IASB/RFI/2025/1 Post-implementation Review: IFRS 16 *Leases*

Request for information issued by the IASB in June 2025

Comments from ACCA
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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's request for information for the post-implementation review of IFRS 16 *Leases* (the Standard). We hope that our comments, which include feedback from our Global Forum for Corporate Reporting, are a helpful contribution to this process.

IFRS 16 is generally working well for straightforward lease arrangements. However, there are some challenges in applying the requirements in the Standard to complex arrangements that usually require significant judgements in determining the lease term, the lease payments and the discount rate. Details are in our responses to specific questions.

We suggest the IASB consider simplifying the requirement for determining discount rate to reduce complexity and improve comparability. See our comments in Q2(a).

We also suggest the IASB review the presentation of lessee's lease-related cashflows in the statement of cashflows following feedback from stakeholders that the current presentation approach does not faithfully represent leases that are operating in nature. See our comments in Q3.

While the initial implementation of the Standard has been challenging for some entities, practice has mainly settled and there is limited appetite for major changes to the requirements in the Standard. However, stakeholders will benefit from further clarity and guidance on applying the requirements in the Standard.

Our detailed responses to the specific questions asked are set out below. We have provided our comments on areas which we consider most important or where we have perspectives to add.

RESPONSES TO SPECIFIC QUESTIONS RAISED

Question 1 – Overall assessment of IFRS 16

The *Effects Analysis on IFRS 16* describes the expected likely effects of the Standard, including benefits and implementation and ongoing costs.

Please refer to 'Guidance for responding to questions' on pages 7–8.

(a) In your view, is IFRS 16 meeting its objective (see page 9) and are its core principles clear? If not, please explain why not.

ACCA response
IFRS 16 has made identifying a lease (by lessees) relatively straightforward for arrangements that are not overly complex. The standard has also standardised the recognition and measurement of lease liabilities, to some extent, which reduces the need for users to impute their own estimates when evaluating an entity's total liabilities. The exemption for low-value leases and short-term leases are welcomed.

(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.

ACCA response
We received mixed views on whether IFRS 16 has improved financial reporting. While some stakeholders appreciate the added transparency and visibility of lease liabilities and right-of-use (RoU) assets that were introduced by IFRS 16, others have concerns about the presentation of leases by lessees.

Given that not all leases are in-substance financing arrangements, stakeholders find it difficult to distinguish a lease from a purchased asset that is financed through a borrowing. Under IFRS 16, a lessee splits what is essentially one leasing transaction into depreciation and finance cost in the statement of profit or loss.

When measuring performance, some entities are adjusting their EBITDA (earnings before interest, tax, depreciation and amortisation) or similar metrics, and their free cashflows to remove the effects of leases – ie aligning with past practices before transitioning to IFRS 16 – for comparison with past trends.

Therefore, it could be difficult for users to understand the effects of leases on an entity's financial performance and cashflows (see our comments to Q3 for the latter).

(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.

ACCA response
Ongoing costs varies considerably among stakeholders. The ongoing costs are higher for leases that require remeasuring the lease liabilities (such as leases with variable lease payments) and

adjusting the carrying amounts of the right-of-use (ROU) assets, plus associated depreciation.

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.

ACCA response

While the use of judgement is inherent in a principles-based standard, we recognise there are some negative effects on the usefulness of financial information driven by both complex arrangements (or transactions) and some complicated requirements in the standard.

Transparency for the application of judgements

Judgement is often required in determining the lease term and variable lease payments to be included in the measurement of lease liabilities, and the discount rate. While guidance in the standard has enabled stakeholders to make the necessary judgements, some stakeholders expressed concerns about the usefulness of the resulting information as they need to be more diligent in studying the significant judgements made by an entity when accounting for leases. For example, an entity's judgement on what constitute reasonably certain when determining the lease term may be different from another entity resulting in different lease terms for a similar asset in the same industry. Consequently, very different amounts are recognised for the lease liabilities and ROU asset. As such, information produced by two or more entities are not immediately comparable.

Simplifying the discount rate

Regarding the discount rate, the interest rate implicit in the lease is often unknown and it is difficult to obtain an incremental borrowing rate. For the latter, stakeholders, such as private entities and equity-funded entities, face difficulties fulfilling all the criteria in the definition of incremental borrowing rate in practice – ie *'the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment'* [emphasis added]. This challenge usually stems from a lack of relationship with banks. Entities leasing specialised equipment also face similar challenges due to the nature of the underlying asset.

If two entities measure their lease liabilities using discount rates determined on different bases, users of their financial statements might find it difficult to compare their financial information, especially when the entities disclose little information about the rates they have used.

Stakeholders rely heavily on lessees disclosing the significant judgements used in determining the discount rate (when applying the accounting policy for leases) in accordance with IAS 1. Therefore, the usefulness of lease information may vary from one entity to another.

Given the use of discount rates in several IFRS Accounting Standards, the IASB should consider conducting a research project to identify an overarching concept for discount rates that is practical and proportionate for various applications in the suite of IFRS Accounting Standards.

(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.

ACCA response
In most cases, IFRS 16 provides sufficient basis for entities to make appropriate judgements. However, there are practical challenges in applying the requirements. Please refer to our comments in Q2(a).

(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).

ACCA response
Referring to our comments in Q2(a), we do not propose additional disclosure requirements. However, we suggest the IASB consider cross referencing to requirements in other IFRS standards on providing information to help users understand where significant judgement has been applied.

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.

ACCA response
In the statement of cashflows, a single lease payment is split into operating and financing categories. This presentation approach obscures the cashflows on leases that entities consider as operating in nature (or 'operating lease'), in particular in industries, such as airlines, that lease many assets for their day-to-day operations. Some stakeholders expressed concerns that this approach does not faithfully represent the cashflow effects of leases that are operating in nature.

We suggest the IASB consider this feedback in the *Statement of Cash Flows and Related Matters* project to improve the presentation and disclosure of leases.

Lastly, the requirement for lessees to disclose the total cash outflow for leases is considered useful information.

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.

ACCA response
Ongoing costs appear to be high in several circumstances below.

<u>a) Determining the incremental borrowing rate</u>
As highlighted in our comments to Q2(a), some entities face difficulties in determining the incremental borrowing rate to be used as the discount rate. We received feedback that some entities have had to engage external professional services to determine a proxy incremental

borrowing rate. This adds to the entity's reporting cost.

b) Remeasurement of lease liabilities
Lessees with variable lease payments that are based on an index or rate need to remeasure the lease liabilities to reflect changes to lease payments quite frequently. These lessees need to update the carrying amounts of lease liabilities, ROU assets and depreciation expenses.

c) Lease modification
Similarly for modification to a lease, additional costs are incurred to reflect changes to lease payments, and updating the carrying amounts of lease liabilities, ROU assets and depreciation expenses. This affects mostly smaller and less complex entities that continue to rely on spreadsheets.

d) Leases acquired in a business combination
In this case, the group as a whole has to maintain two sets of accounts for the same lease, ie:

- the subsidiary accounting for the lease applying IFRS 16 or another generally accepted accounting principles (GAAP) based on the original lease, and
- the parent accounting for the lease applying IFRS 16 based on the lease's fair value at acquisition date (in accordance with IFRS 3).

Maintaining two sets of accounts is challenging for parent entities that have acquired many leases through business combinations. Please refer to our comments to Q6.4.

e) Entity size and complexity
The higher costs highlighted in (b) and (c) often affect smaller and less complex entities that continue to rely on spreadsheets to account for leases. Meanwhile, some larger entities have implemented reporting systems that cater to the requirements in IFRS 16. The ongoing costs for these entities would be relatively stable if the requirements in IFRS 16 do not change significantly.

(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.

ACCA response
We do not propose making significant changes to the accounting of variable lease payments that are based on an index or rate.

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.

ACCA response
The modified retrospective approach (without restating comparative information) is welcomed and generally more cost effective for entities that do not need to present past trends. For entities with significant leases that need to present past trend, the full retrospective approach is useful. These two options present an appropriate balance for providing useful information to users of financial statements at reasonable costs for preparers when transitioning to IFRS 16. Therefore, we suggest continuing providing an option for full retrospective and modified retrospective approaches when transitioning to a new standard or amendments to a standard.

We also suggest the IASB support implementation of new requirements by engaging with financial reporting software providers early for the latter to familiarise with the new requirements and to develop solutions for implementing the new requirements.

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?

ACCA response
We received feedback from stakeholders that there were indeed rent concessions during the Covid-19 pandemic and the practical expedient (ie paragraph 46A and 46B of IFRS 16) provided useful guidance for the specific circumstances.

While we are not certain that rent concession (as described in Spotlight 6.1) is prevalent, we support the IFRS Interpretations Committee (Committee) recommendation for the IASB to clarify how a lessee distinguishes between a lease modification as defined in IFRS 16 and an extinguishment (or partial extinguishment) of a lease liability accounted for in accordance with IFRS 9. Each approach presents different implications in the financial statements – one makes a corresponding adjustment to the right-of-use asset while the other may result in recognising a gain or loss in the statement of profit or loss. Clarifying the requirement will prevent diversity in practice.

We suggest the IASB clarify the conditions that will qualify a rent concession as a lease modification and for other rent concessions to be accounted for in accordance with IFRS 9.

(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.

ACCA response

Please refer to our comments for Q6.1(a).

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.

ACCA response
Stakeholders find it difficult to apply the requirements of IFRS 15 to assess whether the transfer of a property (eg a building) is a sale.

We suggest expanding the analysis for Example 24 in the *Illustrative Examples for IFRS 16* to demonstrate how the transaction satisfies the requirements of IFRS 15. We also suggest adding an example that illustrate the assessments for a sale and leaseback transaction where the seller-lessee could renew (or extend) the lease for substantially the remaining economic life of the asset.

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?

ACCA response
Yes, as it reflects the gain or loss on the portion of the asset that the entity has lost control. However, this depends on the unit of account for the underlying asset.

We encountered a practice question on determining the unit of account in a sale and leaseback of a property. For example, a seller-lessee sells the entire building (eg 30 floors) and leaseback only part of the building (eg two floors). It's unclear whether the unit of account is the entire building, or each floor, or each individual unit (eg rooms or suites). We believe similar situations also exist for assets that can be disaggregated into smaller parts or components. Therefore, we suggest developing application guidance for determining the unit of account in a sale and leaseback transaction.

(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.

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.

ACCA response

We believe there is room for simplifying some of the requirements in the standard.

Interaction with IFRS 3

As the IASB had noted in Spotlight 1, stakeholders expressed concerns about the laborious exercise to remeasure all lease contracts acquired in a business combination at the acquisition date. This approach leads to many recurring adjustments in the consolidated financial statements. The benefits of making these adjustments are uncertain compared to the cost and effort expended.

We suggest the IASB consider simplifying the requirements in IFRS 3 for acquired lease contracts.