
Capital Markets Advisory Committee meeting

Date	November 2024
Project	Post-implementation Review (PIR) of IFRS 16 <i>Leases</i>
Topic	Phase 1–Identifying matters to be examined
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This paper has been prepared for discussion at a public meeting of the Capital Markets Advisory Committee (CMAC). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

Purpose of this meeting

Ask participants to share their views on the application of IFRS 16 *Leases*, as well as matters that they think the IASB should consider for the Post-implementation Review (PIR) of the Standard.

Contents

	<i>from slide</i>
Questions.....	3
PIR process reminders	12
Overview of IFRS 16.....	16
Expected effects of IFRS 16.....	24
Appendix A—IFRS 16 vs. US GAAP—lessee accounting	30
Appendix B—Illustrations of disclosures required by IFRS 16	32

Questions

1. QUALITY OF FINANCIAL INFORMATION

slide 4 / CONTEXT

slide 5 / QUESTIONS

3. DISCLOSURES

slide 8 / CONTEXT

slide 9 / QUESTIONS

2. COMPARABILITY OF FINANCIAL INFORMATION

slide 6 / CONTEXT

slide 7 / QUESTIONS

4. TRANSITION TO IFRS 16

slide 10 / CONTEXT

slide 11 / QUESTION

1. Context—**quality** of financial information

- Applying previous lease accounting requirements (IAS 17), a company provided information about off balance sheet leases in the notes to its financial statements.
- That information was, however, limited in content and detail.
- Using that information, investors frequently adjusted lessees' balance sheets to estimate eg financial leverage and the capital employed in operations.
- Some investors also adjusted lessees' income statements, because they viewed leases as creating 'debt-like' liabilities.
- Many investors, however, were not in a position to make the adjustments—they relied on data sources such as data aggregators when screening potential investments or making investment decisions.
- The IASB expected IFRS 16 to improve information available to **all** users.
- Slides 16–23 provide an overview of IFRS 16. Slide 27 describes the expected benefits—quality.

1. Questions—**quality** of financial information

- a) Has recognising assets and liabilities for almost all leases resulted in a more useful depiction of the **economic substance** of leases?
- b) Has IFRS 16 resulted in lessee companies changing their **non-GAAP** information (APMs* or MPMs*) about their financial position, financial performance or cash flows?
- c) In your experience, have you observed **differences** in the quality of information from companies between, or across, different capital markets or industries where leases are material (eg retail, airlines)?
- d) Has IFRS 16 reduced the need for you to adjust amounts reported by lessee companies? If you make any **adjustments**, do they differ from the adjustments you made pre-IFRS 16?

* APMs = Alternative Performance Measures, MPMs = Management-defined Performance Measures

2. Context—**comparability** of financial information

The absence of information about leases on the balance sheet meant that investors were not able to properly compare companies that borrow to buy assets with those that lease assets, without making adjustments.

The IASB expected IFRS 16 to significantly improve the comparability of financial information because lessee companies:

- a) recognise assets and liabilities, in essence, for all leases;
- b) measure all lease assets and all lease liabilities in the same way; and
- c) recognise **only** the rights that are obtained, and the liabilities that are incurred, through a lease. So:
 - when a lease is economically similar to borrowing to buy an asset (for example, a lease of a new aircraft for 20+ years), then the amounts reported applying IFRS 16 will be similar to the amounts that would be reported if the company were to borrow to buy the aircraft.
 - when a lease is economically different from borrowing to buy an asset (for example, a lease of a new aircraft for seven years) then the amounts reported applying IFRS 16 will reflect those different economic decisions by recognising only the rights obtained and the liabilities incurred through a lease.

Slides 16–23 provide an overview of IFRS 16. Slide 28 describes the expected benefits—comparability.

2. Questions—**comparability** of financial information

- a) How has your ability to compare financial information improved after the implementation of IFRS 16?
- b) When you analyse companies that:
 - i. lease assets for different lease terms; or
 - ii. purchase assets versus those that lease assets for shorter terms;do you get the information you need to make comparisons?

3. Context—disclosures

Two main elements to IFRS 16 **lessee** disclosures:

**Mandatory
quantitative
information**



Information that investors want to see for all material lease portfolios (slides 22 and 33–35)

**Additional
company-specific
information**



Companies **apply judgement** to determine whether and what further information is needed to meet the disclosure objectives (slide 36)

Enhanced **lessor** disclosures as compared to IAS 17 (slide 23)

3. Questions—disclosures

- a) Does the information that companies disclose and present applying IFRS 16 provide useful information?
- b) Is there information you expected to see which is not being provided?
- c) Which disclosures do you find most useful for your analysis and why? In contrast, are there disclosures that are less useful and why?
- d) ‘Before and after’ comparison of information about leases
 - i. For companies that lease assets (ie **lessees**), does the information those companies provide under IFRS 16 give you a better basis than before IFRS 16 to assess the effect that leases have on their financial performance (P&L), financial position (balance sheet) and cash flows?
 - ii. For companies that provide the underlying assets in a lease (ie **lessors**), does the information those companies provide under IFRS 16 give you a better basis than before IFRS 16 to assess the effect that leases have on their financial performance (P&L), financial position (balance sheet) and cash flows?


4. Context—transition to IFRS 16

Lessee

2018 (Comparative)	2019 (Initial application)	Notes
Retrospective (with optional practical expedients)		
<ul style="list-style-type: none"> Applying IFRS 16 Opening retained earnings adjusted to reflect transition 	<ul style="list-style-type: none"> Applying IFRS 16 	<ul style="list-style-type: none"> IAS 8 disclosures
Cumulative catch-up at the date of initial application (with optional practical expedients)		
<ul style="list-style-type: none"> Applying IAS 17 	<ul style="list-style-type: none"> Applying IFRS 16 Opening retained earnings adjusted to reflect transition 	Additional disclosures: <ul style="list-style-type: none"> explanation of the difference between pre-IFRS 16 operating lease commitments and amounts recognised at the date of initial application weighted average incremental borrowing rate

Lessor (except for intermediate lessors) not required to make any adjustments on transition.

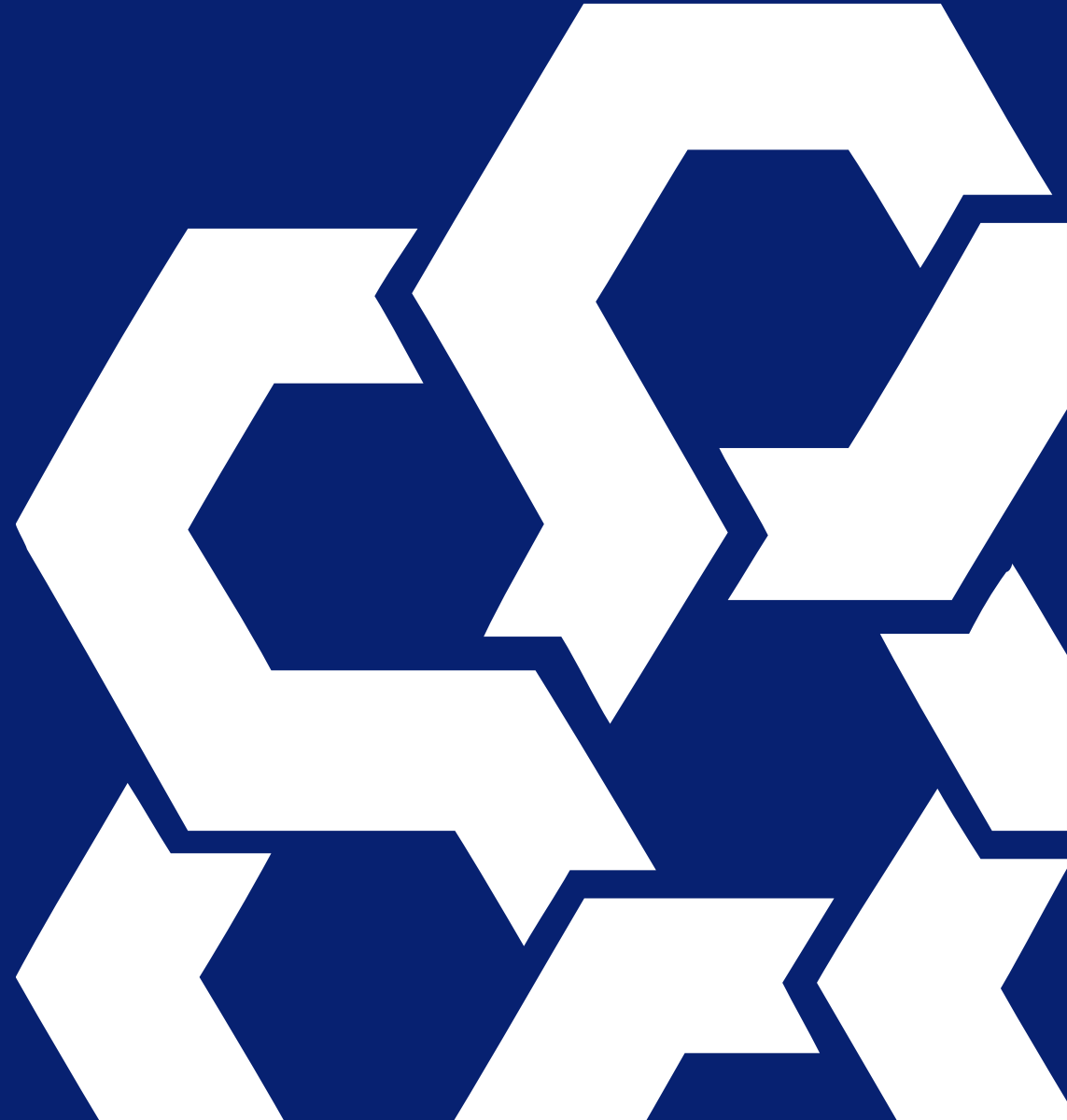
4. Questions—transition to IFRS 16

- 
- a) For the ‘first-time’ (ie implementation) disclosure of IFRS 16 information by the companies that you follow, did they provide sufficient information to allow you to understand the changes to their financial performance (P&L), financial position (balance sheet) and cash flows resulting from implementing IFRS 16?

Note: IFRS 16 became effective in 2019.

- b) Would you recommend the IASB do anything differently in future standard-setting projects when developing transition requirements?

PIR process reminders



PIR—what is the objective?



The IASB uses the PIR process to **assess** whether the **effects** of applying new requirements on users of financial statements, preparers, auditors and regulators are **as intended** when the IASB developed those new requirements

Overall, are the requirements working as intended?

Fundamental questions (ie ‘fatal flaws’) about the core objectives or principles—their clarity and suitability—would indicate that the new requirements are not working as intended

Are there specific application questions?

Specific application questions would not necessarily prevent the IASB from concluding that the new requirements are working as intended, but may nonetheless need to be addressed if they meet the criteria for whether the IASB would take further action

PIR—how does the IASB respond to identified matters?

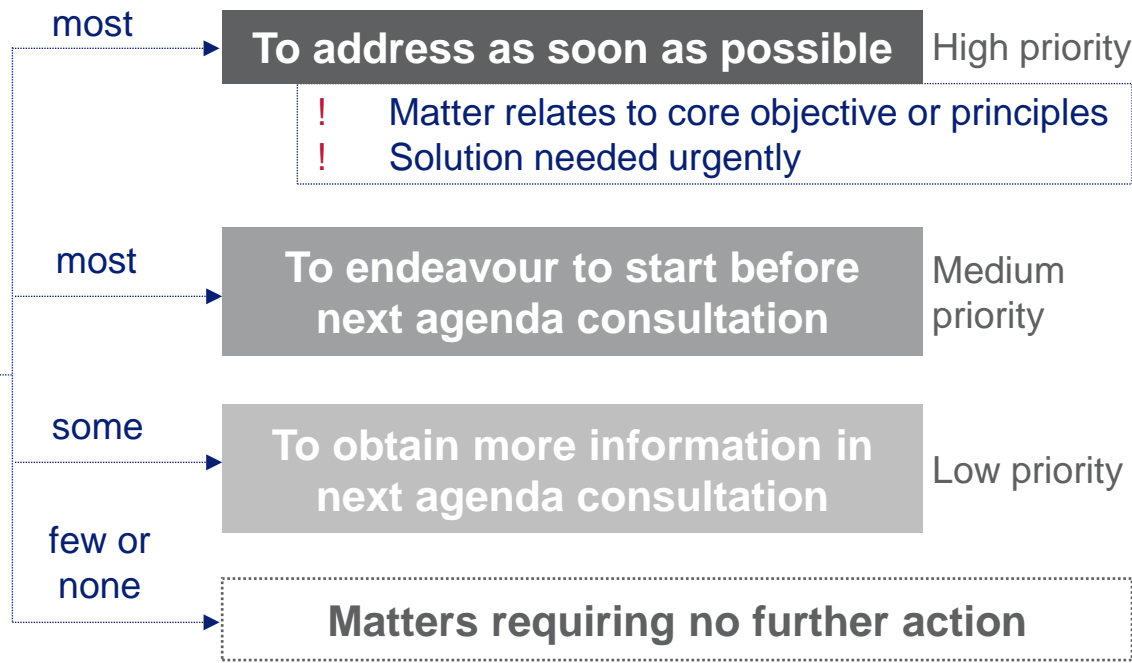
1 Consider whether to take action, based on the extent to which:

- the **objective** of the new requirements is not being met
- **benefits** to users are significantly lower than expected
- **costs** of application are significantly higher than expected

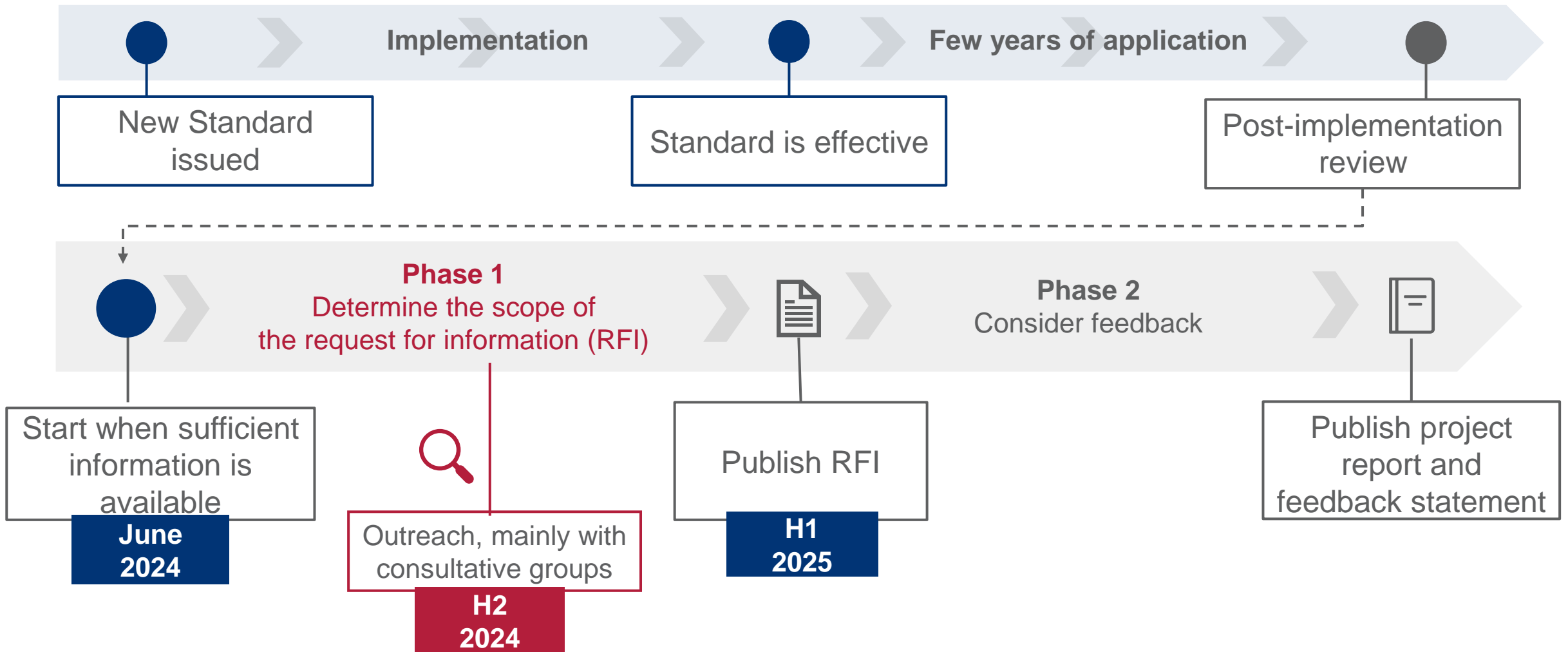
2 Determine the prioritisation of the matters based on the extent to which:

- matter has **substantial consequences**
- matter is **pervasive**
- matter relates to an issue that **can be addressed** by the IASB or the Committee
- the benefits of any action would be expected to **outweigh** the costs

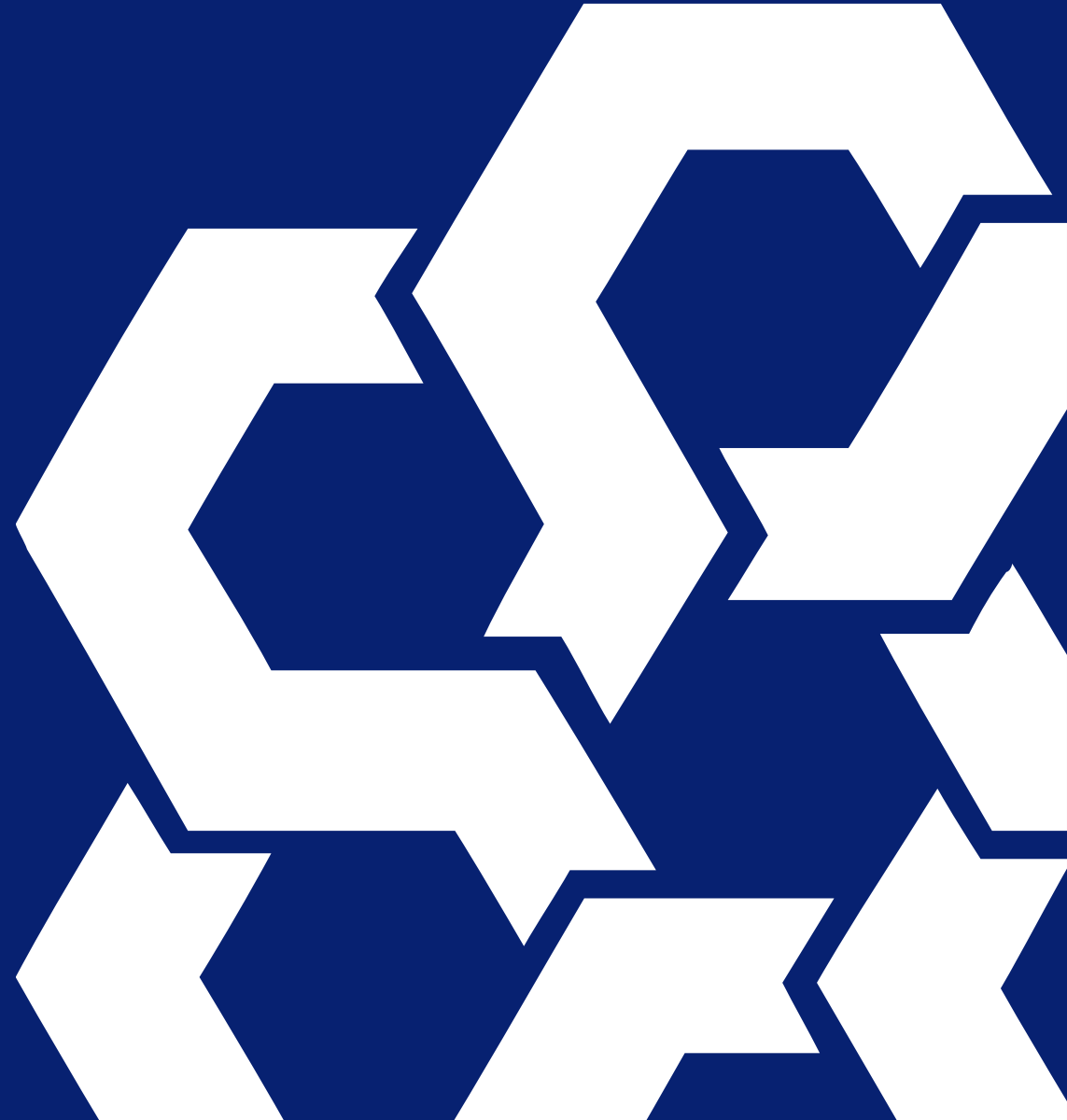
3 Determining the timing of taking action



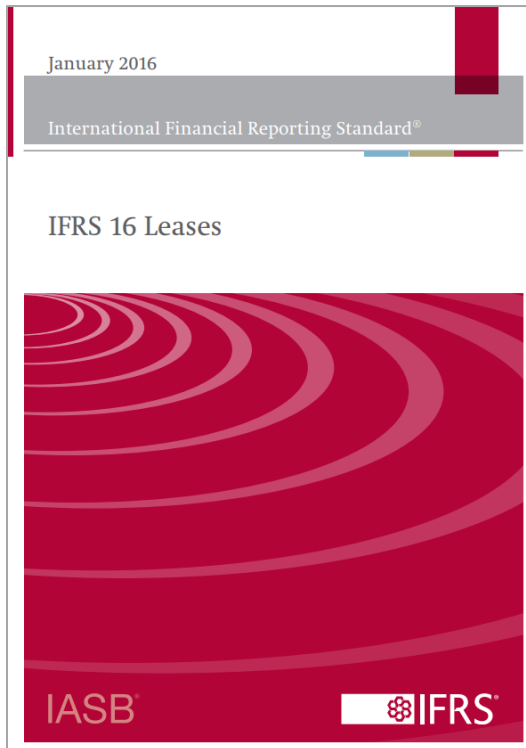
PIR – what is the process and where are we?



Overview of IFRS 16



IFRS 16 at a glance



Effective from
1 January 2019



Objective

To ensure that lessees and lessors provide relevant information in a manner that faithfully represents leases. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of a company.

- Replaced IAS 17 *Leases*
- Brings **almost all** leases onto the **balance sheet of lessees**
- Significant change for lessees; little change for lessors
- Enhanced disclosure requirements

Activities since IFRS 16 was issued

A solid foundation for the PIR

The IASB, together with the Committee, has put significant efforts into monitoring and supporting the implementation and application of IFRS 16



Issued amendments to IFRS 16 to address some of the matters raised by stakeholders:

- May 2020—*Covid-19-Related Rent Concessions*
- August 2020—*Interest Rate Benchmark Reform—Phase 2*
- March 2021—*Covid-19-Related Rent Concessions beyond 30 June 2021*
- September 2022—*Lease Liability in a Sale and Leaseback*
- minor consequential amendments from other standards



Provided educational materials and articles such as Investor Perspectives

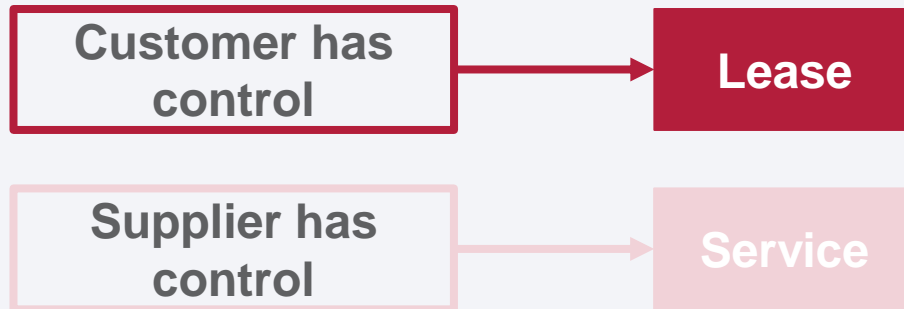


Analysed application questions and issued nine agenda decisions

Definition of a lease

A contract that conveys the right to **control the use** of an identified asset for a period of time in exchange for consideration.

Control principle



IFRS 16 retains the definition of a lease in IAS 17 but changes the application guidance.



A lease applying IAS 17 is generally expected to be a lease applying IFRS 16.

What has changed for lessees?

Balance sheet



Former operating leases capitalised

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Assets	→ 🏠	---	✈️ ✈️ 🚗 🚗 🏠 🏠 🏠
Liabilities	\$\$	---	\$\$\$\$\$\$\$
Off balance sheet rights / obligations*	---	<div style="border: 1px dashed red; padding: 5px;"> 🚗 🚗 ✈️ 🏠 🏠 \$\$\$\$\$ </div>	---

Income statement



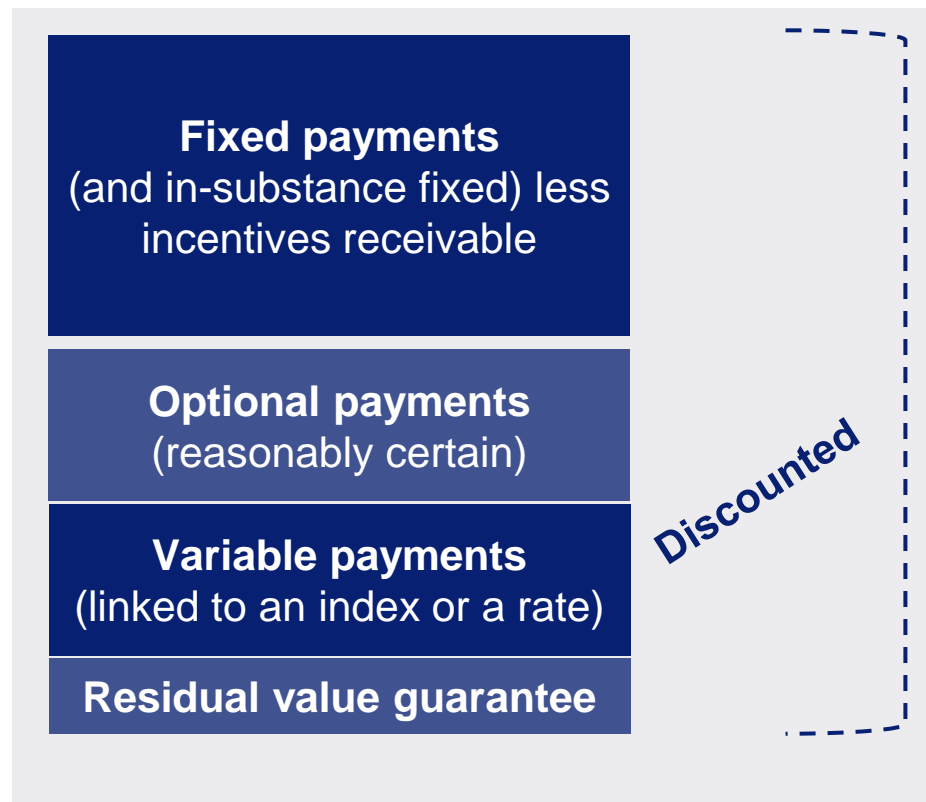
Replaces straight-line operating lease expense with depreciation and interest

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	x	x	x
Operating costs (excl. depreciation and amortisation)	---	Single expense	---
EBITDA			↑↑
Depreciation and amortisation	Depreciation	---	Depreciation
Operating profit			↑
Finance costs	Interest	---	Interest
Profit before tax			↔

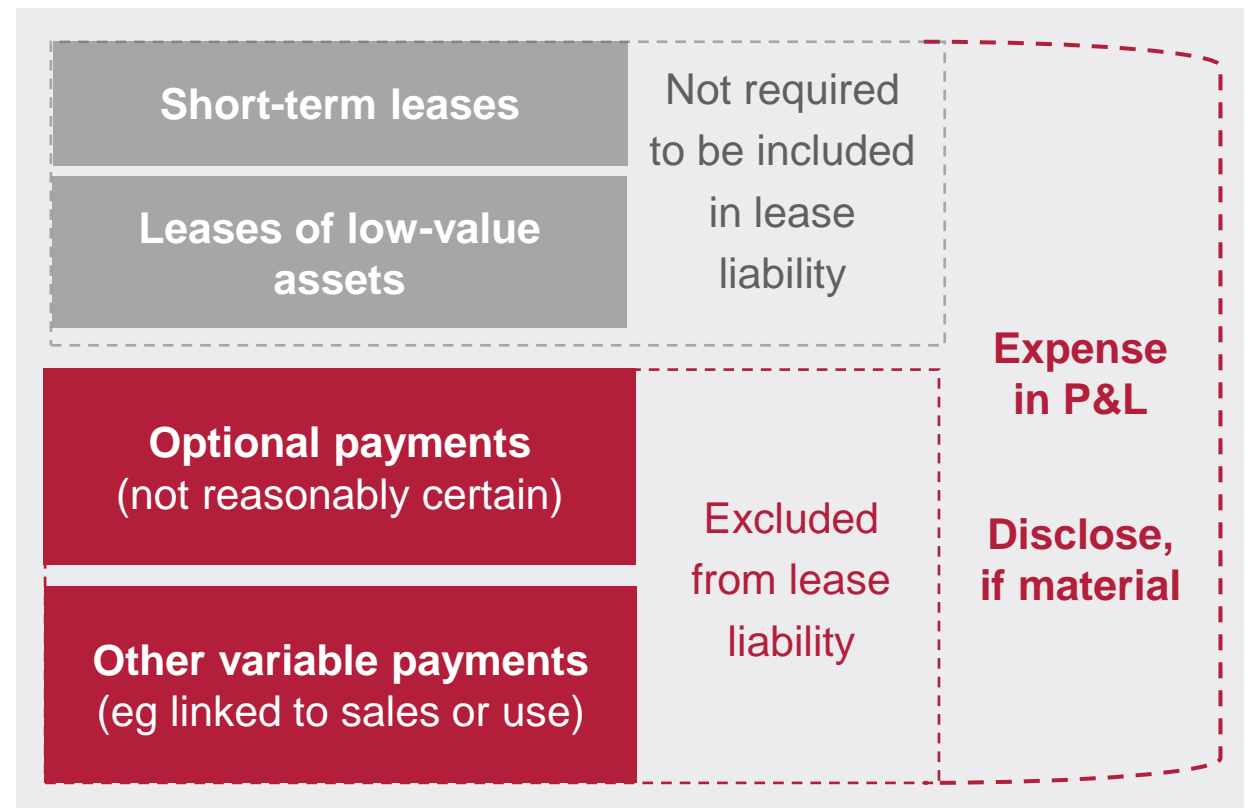
*According to the Effects Analysis, listed companies using IFRS or US GAAP disclosed almost US\$3 trillion of off balance sheet lease commitments.

Lessee's balance sheet : what's included and excluded?

Included in lease liability



Excluded from lease liability



Lessee—disclosures (IFRS 16)

Objective: to disclose information that, together with the information provided in the primary financial statements, gives a basis for users to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

Quantitative and qualitative information that would satisfy the objective

- Information about right-of-use assets by class of asset being leased
- Income from subleasing
- Breakdown of lease-related expenses*
- Maturity analysis of the lease liabilities*
- Total cash outflow for leases**
- Gains or losses from sale and leaseback transactions**

Quantitative information identified as most useful to their analysis by users



Company-specific additional information, for example:

- The nature of the lessee’s leasing activities*
- The effect of extension and termination options, or variable lease payments, on future cash outflows to which the lessee is potentially exposed*

Unlike IAS 17, IFRS 16 does not include a list of qualitative disclosures but sets out objectives and requires companies to disclose material company-specific information to meet the objective.

*Improved

**New

Appendix B provides illustrations of disclosures required by IFRS 16.

Lessor



No substantial change to lessor accounting compared to IAS 17.
Better information about leasing activities in particular about a lessor's exposure to asset risk.

Enhanced disclosures as compared to IAS 17

Separate disclosure for assets subject to operating leases and owned assets used by a lessor

Information about residual asset risk

Maturity analysis of lease payments in each of the first five years

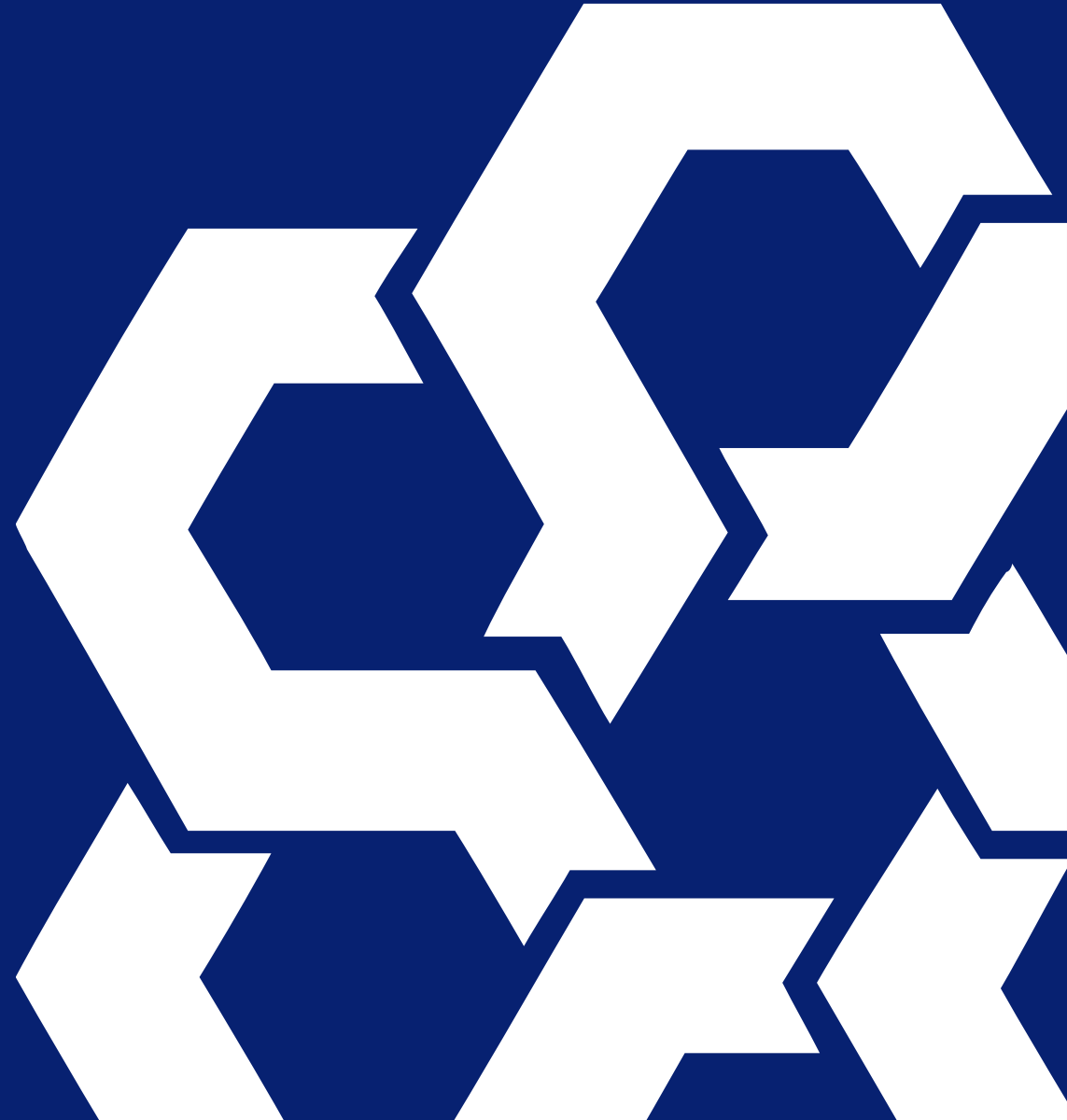
Components of lease income in the period

Dual classification model

Finance lease

Operating lease

Expected effects of IFRS 16



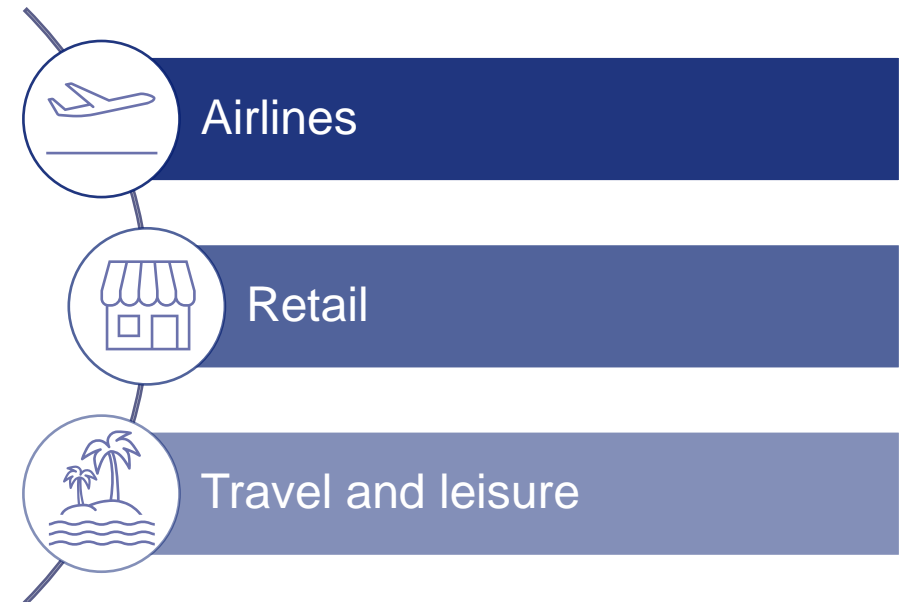
Lessee's performance metrics*

P&L metrics, margins and ratios	Effect
EBITDAR	No change
EBITDA	↑ Higher
EBIT	↑ Higher
ROA	Lower ↓
Asset Turnover	Lower ↓

Leverage analysis	Effect
Debt/Equity	↑ Higher
Interest coverage (EBIT/Interest)	Lower ↓

Cash flow metrics	Effect
Cash from operating activities	↑ Higher
Cash from financing activities	Lower ↓
Unlevered free cash flow**	↑ Higher

Sectors expected to be most affected

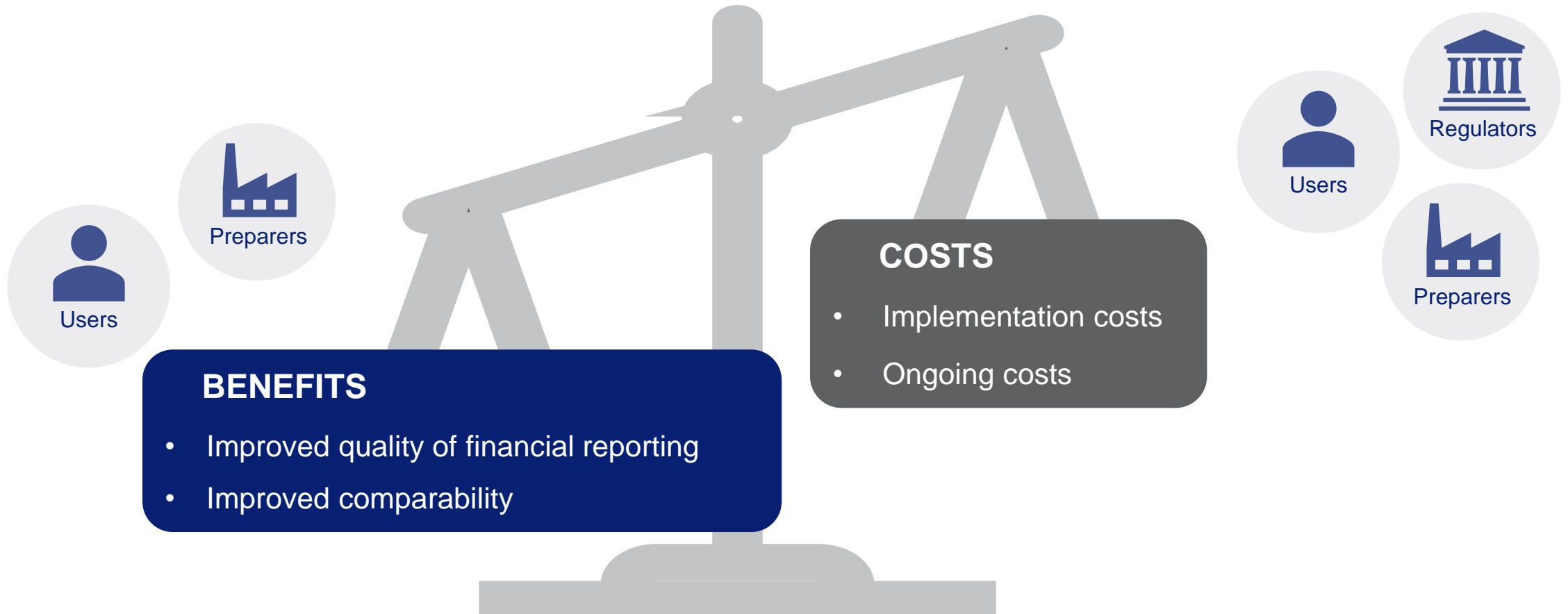


* Effects on initial application of IFRS 16

** Assumes that adjustments to calculate free cash flow do not include liability principal repayments, which are included within financing activities.

Expected effects—an overview

The IASB expected the benefits of IFRS 16 to **outweigh** the costs



Expected benefits—quality

Improved information available to **all** users of financial statements.

Improved quality of financial reporting



More faithful representation of a company's assets and liabilities and greater **transparency** about the company's financial leverage and capital employed. Previously only more sophisticated investors and analysts adjusted for off balance sheet leases, while others did not.



Reduced need for investors and analysts to **adjust** amounts reported on a lessee's balance sheet and income statement.



Reduced need for companies to provide **non-GAAP** information* about leases—IFRS 16 provides a richer set of information than was previously available, giving further insight into a lessee's operations and funding.



Improvements in how lessees manage their lease portfolios, and possible improvements in how some lessees finance and operate their **businesses**.

*Also referred to as APMs—alternative performance measures or MPMs—management-defined performance measures.

Expected benefits—comparability

Improved comparability between companies



Improved **comparability** between companies that lease assets and companies that borrow to buy assets, while also reflecting the economic differences between these transactions.

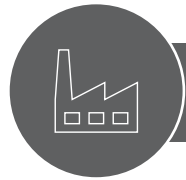


Better information about changes in a company's financial **flexibility** when it extends or shortens the length of its leases.



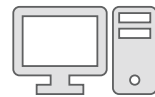
Reduced opportunities for companies to **structure** leasing transactions to achieve off balance sheet accounting.

Expected implementation costs



Preparers

Set up of systems and processes



Determination of discount rates



Communication and education



Depending on:

- the size of a company's lease portfolio
- the terms and conditions of those leases
- the systems already in place to account for leases applying IAS 17



Users

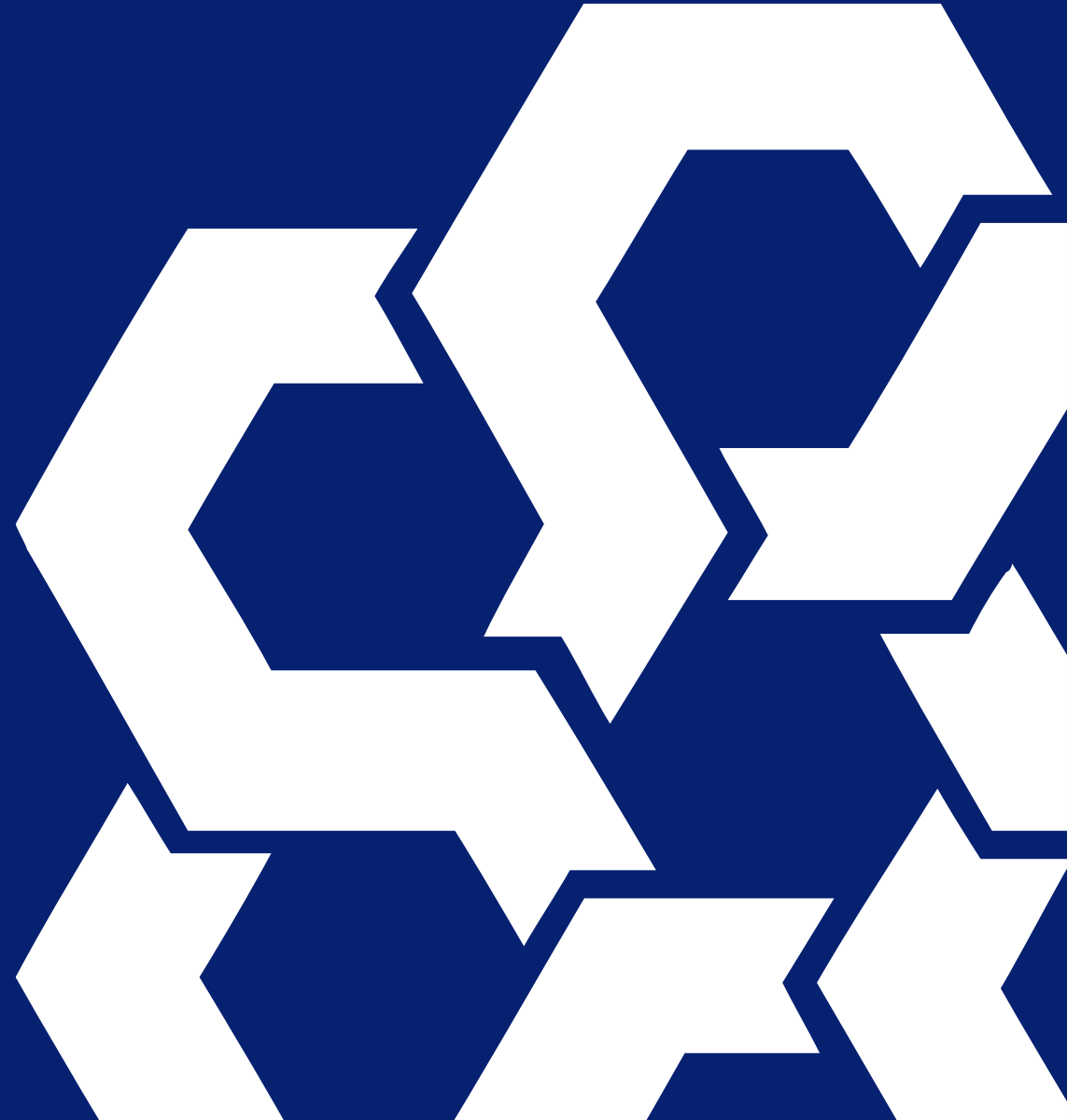
Education and updates to methodologies to analyse financial statements



Regulators, tax authorities

Costs relating to IFRS 16 if the respective regulations depend on the accounting in IAS 17

Appendix A
IFRS 16 vs. US GAAP
—lessee accounting



IFRS 16 vs. US GAAP—lessee accounting

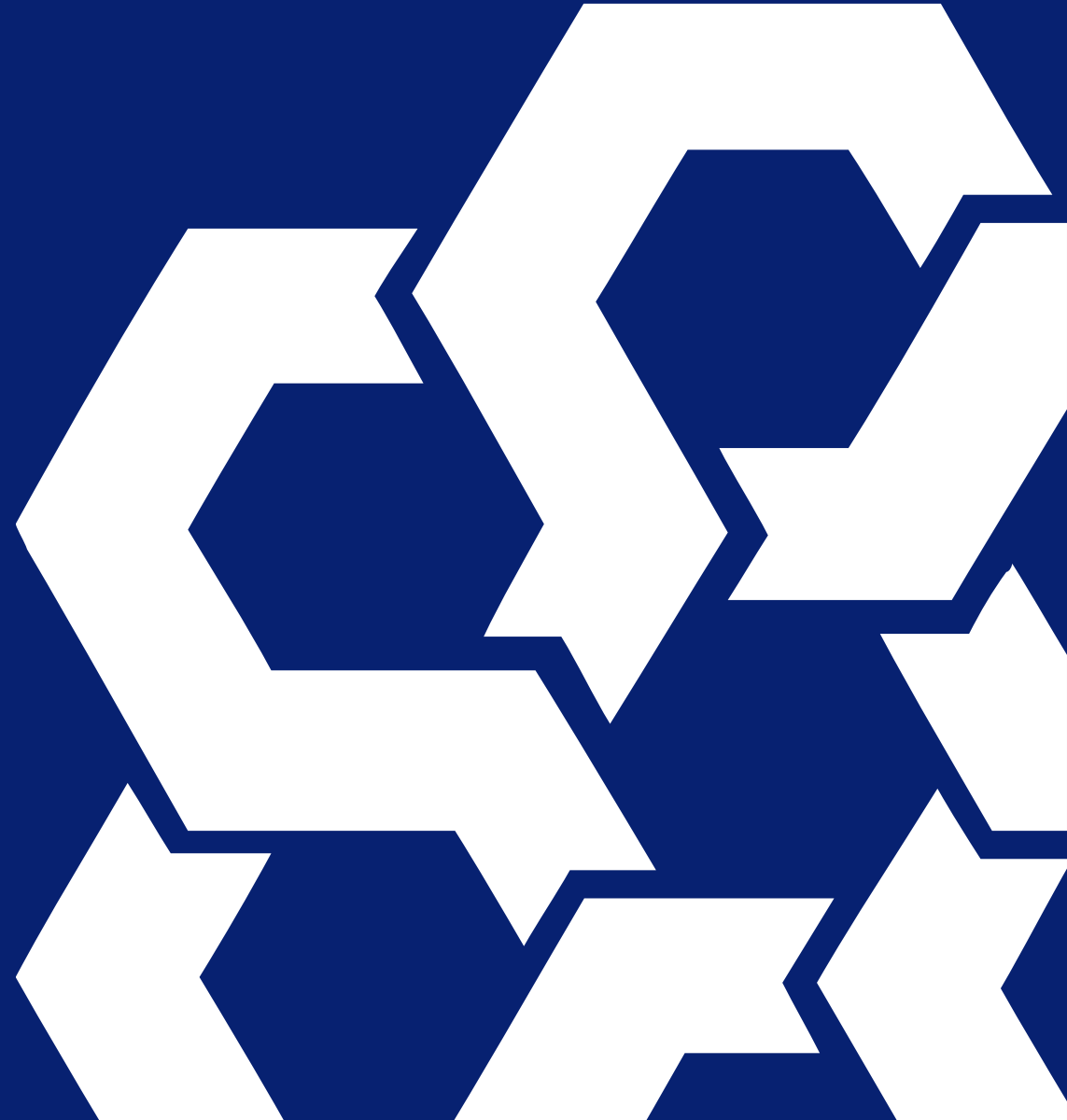
IFRS 16 is the result of the joint project of the IASB and the FASB. Both boards reached different decisions about the lessee accounting model.

	IFRS 16	US GAAP (FASB model)	
		Finance lease	Operating lease
Balance sheet			
All leases on balance sheet	✓	✓	✓
Income statement			
Operating costs	Depreciation (Typically straight-line)	Depreciation (Typically straight-line)	Single expense (Typically straight-line)
Finance costs	Interest (Reduce over the life)	Interest (Reduce over the life)	---
Cash flow statement			
Operating activities	Interest *	Interest	Interest and principal
Financing activities	Principal	Principal	---

* Applying IAS 7 *Statement of Cash Flows*, interest payments can be presented within operating, investing or financing activities. IFRS 18 *Presentation and Disclosure in Financial Statements* has made limited changes to the statement of cash flows. IFRS 18 is effective from 1 January 2027.

Appendix B

Illustrations of disclosures required by IFRS 16



Lessee—Income statement disclosures

During 2019 (in currency units)	
Income statement disclosures:	
Depreciation of ROU assets	1000
Interest on lease liabilities	100
Depreciation of ROU assets comprises:	
Property	600
Other classes of underlying assets	400
	1000
Short term lease expense	X
Low-value asset lease expense	X
Variable lease expense	X
Income from subleasing right-of-use assets	X
Gain from sale and leaseback transactions	X

Used by equity analysts to determine **whole asset information**

Information about **lease payments not included in the lease liability**

Lessee—Cash flows and balance sheet disclosures

During 2019 (in currency units)	
Cash flow statement disclosures:	
Total cash flow for leases	X
As of 31 Dec 2019 (in currency units)	
Balance sheet disclosures:	
Carrying amount of property ROU assets	X
Carrying amount of other classes of ROU assets	X
Total ROU assets	X
Additions to ROU assets	X
Lease liabilities	X

Does not appear in the **cash flow statement** (provided in notes)

New leases entered into in the current year, similar to **capex**

Lessee—Maturity analysis of lease liabilities

Company X—more **short-life** lease obligations

Maturity (in currency units)								
	Total	Less than 1 month	1-3 months	3-6 months	6 months - 1 year	1-3 years	3-5 years	more than 5 years
Bank borrowings	1,625				285	740	600	
Lease liabilities	2,300	70	140	210	400	750	620	110
Trade and other payables	350	70	190	90				

Companies can use **most relevant time bands** for their lease portfolios

Company Y—more **long-life** lease obligations

Maturity (in currency units)							
	Total	Less than 1 month	1-6 months	6 months - 1 year	1-2 years	2-3 years	more than 3 years
Bonds	2,100	7	34	40	79	1,940	
Lease liabilities*	4,970			340	310	290	4,030
Trade and other payables	980	280	700				

*Further information about the maturity of lease liabilities is provided in the table below

Maturity (in currency units)							
	Total	Less than 1 year	1-5 years	5-10 years	10-15 years	15-20 years	20-25 years
Lease liabilities	4,970	340	1,200	1,110	1,050	970	300

Additional company-specific information

Lessee to apply **judgement** about what is relevant:

Extension and termination options

For example....

- Why have them?
- Prevalence within lease portfolio
- Relative magnitude of optional payments vs committed payments
- Exercise of options not recognised on balance sheet

Variable lease payments

For example....

- Why have them?
- Prevalence within lease portfolio
- Relative magnitude of variable payments vs fixed payments

Residual value guarantees

For example....

- Why have them?
- Nature of relevant assets
- Prevalence within lease portfolio
- Magnitude of exposure to residual value risk

Sale & leaseback transactions

For example....

- Why use them?
- Prevalence
- Key terms and conditions
- Payments not recognised on balance sheet
- Cash flow effect

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