principle of lease-related cash flow classification to follow the income

statement lease expense classification is similar. Both standards link cash flow classification to the nature of the lease and the type of payment.

99 Staff noted that IFRS 16 paragraph 53 requires an entity to disclose total cash outflow for leases. While it is acknowledged that this information is usually disclosed in the notes rather than in the statement of cash flows, it can provide users with the information needed about lease payments for the reporting period. Therefore, staff do not think that the classification of lease payments in the statement of cash flows obscures the operational insights.

100 Staff also noted that as a result of issuing IFRS 18 *Presentation and Disclosure in Financial Statements*, the requirements of IAS 7 were amended to require all interest receipts to be classified as cash proceeds from investing activities (paragraph 16) and all interest payments to be classified as payments arising from financing activities (paragraph 17). This amendment will be effective for most Australian entities from 1 January 2027 (1 January 2028 for NFP and superannuation entities). Staff consider that this requirement will improve the comparability of the financial statements.

<u>Staff recommendation on the AASB response to IASB</u>

101 In light of the feedback received and the principles in IFRS 16, IAS 7 and IFRS 18, staff do not recommend suggesting any immediate change to IFRS 16.

102 However, staff are aware that the IASB has recently initiated a project focused on the Statement of Cash Flows. As part of this project, the IASB will examine the perceived deficiencies with the current requirements of IAS 7, including its presentation requirements. Staff recommend suggesting that the IASB also take into account the feedback received during the IFRS 16 PIR and consider the potential benefits of greater flexibility in classifying lease-related cash flows (e.g. permitting principal lease payments to be presented within operating activities in the Statement of Cash Flows, where it better reflects the business activity of the entity).

Question for Board members
Q4 Do the Board members agree with the staff analysis and recommendations in paragraphs 101 and 102? If not, how do the Board members want to respond to the questions?

Topic 4: Summary of Stakeholder Feedback – Ongoing costs for lessees of applying the measurement requirements

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.**

103 Staff identified the following issues raised by stakeholders. For each issue, staff provide a brief summary of the feedback received, followed by an analysis of the issue and recommendations on the AASB's response to the IASB.

Summary of stakeholders' feedback and staff analysis (paragraphs A50–A56 in Appendix A)

104 According to the IASB's IFRS 16 Effects Analysis (2016), the IASB expected that the ongoing costs of applying IFRS 16 would be only marginally higher than those incurred under IAS 17. However, many stakeholders reported that ongoing compliance with IFRS 16 is more costly and resource-intensive than expected. Stakeholders highlighted that the high costs are driven mainly by the complexity of the Standard and the significant judgements required to apply the requirements, which result in the challenges associated with accounting system limitations, a high number of manual adjustments and the need to recruit technical staff or engage external advisors. These challenges were discussed in detail under Topic 2: Summary of Stakeholder Feedback – Usefulness of information resulting from lessees' application of judgement. Overall, stakeholders emphasised the need for simplification and better guidance to reduce the compliance costs.

Staff recommendation on the AASB response to IASB

105 Staff are of the view that the ongoing costs of applying IFRS 16 requirements are higher than IASB initially expected. Stakeholder feedback suggests that the primary reason for these elevated costs is the complexity of the standard. Staff consider that simplifying certain IFRS 16 requirements, as suggested in Topic 2: Summary of Stakeholder Feedback – Usefulness of information resulting from lessees' application of judgement, could help reduce these costs. Therefore, staff do not recommend including any further suggestions in relation to Question 4 in the AASB's comment letter to the IASB.

Question for Board members
Q5 Do the Board members agree with the staff analysis and proposed responses in paragraph 105? If not, how do the Board members want to respond to the questions?

Topic 5: Summary of Stakeholder Feedback – Potential improvements to future transition requirements

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.**

106 Staff identified the following issues raised by stakeholders. For each issue, staff provide a brief summary of the feedback received, followed by an analysis of the issue and recommendations on the AASB's response to the IASB.

Modified vs. Full Retrospective Approaches (paragraphs A58 – A60 in Appendix A)

Summary of stakeholders' feedback and staff analysis

107 IFRS 16 paragraphs C5–C7 permit entities to apply either a full retrospective approach, restating comparatives as if IFRS 16 had always applied, or a modified retrospective approach, recognising the cumulative effect of initially applying IFRS 16 at the date of initial application without restating comparatives. Paragraph BC276 of IFRS 16 notes that the modified approach was intended to provide relief and practical expediency for entities facing data limitations or high costs.

108 Almost all responding preparers commented that they used the modified approach due to its practicality and lower cost. Entities with large or complex lease portfolios particularly appreciated this flexibility.

109 This feedback is supported by the findings in AASB Research Report 17 *Transition Relief and Ongoing Practical Expedients in IFRS* 16 Leases, which suggested that the modified retrospective approach was widely adopted, reflecting its intended benefits. Further, Research Report 17 noted that based on a review of financial statements and interviews with a wide range of stakeholders, including preparers, auditors and users, in both Australia and Malaysia, the predominant view of stakeholders was that the transition and ongoing practical expedients provided in IFRS 16 were generally understandable and clear.

110 Given the significant variation in how widely IFRS 16 impacted an entity's operations, the flexibility of the practical expedients was valuable. Research Report 17 identified the most commonly applied practical expedients as:

(a) not recognising ROU assets that, at transition, had a remaining term of 12 months or less;

(b) excluding initial direct costs from the measurement of ROU assets at the date of initial application; and

(c) applying hindsight for matters such as determining the lease term if the contract contains options to extend or terminate the lease.

111 Under ASC 842-20-65, a similar modified retrospective approach was available, but entities were explicitly permitted to apply a broader set of practical expedients than under IFRS 16. Staff acknowledge that some of these expedients are not applicable to IFRS 16 due to the fundamental difference in lease models (i.e. ASC 842 retains a dual model, whereas IFRS 16 applies a single lessee model).

Staff recommendation on the AASB response to IASB

112 Stakeholder feedback indicates that transition relief and practical expedients were well received by stakeholders and generally worked well. Staff recommend acknowledging this and suggesting that the IASB should provide similar transition relief and practical expedients in future standard-setting activities where appropriate.

Grandfathering of the Previous Lease Assessment (paragraph A61 in Appendix A)

<u>Summary of stakeholders' feedback and staff analysis</u>

113 The grandfathering of previous lease classifications (paragraph C8) initially eased the transition. However, the grandfathering did give rise to application challenges in later periods, such as when grandfathered leases were modified or renegotiated.

<u>Staff recommendation on the AASB response to IASB</u>

114 Consistent with paragraph 113, staff recommend acknowledging that the grandfathering practical expedient worked well, and suggesting that the IASB could consider providing additional explanatory guidance in situations where grandfathering could be affected by the ongoing application of a standard.

Systems and Software Readiness (paragraph A62 in Appendix A)

<u>Summary of stakeholders' feedback and staff analysis</u>

115 Some stakeholders noted that early technology solutions were not fully developed to manage the new requirements, leading to delays and additional manual work. In addition, entities experienced challenges with the internal data collection required for the transition.

<u>Staff recommendation on the AASB response to IASB</u>

116 This suggests that while IFRS 16 provided sufficient conceptual guidance, additional practical guidance on data preparation, system readiness, and exception handling could have improved implementation efficiency.

117 Staff recommend suggesting that, when introducing a new standard or a significant amendment in the future, the IASB consider extending the implementation period. Where possible, the IASB should also consider engaging with software providers during the consultation process to allow them sufficient time to develop systems and IT solutions and to align the IT solutions with transition guidance. This is expected to support a smoother transition to new requirements with fewer manual workarounds being required.

Question for Board members

Q6 Do the Board members agree with the staff analysis and recommendation in paragraphs 116 and 117? If not, how do the Board members want to respond to the questions?

Topic 6: Summary of Stakeholder Feedback – Other matters relevant to the assessment of the effects of IFRS 16

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.**

118 Staff identified the following issues raised by stakeholders. For each issue, staff provide a brief summary of the feedback received, followed by an analysis of the issue and recommendations on the AASB's response to the IASB.

Summary of stakeholder feedback and staff analysis (paragraphs A64 – A66 in Appendix A)

119 A few stakeholders have highlighted challenges in determining whether rent concessions, particularly lease payment forgiveness, should be accounted for as lease modifications under IFRS 16 or as extinguishments under IFRS 9 *Financial Instruments*.

120 Staff noted that in 2022, the IFRS Interpretations Committee issued Agenda Decision *Lessor Forgiveness of Lease Payments* and clarified how the lessor should account for rent concessions. A stakeholder noted that the guidance is helpful only once the receivable portion is determined. The IASB RFI notes that the Agenda Decision only addresses receivable consideration, but guidance for lessees remains limited. Lessees may apply either IFRS 9 to derecognise the forgiven portion of the lease liability—recognising a gain in profit or loss—or IFRS 16 to treat the concession as a lease modification, adjusting the ROU asset. This lack of clarity can lead to inconsistent application and affect the comparability of financial statements.

121 Although this issue was more frequently encountered during the COVID-19 pandemic and is now less common, it still poses interpretive challenges. However, the lack of feedback indicates that rent concessions may no longer be prevalent.

Staff recommendation on the AASB response to IASB

122 Staff acknowledge that challenges with respect to rent concession remain. However, considering the limited IASB resources and the number of potential projects with higher priority, staff do not recommend suggesting any action by the IASB.

Question for Board members	
Q7	Do the Board members agree with the staff analysis and recommendation in paragraph 122? If not, how do the Board members want to respond to the questions?

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.**

Summary of stakeholder feedback and staff analysis (paragraphs A67 – A71 in Appendix A)

123 To determine the appropriate accounting treatment under IFRS 16 for a sale and leaseback transaction, the first step is to assess whether the transfer of the asset qualifies as a sale in accordance with IFRS 15.[4] One auditor raised concerns about applying IFRS 15's control indicators—such as legal title, physical possession, and the right to payment—in these transactions.

124 In addition, feedback suggested that common lease features, including renewal or purchase options, may prevent a transaction from meeting the sale criteria, even when the commercial substance suggests otherwise.

125 When IFRS 16 was developed, the IASB considered adding guidance to IFRS 16 on assessing whether a sale has occurred, but concluded it was unnecessary, as IFRS 15's principles are sufficient (see IFRS 16 paragraph BC264).

126 Staff understand that the control criteria in IFRS 15 can be difficult to apply in some sale and leaseback transactions (e.g., in case of substitution rights, renewal periods or partial asset disposal - what percentage of asset value or life needs to transfer to satisfy the control test).

127 Another challenge noted by an advisor in determining whether a sale has occurred relates to assessing above- or below-market lease features, which is important for identifying separate financing components in sale and leaseback transactions. However, since lease payments help determine an asset's market value, using those same payments to assess market pricing can be conceptually inconsistent. Another stakeholder reported that when assessing whether a sale has occurred, the assessment considers the fair value of a property, which is based on the market value of rent, leading to a circular calculation.

Staff recommendation on the AASB response to IASB

128 Staff acknowledge that IFRS 16 does not provide guidance for assessing whether a sale has occurred in a sale and leaseback arrangement, and instead, entities are required to refer to IFRS 15. Staff note that stakeholders reported similar challenges during the IFRS 15 PIR (i.e.

4 Staff also reviewed the equivalent requirements under US GAAP and found that, similar to IFRS 16, US GAAP relies on the revenue recognition standard (ASC 606) to determine whether a sale has occurred in a sale and leaseback transaction.

that it was unclear how to apply IFRS 15's requirements alongside IFRS 16 in sale and leaseback transactions). The feedback provided to the IASB at the time was in the context of the PIR of IFRS 15, and the IASB did not take immediate action because it decided to gather further evidence on the issues as part of the PIR of IFRS 16. Given the challenges stakeholders are continuing to experience in practice and the complexity of the issues, staff recommend suggesting that the IASB clarify how the IFRS 15 control criteria should be applied in respect of sale and leaseback transactions.

129 Similarly, IFRS 16 does not provide detailed guidance on assessing whether lease payments are at market rates, and the use of lease payments in determining both fair value and market pricing can result in circular calculations. Whilst staff acknowledged that in some situations, it may be challenging to apply the requirements, staff do not recommend suggesting that the IASB amend IFRS 16 to address this as a single issue. However, if the IASB decides to provide more guidance concerning sale and leaseback transactions, staff suggest the IASB could consider providing guidance about assessing whether lease payments are at fair value in sale and leaseback transactions.

Question for Board members

Q8 Do the Board members agree with the staff analysis and recommendation in paragraphs 128 and 129? If not, how do the Board members want to respond to the questions?

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.

Summary of stakeholder feedback and staff analysis (paragraphs A72 – A75 in Appendix A)

130 IFRS 16 paragraph 100(a) requires the seller-lessee to measure the ROU asset based on the proportion of the previous carrying amount that relates to the retained ROU. As a result, only the gain or loss related to the rights transferred to the buyer-lessor is recognised. While this approach aligns with IFRS 15's control principles, some stakeholders find it complex and counterintuitive. Calculating partial gains involves significant judgment and increases the burden on preparers. Users of financial statements often focus more on cash flows and lease liabilities than on the 'gain'. However, others support the current approach as it prevents full gain recognition, which could misrepresent the transaction's economic substance.

131 As explained in IFRS 16 paragraph BC266, the IASB concluded that recognising gain only on the transferred portion of an asset better reflects the economics of the transaction. Although the seller-lessee may legally sell the entire asset, it retains the right to use it during the leaseback, which was embedded in the original ownership.

132 Under ASC 842-40-25-4, the seller-lessee derecognises the full asset and recognises the full gain or loss when control transfers, with the ROU asset measured separately. This method is simpler and more aligned with the legal form of the transaction. However, it may not fully reflect the retained economic interest in the asset during the leaseback period.

<u>Staff recommendation on the AASB response to IASB</u>

133 Staff do not recommend suggesting any amendments because the current accounting requirements prevent overstating the gains recognised from sale and leaseback transactions.

Other Sale and Leaseback matters

Reassessment of the Financial Liability in Failed Sale and Leaseback Transactions (paragraphs A76 – A78 in Appendix A)

134 One stakeholder reported complexity in reassessing failed sale and leaseback transactions when, subsequently, the useful life of an asset changes, assets are replaced, or termination rights are triggered. These scenarios raise questions about whether the subsequent changes lead to reassessment of the sale or failed sale decision under IFRS 15.

135 Staff noted that IFRS 16 paragraph 103 outlines the treatment for failed sale and leaseback transactions. If the transfer does not meet IFRS 15's criteria for a sale, the seller-lessee continues to recognise the asset and records a financial liability under IFRS 9. The buyer-lessor recognises a financial asset, also under IFRS 9, and neither party accounts for a lease under IFRS 16.

136 In such cases, no lease liability or ROU asset is recognised by the seller-lessee under IFRS 16. Therefore, subsequent changes—such as revisions to the asset's useful life, asset replacement, or termination rights—fall outside the scope of IFRS 16 and should be accounted for under other applicable standards.

<u>Staff recommendation on the AASB response to IASB</u>

137 Staff considered whether further guidance is needed on the reassessment and measurement of financial liabilities in failed sale-and-leaseback transactions. While the feedback raises concerns about insufficient guidance in this area, the staff concludes that in such situations, the existing guidance, e.g., IFRS 9, should be applied. However, if the IASB decides to provide more guidance concerning sale and leaseback transactions, staff suggest it may be helpful for the IASB to clarify whether subsequent asset changes affect the previous sale assessment.

Sale and Leaseback Involving Asset Construction (paragraphs A79–A80 in Appendix A)

138 An auditor raised concerns about sale and leaseback transactions involving a lessee constructing an asset for its own use, questioning whether the constructed asset can qualify as an asset under IFRS 15.

<u>Staff recommendation on the AASB response to IASB</u>

139 Staff noted that although IFRS 16 does not provide specific guidance for sale and leaseback transactions involving asset construction, staff consider that entities should apply IFRS 15 to assess whether a sale has occurred. Whilst staff acknowledged that in some situations, it may be unclear whether the constructed asset qualifies as an asset to be sold, staff do not recommend suggesting that the IASB amend IFRS 16 to address this as a single issue. However,

if the IASB decides to provide more guidance concerning sale and leaseback transactions, staff suggest the IASB could consider providing guidance about accounting for assets being constructed in a sale and leaseback arrangement.

Question for Board members
Q9 In respect of gain or loss recognition in a sale and leaseback transaction, do the Board members agree with the staff analysis and recommendation in paragraph 133 not to suggest any amendments? If not, how do the Board members want to respond to the questions?
Q10 In respect of other sale and leaseback matters, do the Board members agree with the staff analysis and recommendations that if the IASB decides to provide more guidance on sale and leaseback arrangements, they could consider providing guidance on:
(a) Reassessment of the financial liability in failed sale and leaseback transactions (paragraph 137); and
(b) Sale and leaseback involving asset construction (paragraph 139).
If not, how do the Board members want to respond to the questions?

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.

140 Stakeholders also provided feedback on other matters relevant to the assessment of the effects of IFRS 16. The staff identified the following issues raised by stakeholders. For each issue, the staff provide a brief summary of the feedback received, followed by an analysis and recommendations regarding the AASB’s response to the IASB.

Lessor Accounting (paragraphs A81 and A82 in Appendix A)

Summary of stakeholder feedback and staff analysis

141 One stakeholder highlighted the limited guidance available for lessors under IFRS 16. Another stakeholder specifically pointed out that IFRS 16 lacks guidance for lessors on how to account for changes in variable lease payments in a finance lease after initial recognition. This stakeholder also noted that IFRS 16 is unclear on including non-cash consideration in lease payments, creating measurement and recognition challenges.

142 Staff noted that the IASB largely carried forward the previous lessor accounting requirements from IAS 17. IFRS 16 provides guidance on lease classification for lessors in paragraphs B53–B57, and on sublease classification in paragraph B58. In addition, there are some detailed explanations about lessor accounting in the Basis for Conclusions on IFRS 16.

143 BC61 to IFRS 16 explains that the IAS17 lessor accounting model was well understood and therefore did not require any changes. Therefore, no amendments to the model were made in IFRS 16.

144 Staff also noted that the IASB considered feedback requiring further guidance for lessor accounting (including how to reflect changes in variable lease payments) at the March IASB meeting as part of Phase 1 of IFRS 16 PIR.[5] However, the IASB decided not to include a question on lessor accounting in the Request for Information as the overall feedback received during Phase 1 of the PIR did not indicate any widespread diversity in lessor accounting.

<u>Staff recommendation on the AASB response to IASB</u>

145 Given that the lessor accounting model was carried forward from IAS 17 as it was well understood and that the IASB decided not to collect feedback on the lessor accounting model in the PIR, staff do not recommend including comments on lessor accounting in the AASB's comment letter to the IASB.

Leases of Intangible Assets and Classification Boundaries (paragraph A83 in Appendix A)

<u>Summary of stakeholder feedback and staff analysis</u>

146 One stakeholder noted the uncertainty around the lease treatment of intangible assets. According to paragraphs BC70 and BC71, IFRS 16 excludes from its scope rights held by a lessee under licensing agreements that fall within the scope of IAS 38 *Intangible Assets*, such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights. These items are accounted for under IAS 38. While IFRS 16 allows lessees to apply its requirements to leases of other intangible assets, it does not mandate this. The IASB did not want to restrict lessees from applying IFRS 16 where no specific guidance exists in other Standards. Although the IASB acknowledged there is no conceptual reason to exclude leases of intangible assets from IFRS 16, it concluded that a broader review of intangible asset accounting should be undertaken before making such application mandatory. Stakeholders broadly supported this approach.

<u>Staff recommendation on the AASB response to IASB</u>

147 As the issue relating to the lease of intangible assets does not seem to be widespread, staff do not recommend suggesting that the IASB take any action in response to this feedback, particularly in light of the IASB's current research project on Intangible Assets.

Short-Term and Low-Value Lease Exemptions (paragraph A84 in Appendix A)

<u>Summary of stakeholder feedback and staff analysis</u>

148 Some stakeholders expressed concerns that the current thresholds for short-term and low-value leases under IFRS 16 are too rigid and often impractical in real-world applications. These stakeholders proposed that the Standard could be improved by introducing greater flexibility—allowing exemptions to be based on entity-specific materiality assessments rather than fixed thresholds.

149 For short-term leases, staff noted that paragraphs BC91–BC97 explain that the IASB initially considered defining short-term leases based on a maximum possible term of 12 months or less, but stakeholders found this definition too restrictive, particularly for month-to-month leases. Although some suggested extending the exemption to leases up to five years, the IASB rejected this, citing the increased likelihood of material assets and liabilities arising from

5 IASB Staff Paper 7D Lessor accounting (March 2025)

longer-term leases, which would undermine the transparency objective of IFRS 16. Instead, the IASB aligned the definition of short-term leases with the IFRS 16 concept of lease term, which considers the likelihood of exercising extension or termination options. This approach broadened the exemption's applicability, reduced complexity by requiring only one lease term assessment, and was supported by economic disincentives for lessors to structure leases to exploit the exemption.

150 For low-value leases, staff note that paragraph BC101 of the Basis for Conclusions outlines fieldwork conducted by the IASB, which found that leases falling within the scope of the exemption typically result in assets and liabilities that are not quantitatively significant to the financial statements, even when aggregated. While this could suggest limited benefit from the exemption, feedback from preparers indicated that it provides meaningful cost relief—particularly for smaller entities—by removing the burden of justifying immateriality on a lease-by-lease basis.

Staff recommendation on the AASB response to IASB

151 In light of these considerations, staff do not recommend that the IASB take any action in response to this feedback.

Bundled and Complex Arrangements (paragraph A85 in Appendix A)

Summary of stakeholder feedback and staff analysis

152 One stakeholder raised concerns about the challenges in accounting for bundled contracts that include both lease and non-lease components, particularly when the lease term under IFRS 16 and the enforceable period under IFRS 15 do not align. The stakeholder also noted a lack of clarity regarding how lease accounting applies to take-or-pay arrangements, where a customer is required to pay regardless of whether they take delivery of the underlying good or service.

153 Staff noted that under IFRS 16 paragraphs 9–11 and B9–B31, entities must assess whether a contract is, or contains, a lease by determining whether it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This assessment is required at the inception of the contract, even if a lease is not explicitly stated.

154 According to IFRS 16 paragraph 15, BC135 and BC136, IFRS 16 applies only to the lease components of a contract. Lessors are required to separate lease and non-lease components, as they typically have access to pricing information. Lessees must also separate these components unless they elect to apply the practical expedient to treat them as a single lease component—an option introduced to reduce cost and complexity, particularly when the non-lease (service) components are relatively minor.

155 Staff acknowledge that IFRS 16 does not provide explicit guidance on how to account for situations when the lease term and the length of a contract with the customer under IFRS 15 differ, nor does it directly address take-or-pay arrangements. This gap may lead to inconsistent interpretations and application in practice, especially in industries such as energy, utilities, and logistics, where such arrangements are common.

Staff recommendation on the AASB response to IASB

156 Staff note that the AASB raised similar issues in its [2023 comment letter to the IASB in response to the PIR of IFRS 15](), and that the IASB has decided not to address these issues. For this reason, staff do not recommend raising them again in this comment letter to the IASB.

Use of Lease Liabilities in Performance Metrics (paragraph A86 in Appendix A)

Summary of stakeholder feedback and staff analysis

157 One professional accounting body noted that their commissioned research indicates that among Australia's largest lease-intensive firms, most include lease liabilities in their calculation of Return on Invested Capital calculations, but a notable minority exclude them.

158 Staff note that while this is non-IFRS information, the variation in incorporating IFRS 16 amounts could be misleading for the users of financial reports. In addition, some stakeholders noted that entities have had to introduce additional non-GAAP measures—such as EBITDA after leases—to isolate the impact of IFRS 16 on performance metrics.

Staff recommendation on the AASB response to IASB

159 Staff acknowledge the feedback but note that IFRS 16 already includes disclosure requirements that provide users with sufficient information to make adjustments if needed. For example, paragraph 53 of IFRS 16 requires disclosure of depreciation charges by class of underlying asset, which enables users to adjust EBITDA or other performance metrics as appropriate. As performance metrics reporting is not subject to accounting standards and the feedback did not indicate a significant gap in IFRS 16 disclosure requirements, staff do not recommend this issue be raised in the AABS's comment letter to the IASB.

Other feedback (paragraph A87 and A88 in Appendix A)

160 One stakeholder observed that determining when a lease begins in development arrangements is challenging due to the nature of such arrangements. Staff acknowledge that IFRS 16 requires careful judgment to determine when a lessee has obtained the right to use the asset. Early access, such as construction licences or limited rights, may mean the lease has commenced for accounting purposes, even if the formal lease term or payments have not yet started. Staff acknowledge that judgment will likely be required in such arrangements to determine when a lease commences. However, as this issue was reported by a single stakeholder, staff are unsure whether it is prevalent. Accordingly, staff do not recommend raising this issue in the AASB's comment letter. Instead, staff will monitor this issue and determine whether action may be required in the future.

161 One stakeholder suggested issuing additional guidance on lease incentives and how to account for them when received. Staff acknowledge that IFRS 16 defines lease incentives as payments associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee. Apart from the definition, IFRS 16 does not provide further guidance. Staff noted that Illustrative Example 13 includes in the fact pattern a reimbursement from the lessor for the leasehold improvements that meets the definition of the lease incentive and illustrates how to account for the incentive. Staff acknowledge that additional guidance on lease incentives may be helpful. However, considering this issue was reported by a single stakeholder, the staff is unsure whether this issue is prevalent. As such, staff do not recommend this issue be raised in

the AASB's comment letter to the IASB. Instead, staff will monitor this issue and determine whether action may be required in the future.

Question for Board members

Q11 Do the Board members agree with the staff analysis and recommendations not to include the following issues raised by the stakeholder in the AASB's comment letter to the IASB:

(a) additional guidance on lessor accounting (paragraph 145);

(b) leases of intangible assets and classification boundaries (paragraph 147);

(c) consideration of higher thresholds for short-term and low-value lease exemptions (paragraph 151);

(d) additional guidance for lease components in bundled arrangements (paragraph 156);

(e) impact of IFRS 16 on performance metrics (paragraph 159); and

(f) other feedback (paragraph 160 and 161).

If not, how do the Board members want to respond to the questions?

Q12 Are there any other matters that the Board members want to raise in relation to the PIR?

Next steps

162 The comment period to the IASB PIR closes on 15 October 2025. As there is no further AASB meeting before the comment period close date, staff suggest finalising the AASB's comment letter to the IASB reflecting the Board's decisions from this meeting out-of-session by the Chair.

The proposed timing is as follows:

During the week beginning	Deliverable
8 October 2025	Staff circulate a draft comment letter to the Chair for review.
9 October 2025	The Chair reviews the comment letter.
10-13 October 2025	Staff address any comments from the Chair.
14 October 2025	The comment letter is signed by the AASB Chair and submitted to the IASB by 15 October 2025.

Questions for Board members

Q13 Do Board members agree with the staff recommendation that the AASB’s comment letter to the IASB is finalised out-of-session by the Chair?

Q14 Do Board members have any comments or concerns about the proposed timing of the finalisation of the AASB’s comment letter to the IASB?

Appendix A Summary of feedback on ITC 55 (for-profit private sector and other stakeholders that responded to the questions in the IASB's RFI only)

A1 This section presents a detailed summary of feedback on ITC 55, focusing specifically on feedback received from the for-profit private sector and other stakeholders that responded to the questions in the IASB's RFI. The summary includes feedback from the three roundtable sessions, targeted stakeholder meetings, comment letters and emails received from stakeholders.

A2 As noted in the *Outreach Activities* section, the virtual roundtables were held in August and September 2025 jointly with CAANZ, CPA Australia, and the XRB. During these roundtables, several polling questions were used to gather stakeholder views. The results of the polling questions are presented in the summary below in the relevant topics. While the detailed feedback summarised here is from for-profit stakeholders and other stakeholders that responded to the questions in the IASB's RFI, the polling question results reflect the views of all respondents that attended the roundtables, which included perspectives beyond just for-profit entities.

A3 To ensure consistent and proportionate language when summarising stakeholder views, this guide defines commonly used quantifiers—such as *'some,' 'many,'* and *'most'*—based on the number of stakeholders involved. It helps avoid ambiguity and supports clearer communication throughout the report.[6]

Table 1: Quantifier Usage Guide for Stakeholder References

Term	Suggested Definition	Example Usage
A few	2–3 stakeholders	'A few preparers commented…'
Some	4–5 stakeholders	'Some stakeholders observed…'
Many	6 or more stakeholders	'Many stakeholders raised concerns…'
Most	The majority of stakeholders (e.g., >50%)	'Most stakeholders support simplification…'
All	Every stakeholder	'All stakeholders agreed…'

Topic 1: Detailed Stakeholder Feedback – Overall assessment of IFRS 16

A4 Topic 1 seeks to understand stakeholders' views and experiences with IFRS 16 to assess whether the Standard is working as intended—specifically, whether it is achieving its objectives and has clear principles, whether the improvements in lease reporting meet

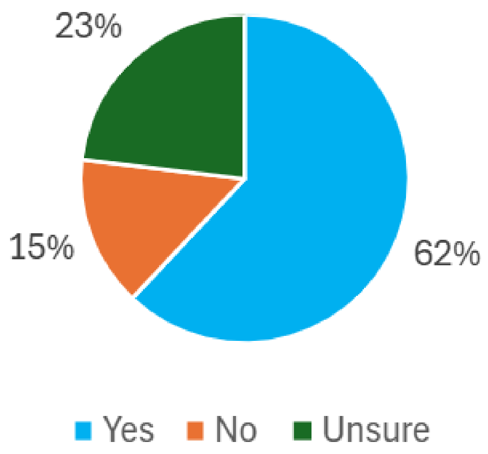
6 Although polling questions were conducted during each roundtable session, with approximately 30 participants responding to the polls, only around 4–5 participants actively engaged in discussion and provided detailed verbal feedback at each session. As a result, when summarising stakeholder views, the number of stakeholders who contributed substantive input was relatively limited. The quantifiers used in this report are based on the number of stakeholders who provided meaningful commentary across all outreach activities and written submissions received, rather than total attendance or polling responses.

expectations, and whether the ongoing costs of applying and auditing the Standard are reasonable.

Polling question results

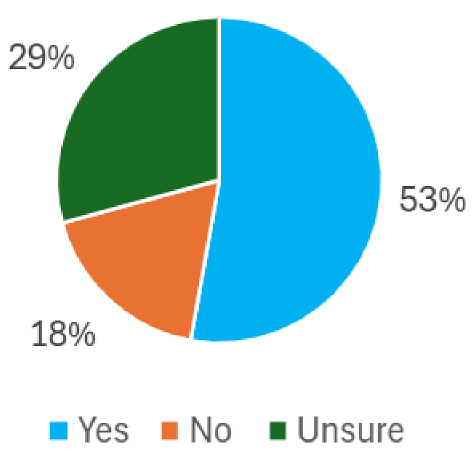
A5 The chart below shows respondents' views on whether IFRS 16 achieves its objective of providing useful information that faithfully represents underlying economic activities. Out of 108 respondents, 67 (62%) agreed, 16 (15%) disagreed, and 25 (23%) were unsure.

Figure 1: Do you think IFRS 16 meets its objective of providing useful information that faithfully represents the underlying economic activities?

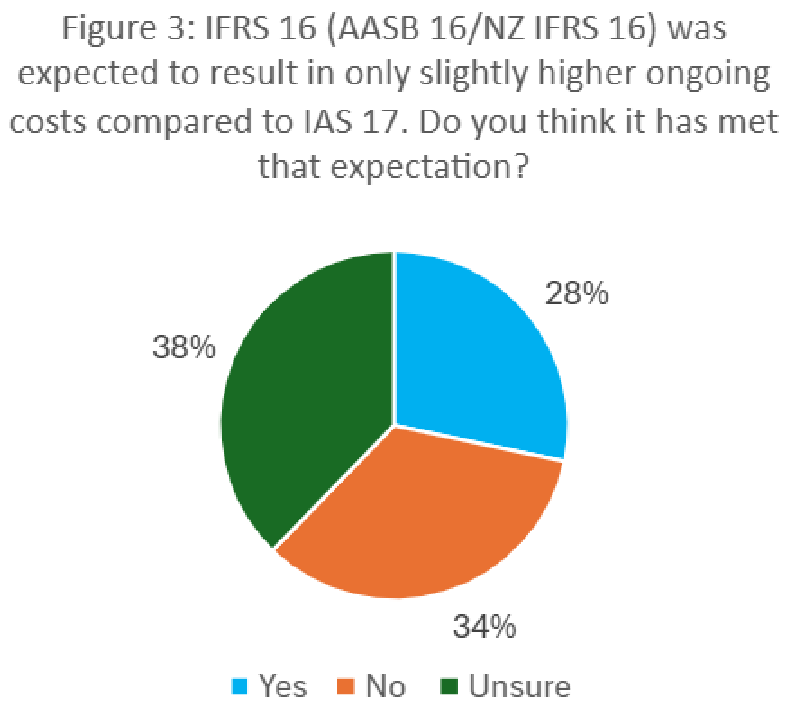


A6 In response to whether IFRS 16 has improved the quality and comparability of lease-related financial information, out of 106 respondents, 56 (53%) agreed, 19 (18%) disagreed, and 31 (29%) remained uncertain.

Figure 2: Do you think the quality and comparability of financial information about leases has improved under IFRS 16?



A7 Regarding the perception that IFRS 16 has led to only slightly higher ongoing costs compared to IAS 17, out of 106 participants, 30 (28%) agreed, 36 (34%) disagreed, and 40 (38%) were unsure.



Detailed comments from stakeholders

A8 There are some observations that users now have clearer visibility of lease obligations, which has improved understanding of financial positions and strengthened internal capital management. Three professional accounting bodies affirmed that the Standard faithfully represents lease transactions and improves the quality of financial information. A research report on the implementation and effectiveness of IFRS 16 among Australian firms indicates that IFRS 16 has largely achieved the IASB's objective of enhancing the quality and comparability of lease information.[7]

A9 However, many stakeholders have observed that the Standard may not reflect business operations and create confusion for users of financial statements. One professional accounting body noted that while IFRS 16 provides a more comprehensive view than IAS 17, some users and preparers prefer pre-IFRS 16 figures to make internal decisions and valuations.

A10 Five stakeholders (three preparers and two users) noted that the classification of lease expenses as depreciation and interest inflates EBITDA. This led to the introduction of new subtotals such as EBITDAaL (EBITDA after lease expense), which is used in external

7 CPA Australia Leases Research Report 1 *IFRS 16* Leases*: A review of implementation and effectiveness.* This research report is Attachment B to CPA Australia's submission, which can be found in Agenda Paper 4.4 for this meeting.

communication as lease payments are seen as part of the operating activities. The stakeholders also noted that NPAT is more volatile.

A11 The front-loaded nature of lease costs distorts net profit across reporting periods, even though cash outflows remain stable. This disconnect between accounting expense recognition and actual lease payments can make performance trends less intuitive for users, as noted by two stakeholders (one preparer and one user). The two stakeholders further commented that liquidity indicators such as current ratios and interest coverage are also affected, making financial analysis more complex and less intuitive. There is diversity in practice with respect to how lease liabilities are reflected in loan covenants.

A12 The comparability of financial statements is affected by inconsistent application due to the significant judgment required in areas such as determining the lease term, selecting discount rates, and assessing whether a contract contains a lease under IFRS 16. This concern was raised by seven stakeholders (one preparer, three auditors, one advisor and two users). This has led to reduced comparability across entities and sectors, especially when similar economic arrangements are accounted for differently. Two stakeholders noted that IFRS 16's approach of applying the same accounting model to all leased assets—regardless of their nature—makes it harder to reflect economic differences between lease types. They also observed that this divergence from ASC 842 further complicates global comparability.

A13 Five stakeholders (two users, one preparer, one auditor and one professional accounting body) observed that IFRS 16 impacts are frequently adjusted out—either by preparers in management reporting and investor presentations, or independently by users such as analysts and lenders—to support clearer valuation discussions and assess underlying performance.

A14 The Standard introduces significant operational complexity. Six stakeholders—three preparers, two auditors and one advisor —highlighted that ongoing compliance demands technical expertise and frequent remeasurements. Many entities face challenges with lease modifications, sub-leases, sale and leaseback arrangements, and managing multiple discount rates. These issues often lead to reliance on manual workarounds, increasing costs and reducing efficiency, particularly for smaller entities. A common pain point is the difficulty in managing remeasurements of lease liabilities arising from changes in variable lease payments linked to CPI or market rent adjustments. This results in inconsistent outcomes and undermines comparability across entities. In response to the complexity of ongoing compliance, many preparers have adopted software solutions or outsourced lease accounting. While these approaches can improve accuracy and audit readiness, several stakeholders noted that software often struggles with complex scenarios—such as lease modifications or CPI-linked remeasurements—leading to manual workarounds and higher costs, particularly for smaller entities.

A15 One professional accounting body commented that even though their research suggests that, from an audit perspective, IFRS 16 has not created greater-than-expected burdens, stakeholder feedback through outreach activities highlights genuine concerns about the uneven distribution of costs across different company sizes, the perceived disconnect between accounting complexity and economic reality, and the absence of clear cost benchmarks.

A16 While stakeholders found IFRS 16 complex and costly to implement, almost all stakeholders do not support a fundamental rewrite of the Standard. Instead, they prefer targeted improvements, simplifications and clarifications to address specific challenges, while retaining its core principles. One professional accounting body noted that its members support simplification and clearer guidance, especially in areas requiring significant judgement, and noted minimal appetite for disruptive changes. However, one user suggested that a more fundamental reconsideration of the Standard is required.

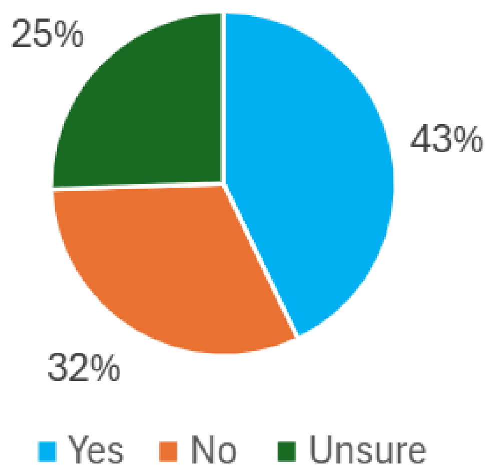
Topic 2: Detailed Stakeholder Feedback – Usefulness of information resulting from lessees' application of judgement

A17 Topic 2 examines stakeholder concerns about specific aspects of IFRS 16—such as determining the lease term, discount rate, and variable lease payments—that require significant judgement, and seeks to understand whether these areas affect the clarity, consistency, and usefulness of the information produced.

Polling question results

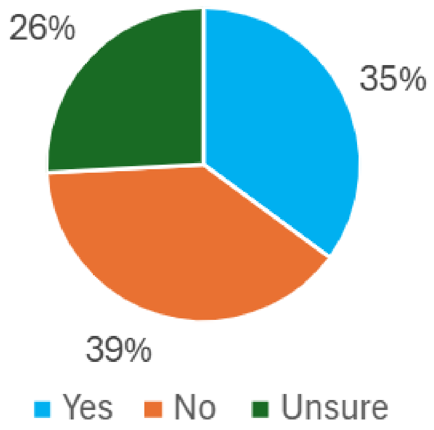
A18 The chart below illustrates respondents' views on whether the financial information resulting from lessees' exercise of judgment is considered useful. Of the 98 respondents, 42 (43%) agreed, 31 (32%) disagreed, and 25 (25%) were unsure.

Figure 4: Do you find the financial information arising from the exercise of lessees' judgement useful?



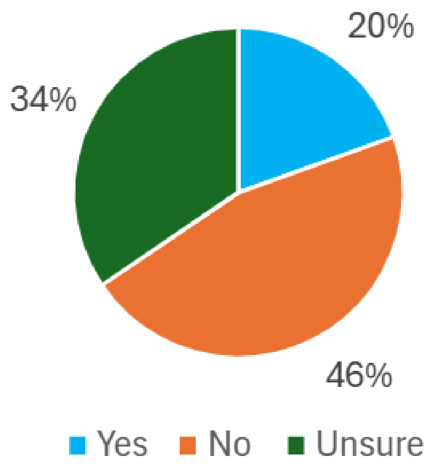
A19 In relation to the clarity and sufficiency of IFRS 16 guidance for making appropriate judgments, 97 participants shared their views. As shown in the figure, 34 (35%) agreed, 38 (39%) disagreed, and 25 (26%) were uncertain.

Figure 5: Do you think IFRS 16 provides clear and sufficient guidance for making appropriate judgements?



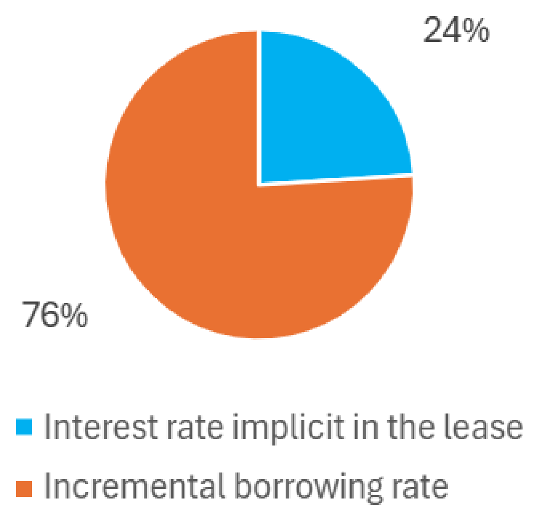
A20 Respondents were also asked whether they believe the guidance provided under IFRS 16 leads to consistent application of its requirements. Of the 87 participants who responded, 17 (20%) agreed, 40 (46%) disagreed, and 30 (34%) were unsure.

Figure 6: Does the guidance provided for making appropriate judgements result in consistent application of the requirements?



A21 The figure below illustrates respondents' choices regarding the discount rate used to calculate the present value of lease payments. Of the 74 participants who responded, 56 (76%) indicated they use the IBR, while 18 (24%) reported using the interest rate implicit in the lease.

Figure 7: When calculating the present value of the lease payments, did you use the interest rate implicit in the lease or the incremental borrowing rate?



A22 To understand why respondents prefer the IBR, a follow-up question was asked, with 70 participants providing input. As shown below, 28 (40%) stated that the reason is that IBR is readily available, while 15 (21%) noted that information about the lessor's direct costs is not accessible. Additionally, 14 (20%) found the guidance on calculating the interest rate implicit in the lease complex and difficult to apply, 5 (7%) pointed to challenges in estimating the unguaranteed residual value, and 8 (12%) selected other reasons.

Table 2: If you used the IBR, what was the main reason for that choice

Main reason for using IBR	**Number of respondents**	**Percentage**
Information about the lessor's direct costs is not available.	15	21%
The unguaranteed residual value62 is difficult to calculate.	5	8%
The IBR is readily available, whereas the interest rate implicit in the lease requires calculation.	28	40%
The guidance on calculating the interest rate implicit in the lease is complex and difficult to understand.	14	20%
Other reasons.	8	11%
Total respondents	**70**	**100%**

Detailed comments from stakeholders

A23 Most stakeholders noted that judgment plays a significant role when assessing lease modifications, variable payments, in-substance fixed payments, and sale and leaseback transactions. These areas continue to present application challenges and contribute to reduced comparability across entities.

Lease Terms and Extension Options

A24 While one stakeholder commented that the most difficult judgments under IFRS 16—such as extension options and discount rates—were most acute during the transition phase, they clarified that practice has stabilised in certain areas. This stabilisation reflects the development of consistent approaches over time, but does not imply that all challenges have been resolved. This stakeholder, as well as most others that provided feedback, was of the view that ongoing complexity remains, particularly in areas requiring industry-specific judgment or where guidance is limited.

A25 One auditor raised concerns about master lease arrangements, such as fleet leases, highlighting the challenge of determining the appropriate lease term. When assets are rotated or replaced within a pool, it is unclear whether the lease term should be assessed at the pool level or for each individual asset. They noted that this issue arises frequently and recommended that the IASB clarify the intended treatment under IFRS 16.

A26 Six stakeholders (three preparers, two auditors and one user) noted that reassessments of extension options can be subjective. Some observed that the 'reasonably certain' threshold required to consider extension options is impractical and misaligned with how businesses operate. One stakeholder noted that reassessments are often triggered by proximity to lease termination dates rather than assessing whether the lease extension is reasonably certain, which is impractical when many leases exist. This can cause significant movements in the statement of financial position even when no new negotiations have occurred. Considering this disconnect between accounting outcomes and commercial reality, some stakeholders raised questions about whether such judgments truly enhance the usefulness of financial information.

A27 One auditor emphasised the need to clarify lease term reassessment requirements, particularly the guidance on considering the extension options and the relevance of the 'reasonably certain' requirement. They observed that in practice, the reassessment is based on intentions or expectations rather than upon a specific trigger event, such as formal board decisions or contractual commitments, as required by the Standard. The auditor also suggested that paragraph 20 of IFRS 16 could be clarified to reinforce the principle that reassessment should not be continuous. The auditor also noted that the interpretation of the term 'reasonably certain' can vary, which adds to the complexity. Additional feedback from a professional accounting body confirmed that this ambiguity is especially evident when assessing lease extension options in the context of incentives, informal arrangements, and master lease structures, which contributes to inconsistent application and reduced comparability.

A28 One auditor commented that the legal approach to lease extensions in Australia—where lawyers often modify existing lease agreements rather than drafting new ones—creates practical challenges in determining whether a change constitutes a new lease or a lease modification under IFRS 16. This is particularly common among mid-sized clients and is further complicated by periodic rent resets to market rates. The current guidance is seen as insufficient in this context, and the stakeholder suggested that preparers in Australia would benefit from additional support, such as a practice note or guidance statement from the AASB, to clarify how lease extensions should be treated.

A29 One stakeholder raised concerns about the complexity of the assessment relating to the assessment of whether the lease can be terminated without 'insignificant penalty'. Determining whether a penalty for terminating a lease is insignificant involves a high level of judgement and results in diversity in practice. The stakeholder suggested that more guidance should be provided.

Discount Rate Determination

A30 One auditor, one advisor and a professional accounting body observed that most entities default to using the IBR due to the complexity of calculating the implicit rate. Another stakeholder reported that for property leases, it is not feasible to calculate the rate implicit in the lease due to the lack of information about the leased asset. The stakeholder recommended removing the implicit rate option entirely, citing its limited application and unnecessary burden. It was noted that the requirement to calculate the implicit discount rate for each lease is impractical and contributes to reduced comparability.

A31 Other stakeholders reported that determining the IBR may also be challenging, particularly for entities without borrowing histories. One preparer mentioned that subsidiaries often use discount rates that are used by the parent company, even though these may not reflect relevant market conditions. Six stakeholders called for simplification in this area. One advisor proposed introducing adjustment factors to the IBR to better reflect excluded lease components (e.g., CPI-linked payments), aligning more closely with the pricing of lease contracts and improving comparability.

Variable Lease Payments

A32 One preparer and one auditor highlighted the complexity and cost associated with the consideration of index-linked variable lease payments. The stakeholders noted that such lease payments can introduce volatility in the statement of financial position, particularly when the indices fluctuate a lot (e.g., shipping route indices in shipping industries). The auditor noted that although clients may be uncomfortable with the resulting volatility, the Standard's approach is generally well understood and consistently applied. However, the preparer commented that the volatility of the statement of financial position does not reflect business operations, and the consideration of what represents variable payment should be simplified.

A33 An auditor and a professional accounting body raised concerns about variable lease payments under IFRS 16, particularly those that are economically unavoidable or in-substance fixed. They noted inconsistent application and called for clearer guidance on remeasurement timing, depreciation treatment, and criteria to distinguish between truly variable and in-substance fixed payments. Both emphasised the need for improved clarity to better reflect the substance of lease arrangements and enhance comparability.

A34 Another stakeholder commented that excluding expected increases in lease payments that are linked to indexes or market rent reviews from the initial measurement of a lease liability can affect the comparability of lease information between similar companies and limit the effectiveness of disclosures. As an example, the stakeholder referred to differences in the value of the lease liability at the commencement of a lease, which has payments linked to CPI, and a similar lease that has fixed payments increasing by, e.g., three percent every year. The stakeholder suggested that the expected variable increases in lease payments could be reflected in the adjustment factor in the discount rate.

Adequacy of Disclosures for Significant Judgements

A35 Disclosures around lease terms, options, and judgments were seen as insufficient by stakeholders, particularly in cases where reassessments significantly affect the statement of financial position. One user and one auditor find it difficult to assess risk and to understand the true nature of lease commitments due to limited transparency. Although some companies provide sufficient information, especially when lease liabilities are material, others disclose less, making it harder for users to interpret financial statements. A professional accounting body observed that the distinction between lease reassessment and modification under IFRS 16 is complex and often unclear in practice, potentially leading to unnecessary burden. To improve consistency and reduce ambiguity, it was suggested that the Standard include explicit criteria or decision trees to guide the determination process. Another stakeholder questioned the need for different accounting treatment for lease modification versus reassessment.

Unit of Account

A36 One example was that in sectors like telecommunications, identifying the unit of account (e.g., treating individual antenna spots as separate leases) created substantial complexity, resulting in the recognition of tens of thousands of leases. Although practice has settled in this case, other industries continue to face ambiguity, with limited guidance leading to divergent practices and heavy reliance on auditors. Four stakeholders (two preparers, one advisor and one auditor) expressed a strong preference for industry-specific clarification through thought leadership rather than formal standard-setting, especially regarding interactions with other standards such as IFRS 15 and IFRS 9. More details will be included under later topics.

Other feedback

A37 While three users observed that most banks and governance bodies did not focus on IFRS 16 impacts, some analysts and traders continue to engage with the disclosures, though understanding varies across user groups. Looking ahead, two users viewed IFRS 18 as an opportunity to improve transparency through its Management Performance Measures (MPMs) requirements, which will help reconcile the entity’s MPMs to reported numbers.

A38 One professional accounting body commented that since IFRS 16 was introduced, the IFRS Interpretations Committee has issued six Agenda Decisions addressing various interpretative challenges, highlighting the complexity of applying the standard. Relying heavily on Agenda Decisions risks fragmenting guidance, reducing accessibility, and leading to inconsistent application. It is recommended that the IASB consider formally incorporating the substance of these decisions into IFRS 16 to enhance clarity, consistency, and usability. Enhancing alignment with commercial logic and simplifying judgment-heavy areas would help ensure the Standard remains relevant, practical, and informative for all users.

A39 Another stakeholder reported that lease modification requirements are not well understood or applied by entities due to the complex concepts, leading to inconsistent interpretation, specifically determining whether an arrangement is a new lease or a lease modification when a master agreement exists. The stakeholder recommended that more guidance should be developed.

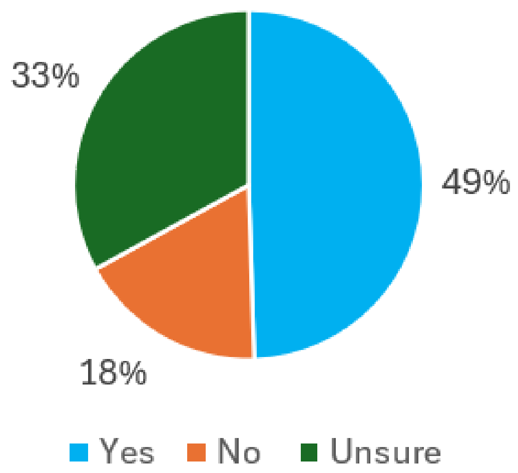
Topic 3: Detailed Stakeholder Feedback – Usefulness of information about lessees' lease-related cash flows

A40 Topic 3 seeks stakeholder views on whether the improvements to the quality of information about lease-related cash flows presented or disclosed by lessees under IFRS 16 are largely as expected.

Polling question results

A41 The figure below illustrates respondents' views on whether they agree that improvements in the quality and comparability of lease-related cash flow information disclosed by lessees are largely in line with the IASB's expectations. A total of 97 participants from the three roundtables responded to this question. Of those, 48 (49%) agreed, 17 (18%) disagreed, and 32 (33%) were unsure.

Figure 8: Do you agree that the quality and comparability of lease-related cash flow information has improved?



Detailed comments from stakeholders

A42 Many stakeholders expressed concerns that the classification and presentation of lease payments under IFRS 16 creates confusion and reduces the usefulness of cash flow information. Although the Standard requires lease payments to be split into principal (financing) and interest (choice of operating or financing) components, seven stakeholders (three users, two preparers and two auditors) noted that the market—particularly in sectors like retail—continues to view them as operating costs. This disconnect leads to misunderstandings when interpreting free cash flow that excludes lease payments.

A43 Stakeholders across all groups argue that the Standard transforms a straightforward cash expense into a complex accounting exercise, introducing non-cash impacts that obscure the true nature of cash flows. The artificial split between principal and interest is seen as unhelpful and not reflective of how businesses manage lease payments. Additionally, one preparer and one auditor commented that payments made before lease commencement are classified as investing cash flows, which reduces comparability across entities.

A44 Two stakeholders comment that system limitations further complicate the presentation of lease-related cash flows, often requiring manual workarounds. There is a call for simplification and greater consistency, with some suggesting a single lease payment line in financing or operating cash flows, depending on the nature of the lease.

A45 Feedback from a professional accounting body noted that users have indicated a preference for presenting the principal and interest components of lease payments within the same category in the cash flow statement. While IAS 7 paragraph 31 does not specify a classification for interest paid, grouping the components may improve the understandability of the complete transaction. They also suggested that flexibility should be permitted in the classification of such lease-related cash flows, possibly drawing on the concept in IFRS 18 paragraph 50, which allows entities with specified main business activities to classify certain income and expenses in the operating category, even if they would otherwise be classified as investing or financing. Two professional accounting bodies recommended that lease-related cash flows should be explored further as part of the IASB's Statement of Cash Flows and Related Matters project.

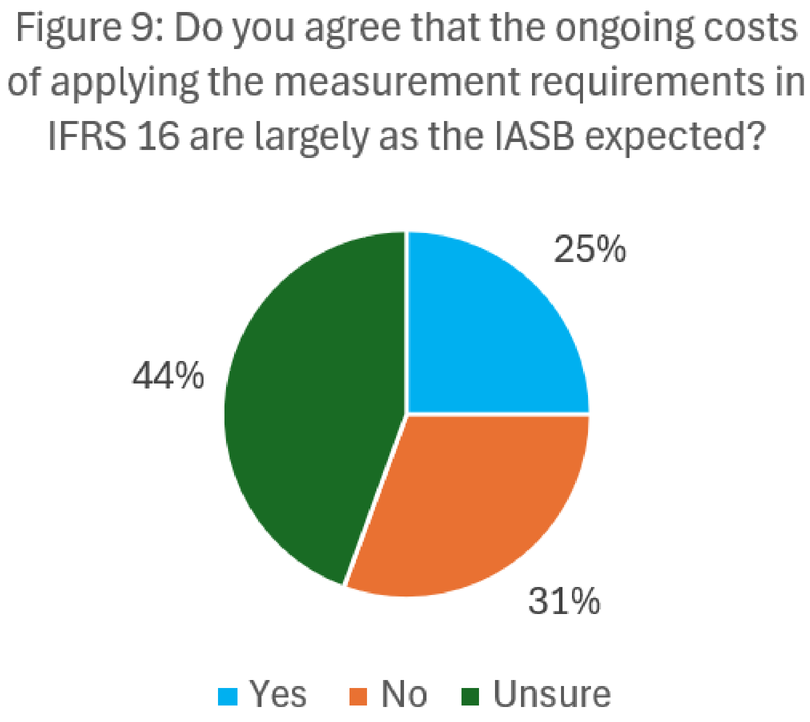
A46 Two other stakeholders noted that overall, the required classification and presentation in the statement of cash flows are helpful, and the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are largely as expected by the IASB. One user finds the cash flow disclosures under IFRS 16 helpful for understanding lease liabilities and validating financial positions. However, two other users believe the current approach adds unnecessary complexity and does not align with how businesses operate or how users interpret financial data.

Topic 4: Detailed Stakeholder Feedback – Ongoing costs for lessees of applying the measurement requirements

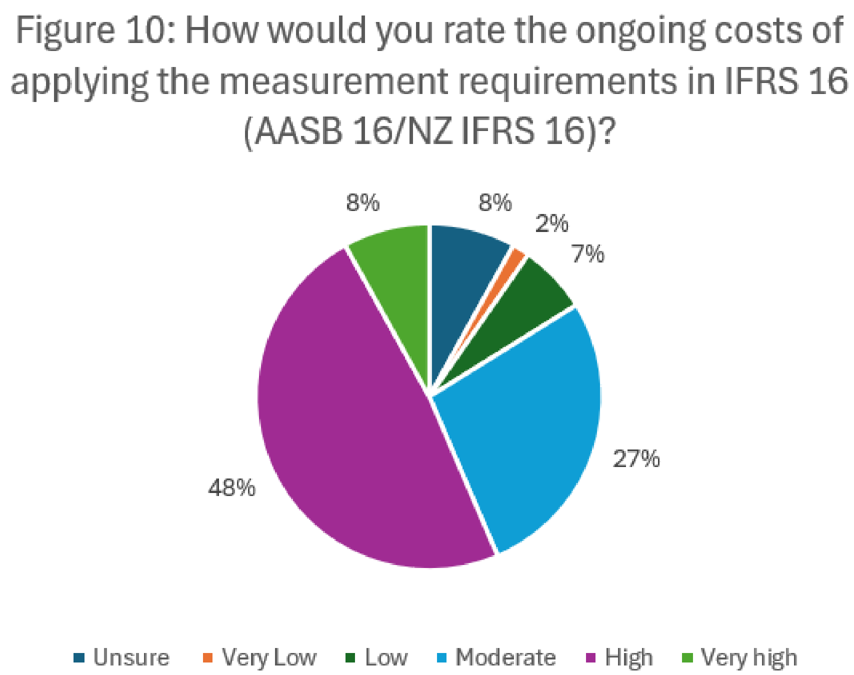
A47 Topic 4 considers stakeholder feedback on whether the costs of applying IFRS 16 requirements are as expected and seeks suggestions for reducing these costs without significantly affecting the usefulness of lease-related financial information.

Polling question results

A48 At Roundtable 1, staff conducted a polling question to gather respondents' views on whether they agree that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected. The responses are presented in the chart below. Of the 36 participants who responded, 9 (25%) agreed, 11 (31%) disagreed, and 16 (44%) were unsure.



A49 As the percentage of respondents who answered 'unsure' was high, staff modified the question for roundtables 2 and 3. Participants were asked to rate the ongoing costs of applying the measurement requirements in IFRS 16. The figure below summarises responses from 62 participants. Among them, 5 (8%) rated the costs as very high, 30 (48%) as high, and 17 (27%) as moderate. In contrast, 4 (7%) gave a low rating, 1 (2%) a very low rating, and 5 (8%) selected unknown.



Detailed comments from stakeholders

A50 Seven stakeholders (four preparers, two auditors and one advisor) noted that compliance with IFRS 16 has proven to be significantly more costly and resource-intensive than initially expected. These stakeholders highlighted the system limitations resulting in the need for manual adjustments, the need for technically skilled staff, and the high level of judgment required—particularly in areas like discount rate determination and lease portfolio segmentation. The Standard's complexity makes it challenging to automate fully, and many entities rely on manual processes or external advisors, especially where internal expertise is limited.

A51 Three stakeholders (two preparers and one auditor) noted that the Standard requires a high level of precision in certain areas, such as determining the discount rate, while allowing broad discretion in others, such as the use of portfolio-level accounting. This inconsistency may increase the cost and complexity of compliance without a corresponding improvement in the quality or usefulness of the financial information.

A52 One stakeholder acknowledged the practical expedient in IFRS 16 for portfolio leases but noted that, in practice, this approach is used less than expected.

A53 Some stakeholders reported that the ongoing costs are high due to the complexity of the Standard, as most systems are not designed to support it effectively. The reasons highlighted included the requirement for reassessment due to market rent reviews or a change in index-linked lease payments. The systems often do not accurately incorporate the requirements into the calculations, which then requires adjustments outside of the system, which increases costs and the risk of errors. Simplifying the Standard by reducing the number of options in some requirements—such as discount rate estimation methods and treatment of variable payments—could help focus judgment where it is most meaningful.

A54 Two preparers emphasised that many entities focus on compliance rather than the usefulness of the information, especially when lease impacts are less material. One auditor mentioned that the lack of staff technical knowledge and high turnover at the entity level contribute to incorrect application and reliance on auditors. Two stakeholders mentioned that Excel remains the primary tool for many entities, and while differences in practice may be minor, the effort required is still substantial.

A55 Two preparers and one advisor viewed the measurement requirements for variable lease payments, particularly those linked to indices or market rates, as adding further complexity and cost. One stakeholder suggested that introducing a materiality or de minimis threshold could simplify the treatment of lease modifications and reduce costs. For example, changes to lease payments could be excluded from the remeasurement requirements if they are not material or fall below a de minimis threshold.

A56 Overall, the feedback reflects a need for simplification, clearer guidance, and more practical tools to support consistent and cost-effective implementation—especially for smaller entities and those with complex lease arrangements.

Topic 5: Detailed Stakeholder Feedback – Potential improvements to future transition requirements

A57 Topic 5 seeks stakeholder input on how the IASB could improve future transition requirements under IFRS 16.

A58 The transition to IFRS 16 was well supported by the availability of both full and modified retrospective approaches, with almost all responding preparers opting for the modified approach due to its practicality and lower cost. Entities with large or complex lease portfolios particularly appreciated this flexibility.

A59 One professional accounting body noted that the IASB issuing the transition guidance or instructions well before the Standard's effective date (i.e. earlier than they were issued) would have better assisted preparers in collecting new data and updating systems and processes. This would have reduced implementation challenges and improved preparedness across entities.

A60 Three stakeholders (two preparers, one user) noted that COVID-19, which followed shortly after the Standard's implementation, significantly disrupted the transition process and limited the ability to assess the effectiveness of the available options. As a result, IFRS 16 may not serve as a reliable case study for future transitions when new accounting requirements are introduced.

Grandfathering of the Previous Lease Assessment

A61 The grandfathering of previous lease classification helped ease the transition burden initially, but two stakeholders noted that it resulted in comparability issues and some challenges in subsequent periods when those leases were modified or renegotiated. However, these stakeholders acknowledged that these exemptions for grandfathered contracts help avoid disproportionate costs.

Systems and Software Readiness

A62 Despite this, the implementation of the Standard presented several challenges. Three stakeholders (two preparers and one auditor) noted that early technology solutions were not fully equipped to handle the new requirements, leading to delays and additional manual work. Two preparers highlighted that internal lease data—especially for legacy operating leases like fleet and IT equipment—was often incomplete or not detailed enough for a smooth transition. They also mentioned that many lessors were also unprepared to provide the necessary information, making full retrospective application difficult.

Topic 6: Detailed Stakeholder Feedback – Other matters relevant to the assessment of the effects of IFRS 16

A63 Topic 6 invites stakeholder feedback on the interaction between IFRS 16 and other IFRS Accounting Standards—particularly IFRS 9 and IFRS 15—and seeks views on whether these interactions affect the usefulness of information, as well as suggestions for improving clarity and consistency in applying the requirements. Topic 6 also invites feedback on other matters relevant to this PIR that are not covered by the previous topics.

Applying IFRS 16 with IFRS 9 to rent concessions

A64 One stakeholder highlighted that a lack of clarity in the Standard has led to inconsistent application, particularly when determining whether lease concessions—such as rent forgiveness—should be treated as narrow modifications under IFRS 16 or fall within the scope of IFRS 9. This ambiguity requires significant judgment and effort, and clearer, more decisive guidance is needed to reduce uncertainty and improve consistency.

A65 Two stakeholders commented that the IFRS Interpretations Committee's guidance was only helpful once entities had already determined the applicable Standard, limiting its practical usefulness. The stakeholders expressed a preference for the Standard to be clearer by offering a single approach, rather than leaving entities to choose between alternatives.

A66 Overall, the specific scenario in Spotlight 6.1 (see page 26 of the IASB Request for Information) is not common amongst those consulted. One professional accounting body supported the IFRS Interpretations Committee's recommendation for the IASB to conduct a narrow-scope standard-setting project to clarify this distinction.

Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale

A67 Three stakeholders raised concerns about the complexity and lack of clarity in how to apply the requirements of IFRS 15 and IFRS 16 together, particularly in sale and leaseback transactions. One stakeholder specifically highlighted that the key challenges include allocating standalone selling prices, assessing variable consideration, and determining contract terms. Another stakeholder raised concerns about applying IFRS 15 control indicators—such as legal title, physical possession, and right to payment—in these transactions. Common lease features like renewal or purchase options can prevent a transaction from qualifying as a sale, even when the commercial substance suggests otherwise. The stakeholder recommended that the IASB provide additional guidance or consider narrow-scope amendments to clarify the assessment of control in sale and leaseback scenarios.

A68 One stakeholder noted that sale and leaseback transactions are infrequent for most medium-sized companies, but more common in large companies.

A69 Three stakeholders noted existing diversity in practice when determining the unit of account, which affects accounting outcomes—the asset is defined differently by IFRS 16 and IAS 16, and the assessment of an identifiable asset is complex. Extension options at market value over long periods add further complexity, with differing views on whether they represent repurchase rights that preclude sale treatment.

A70 A professional accounting body noted that, based on stakeholder feedback they collected, there is a strong recommendation for the IASB to develop clearer, dedicated guidance for sale-and-leaseback accounting, rather than relying on cross-references to IFRS 15 and IFRS 9. Stakeholders identified several key areas for improvement, including clarifying the criteria for assessing whether a transfer is a genuine sale or a failed sale—potentially by applying principles similar to those in IFRS 3 Business Combinations for separating transaction components—providing guidance on how to treat subsequent events or modifications, addressing conceptual inconsistencies between IFRS 15, IFRS 9, and IFRS 16, and offering more illustrative examples to support consistent application, particularly for partial asset transfers and hybrid arrangements such as leasebacks of individual floors within buildings.

A71 One advisor noted that in sale and leaseback transactions, assessing whether there are above- or below-market features is necessary to identify any separate financing components. However, since lease payments are integral to determining an asset's market value, using those same payments to assess whether the lease is above or below market can be illogical.

Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction

A72 Stakeholders acknowledged that limiting gain recognition to the portion of the asset transferred aligns with the conceptual logic of IFRS 15. However, in practice, this approach introduces complexity, especially when splitting known profit between immediate and deferred recognition. One stakeholder noted that many preparers find this counterintuitive, as sellers often view the profit as realised upfront.

A73 Calculating partial gains requires additional judgment and explanation, which can be burdensome. While some believe the current approach helps prevent profit manipulation, others suggested simpler alternatives—such as recognising no gain or loss, or full gain or loss at the point of sale—to reduce cost and confusion. However, concerns remain that such simplification could open the door to inappropriate profit timing.

A74 There is also feedback that the current guidance, while complex, is sufficient and effective in deferring recognition of the full gain where it's not warranted. One stakeholder noted that the accounting treatment in certain transactions does not reflect economic reality, making analysis difficult for users. Another stakeholder questioned the value of detailed partial gain accounting, suggesting users are more focused on the cash received and value of lease liabilities than on the gain calculation itself.

A75 Suggestions for the IASB included exploring simpler 'all or nothing' approaches with appropriate disclosures to maintain transparency while reducing implementation burden.

Other Sale and Leaseback matters

Reassessment of the Financial Liability in Failed Sale and Leaseback Transactions

A76 One stakeholder (preparer) provided feedback that highlighted the complexities in accounting for failed sale and leaseback arrangements, particularly where the financial liability arising from the failed sale remains closely linked to the underlying asset. This connection creates challenges in reassessing the transaction over time, especially when the asset's useful life changes or is replaced.

A77 Key issues raised include:

(a) Reassessment Triggers: Changes in the asset's useful life (e.g., due to legislative or technological developments) may affect the original sale assessment and trigger a reassessment of the failed sale. For example, if the asset was initially assessed as having a 5-year useful life (leading to a failed sale conclusion), but this is later revised to 10 years, the control test may need to be reconsidered.

(b) Asset Replacement: Where an asset is damaged and replaced with a new, highly customised asset in a different location with a longer useful life, stakeholders questioned whether it remains appropriate to continue recognising the original financial liability, given the change in the underlying asset.

(c) Lease Term vs Asset Life: In cases where the leaseback term significantly exceeds the asset's remaining useful life (e.g., a 30-year lease for an asset with 5 years remaining), it may be inappropriate to measure the financial liability using the full lease term. Instead, it may be more appropriate to align the liability with the asset's remaining life. If a replacement asset is introduced, a reassessment of the related cash flows and useful life may be warranted, potentially leading to a conclusion that a sale has occurred.

(d) Termination Rights: Where either the lessee or lessor gains the ability to terminate the leaseback, questions arise regarding the impact on measurement and derecognition of the financial liability. In particular, if the lessor retains the asset post-termination, it is unclear whether this triggers a 'true sale' or whether the liability should be derecognised through net finance costs.

A78 The stakeholder noted that neither IFRS 16 nor IFRS 9 currently provide sufficient guidance on these scenarios, leading to uncertainty in practice.

Sale and Leaseback Involving Asset Construction

A79 One auditor noted the issue in sale-leaseback arrangements where the lessee is constructing the asset. Questions were raised about whether construction services qualify as assets under IFRS 15 for sale-leaseback purposes. Although this issue is not widespread, it highlights the need for clarity in complex scenarios.

A80 One stakeholder noted that guidance in relation to control over the residual rights of an asset, particularly when it relates to decisions to invest capital to refurbish or replace the asset that has been sold, would be useful.

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

Lessor Accounting

A81 One stakeholder highlighted a lack of guidance for lessors, particularly in determining fair value for asset portions, calculating implicit rates, and accounting for sale and leaseback transactions—especially when the sale fails. Intercompany leases pose additional challenges, with calls for a practical expedient to allow the use of group discount rates. For property portfolios, fair value is often difficult to determine, leading to reliance on IBR, especially when residual guarantees are involved.

A82 Another stakeholder noted that IFRS 16 provides clear guidance for lessees on adjusting lease liabilities for changes in an index or rate, but does not specify how lessors should account for variable lease payments when cash flows change after initial recognition. This lack of clarity—especially after the removal of 'minimum lease payments' and 'contingent rent' concepts previously included in IAS 17—has led to inconsistent practices. The stakeholder suggested that further guidance is needed for lessors on this issue. In addition, the stakeholder also mentioned that IFRS 16 does not clearly address whether or how to include non-cash consideration (such as works-in-kind) in lease payments, leading to challenges in measurement and recognition for both lessors and lessees, and prompting calls for additional guidance.

Leases of Intangible Assets and Classification Boundaries

A83 One stakeholder noted the uncertainty around the lease treatment of intangible assets. Some entities exclude them based on control tests, while others apply lease accounting, leading to inconsistent classification and application.

Short-Term and Low-Value Lease Exemptions

A84 The current thresholds for short-term (12 months or less) and low-value leases (e.g., USD 5,000) are viewed as too rigid. Many leases include renewal options, making the short-term exemption inapplicable. Three stakeholders suggested these thresholds should be more flexible and aligned with materiality relative to the organisation.

Bundled and Complex Arrangements

A85 One stakeholder raised concerns about the challenges in accounting for bundled contracts that include both lease and non-lease components, especially when lease terms and enforceable rights under IFRS 15 do not align. The stakeholder also noted a lack of clarity on how lease accounting applies to take-or-pay arrangements.

Use of Lease Liabilities in Performance Metrics

A86 One professional accounting body noted that its commissioned research indicates that among Australia's largest lease-intensive firms, most include lease liabilities in their Return on Invested Capital calculations. However, a notable minority exclude them, which may result in inconsistent or potentially misleading performance indicators. While this treatment falls under non-IFRS information, the variation in how IFRS 16-based figures are incorporated into financial ratios could affect the presentation of management performance measures under IFRS 18.

Lease commencement in asset construction arrangements

A87 One stakeholder mentioned that determining when a lease begins in development arrangements is challenging because developers may receive different levels of access—such as construction licences, early site entry, or limited rights to use land—before a formal lease starts, leading to inconsistent judgments and a need for clearer guidance.

Lease Incentives

A88 A stakeholder reported a lack of clarity about what comprises a lease incentive and how to account for lease incentives at the point they are received. The stakeholder noted that IASB deferred addressing the complexities of lease incentives in November 2019 as part of the Annual Improvements and suggested prioritising resolving the issues.