IFRS Accounting

Staff paper

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Topic	**Background**
Contacts	Ozlem Arslan (ozlem.arslan@ifrs.org) Megumi Makino (megumi.makino@ifrs.org) Raf Markowski (rmarkowski@ifrs.org) Tim Craig (tcraig@ifrs.org)

Purpose and structure of this paper

1. The purpose of this paper is to provide an overview of outreach activities and other research that the International Accounting Standards Board (IASB) members and the staff have undertaken to decide the scope of the Post-implementation Review (PIR) of IFRS 16 *Leases*. This paper provides:
    - (a) background information, including:
        - (i) the project history (paragraphs 3–5); and
        - (ii) an overview of outreach activities (paragraphs 6–9);
    - (b) an overview of other research activities, including:
        - (i) a review of IFRS Interpretations Committee (Interpretations Committee) discussions relating to IFRS 16 (paragraphs 10–12);
        - (ii) a review of relevant feedback the IASB considered when deciding whether to align the *IFRS for SMEs* Accounting Standard with IFRS 16 (paragraphs 13–19);

(iii) a review of extracts from the EECS's Database of Enforcement (paragraph 20)[1];

(iv) a review of analysts' reports and investor presentations published around the time when IFRS 16 was issued (paragraphs 21–24);

(v) a review of information disclosed by a sample of lessees (paragraphs 25–28);

(vi) a review of implementation questions discussed in the webcasts supporting implementation of IFRS 16 (paragraph 29);

(vii) an analysis of alternative performance measures (APMs)[2] that FTSE 100 entities reported before and after IFRS 16 became effective (paragraphs 30–36);

(viii) an analysis of the quantitative effects of IFRS 16 (paragraphs 37–40); and

(ix) a review of the FASB's PIR of ASC Topic 842, Leases (paragraphs 41–43); and

(c) a question for the IASB.

2. Where relevant, we have considered findings from the other research summarised in this paper when analysing feedback from outreach activities. Both sources of information have informed our recommendations in Agenda Papers 7B–7E.

[1] The European Securities and Markets Authority (ESMA) publishes extracts from its confidential database of enforcement decisions on financial statements. According to its founding regulation, ESMA shall act in the field of financial reporting to ensure the effective and consistent application of European legislation. In order to fulfil these responsibilities, ESMA organises the European Enforcers Coordination Sessions (EECS), a forum of 38 European enforcers from all European Economic Area countries with responsibilities in the area of supervision and enforcement of financial information.

[2] They are also referred to as 'management-defined performance measures' or 'non-GAAP measures'.

Background information

Project history

3. In December 2023 the IASB decided to begin the PIR of IFRS 16 in the second quarter of 2024. In June 2024 the IASB discussed the objective, activities and expected timeline for the first phase of the PIR, in which the IASB identifies matters to examine and consults publicly on these matters.

4. Consistent with the requirements set out in the *Due Process Handbook*[3] and the description of the IASB's PIRs on the ifrs.org website, the objective of a PIR is to assess whether the effects of applying the requirements of a new Standard or major amendment to a Standard on users of financial statements (users), preparers, auditors and securities regulators are as intended when the new requirements were developed. The basis for such an assessment is the effects analysis of the likely benefits and initial and ongoing costs arising from the new requirements that a board publishes when it issues the new requirements.[4] The PIR process consists of two phases:

   (a) Phase 1—the IASB identifies matters to be examined, drawing on discussions with the Interpretations Committee, the IASB's advisory groups and other interested parties. The IASB consults publicly on the matters identified in the first phase of the PIR.

   (b) Phase 2—the IASB considers the comments from the public consultation along with the information it has gathered from any additional analysis and other consultative activities.

5. The PIR will conclude with the IASB assessing whether:

   (a) overall, the new requirements are working as intended, with the benefits to users of information prepared in accordance with IFRS 16 *not significantly*

[3] On 19 December 2024 the Trustees of the IFRS Foundation, through the Due Process Oversight Committee (DPOC), published the Exposure Draft *Proposed Amendments to the* IFRS Foundation Due Process Handbook. The Exposure Draft includes some proposed clarifications about the purpose of PIRs of IFRS Standards.

[4] See the *Effects Analysis* accompanying IFRS 16.

lower than was expected, and the costs of applying the requirements and auditing and enforcing their application *not significantly* greater than was expected. Fundamental questions about the clarity of the core objectives or principles in the new requirements might indicate that they are not working as intended.

(b) there are specific questions about the application of the new requirements. If there are specific application questions, the IASB can still conclude that the new requirements are working as intended. However, those specific application questions would be addressed if they meet the criteria for the IASB to take further action.

An overview of outreach activities

6. Before the project commenced in June 2024, we had observed three meetings (April 2024 IFASS panel discussion sharing jurisdictional perspectives on IFRS 16, a user group convened by a national standard-setter from Europe and a meeting with representatives of large accounting firms in Asia-Oceania). Between June 2024 and January 2025, IASB members and staff met with a broad range of stakeholders and regions to ensure that the IASB has enough information on which to base its decisions about the scope of the RFI. The IASB also held two education meetings with the FASB, at which the two boards discussed their post-implementation reviews of leases standards (paragraphs 41–43).

7. Overall, IASB members and staff participated in (or observed) 28 outreach meetings. These included:

(a) eight meetings with users, including:

(i) a data aggregator;

(ii) a buy-side credit analyst;

(iii) a buy-side equity analyst;

(iv) a credit rating agency;

(v) a user representative body; and

(vi) three user groups convened by national standard-setters;

(b) seven meetings with individual preparers and groups of preparers from various regions and industry sectors, including airlines (from Europe, Asia-Oceania and Latin America), retail (from Europe, Asia-Oceania and Latin America), telecommunications (from Europe and Asia-Oceania) and energy (from Asia-Oceania);

(c) six meetings with the IASB's advisory groups:

(i) Accounting Standards Advisory Forum;

(ii) Capital Market Advisory Committee;

(iii) Global Preparers Forum;

(iv) Emerging Economies Group;

(v) Islamic Finance Consultative Group; and

(vi) IFRS Taxonomy Consultative Group;

(d) a meeting with the Interpretations Committee;

(e) three meetings with national standard-setters;

(f) two meetings with representatives of large accounting firms; and

(g) a meeting with a group representing securities regulators.

8. To help the IASB identify matters to include in the RFI and to make the assessments required by the objective of the PIR discussed in paragraph 4, we asked stakeholders:

(a) about their overall assessment of IFRS 16, including whether:

(i) there are any fundamental questions ('fatal flaws') about the clarity and suitability of core objectives or principles that indicate the requirements are not working as intended;

(ii) actual ongoing costs and benefits significantly differed from those expected; and

(iii) implementation costs were significantly different from those expected;

(b) how challenging transition to IFRS 16 was, what transition requirements were helpful and whether they would recommend the IASB do anything differently in future standard-setting projects; and

(c) whether there are application questions that the IASB or the Interpretations Committee needs to answer *urgently* or endeavour to start working on *before* the next five-yearly agenda consultation or *consider* in the next five-yearly agenda consultation.

9. We adjusted questions for users, focusing on:

(a) the quality of financial information. We asked whether:

(i) recognising assets and liabilities for almost all leases has resulted in a more useful depiction of the *economic substance* of leases;

(ii) IFRS 16 has resulted in lessees changing their *non-GAAP information* about their financial position, financial performance or cash flows;

(iii) they have observed *differences* in the quality of information between, or across, various capital markets or industry sectors where leases are material (for example, retail or airlines); and

(iv) IFRS 16 has reduced the need for them to adjust amounts reported by lessees (and if users make any adjustments, whether these adjustments differ from the adjustments they made pre-IFRS 16).

(b) the comparability of financial information. We asked users how their ability to compare financial information has improved after the implementation of IFRS 16 and whether they get the information they need to analyse and compare entities that:

(i) lease assets for different lease terms; or

(ii) purchase assets with those that lease assets for shorter terms.

(c) the usefulness of information that entities disclose and present applying IFRS 16. We asked users:

   (i) whether there is information they expected to see which is not being disclosed;

   (ii) which disclosures they find most useful (and less useful) for their analysis and why; and

   (iii) whether the information lessees (and lessors) disclose and present under IFRS 16 gives them a better basis than before IFRS 16 to assess the effect that leases have on their financial performance, financial position and cash flows.

(d) the transition to IFRS 16. We asked users whether:

   (i) entities disclosed sufficient information to allow users to understand the changes to the entities' financial performance, financial position and cash flows resulting from the implementation of IFRS 16; and

   (ii) they would recommend the IASB do anything differently in future standard-setting projects when developing transition requirements.

An overview of other research activities

Interpretations Committee discussions relating to IFRS 16

10. The Interpretations Committee has considered the need for a standard-setting project to address IFRS 16-related questions submitted to it. Paragraph 11 includes a list of agenda decisions that explain why a standard-setting project was not needed to address the question.

11. The agenda decisions the Interpretations Committee published relate to:

   (a) the definition of a lease:

(i) Definition of a Lease—Substitution Rights (IFRS 16)—April 2023. The request asked two questions. The first question asked about the level at which to evaluate whether a contract contains a lease when the contract is for the use of more than one similar asset. The second question asked how to assess whether a contract contains a lease when the supplier has the practical ability to substitute alternative assets throughout the period of use but would *not* benefit economically from the exercise of its right to substitute the asset throughout the period of use.

(ii) Economic Benefits from Use of a Windfarm (IFRS 16)—December 2021. The request asked about whether, in the fact pattern described in the request, applying paragraph B9(a) of IFRS 16, an electricity retailer has the right to obtain substantially all the economic benefits from use of a windfarm throughout the term of an agreement with a windfarm generator.

(iii) Definition of a Lease—Decision-making Rights (IFRS 16)—January 2020. The request asked about whether in the fact pattern described in the request the customer has the right to direct the use of a ship throughout the five-year term of a contract.

(iv) Subsurface Rights (IFRS 16)—June 2019. In the contract described in the request, a pipeline operator obtains the right to place an oil pipeline in underground space for 20 years in exchange for consideration. The request asked whether IFRS 16, IAS 38 *Intangible Assets* or another IFRS Standard applies in accounting for the contract.

(v) Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud (IAS 38 *Intangible Assets*)—March 2019. The request asked about how a customer accounts for a 'Software as a Service' cloud computing arrangement in which the customer contracts to pay a fee in exchange for a right to receive access to the supplier's application software for a specified term. The agenda decision discussed, among other things, whether the arrangement contains a lease.

(b) the requirements for lease term—Lease Term and Useful Life of Leasehold Improvements (IFRS 16 and IAS 16 *Property, Plant and Equipment*)—November 2019. The request asked two questions. The first question was about how to determine the lease term of a cancellable lease or a renewable lease. The second question asked whether the useful life of any related non-removable leasehold improvements is limited to the lease term determined applying IFRS 16.

(c) the measurement requirements for lessees:

 (i) Non-refundable Value Added Tax on Lease Payments (IFRS 16)—September 2021. The request asked whether, in applying IFRS 16, the lessee includes non-refundable VAT as part of the lease payments for a lease.

 (ii) Lessee's Incremental Borrowing Rate (IFRS 16)—September 2019. The request asked whether a lessee's incremental borrowing rate is required to reflect the interest rate in a loan with both a similar maturity to the lease and a similar payment profile to the lease payments.

(d) the measurement requirements for lessors—Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16)—October 2022. The request asked about a lessor's application of IFRS 9 and IFRS 16 in accounting for a particular rent concession. The rent concession is one for which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract. The request asked whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

(e) sale and leaseback transactions—Sale and Leaseback with Variable Payments (IFRS 16)—June 2020. The request asked how, in a sale and leaseback transaction with variable lease payments calculated as a percentage of the seller-lessee's revenue generated using the asset, the seller-lessee measures the right-of-use asset arising from the leaseback and thus determines the amount of any gain or loss recognised at the date of the transaction.

(f) the recognition of liabilities by a joint operator—Liabilities in relation to a Joint Operator's Interest in a Joint Operation (IFRS 11)—March 2019. In the fact pattern described in the request, one of the joint operators, as the sole signatory, enters into a lease contract with a third-party lessor for an item of property, plant and equipment that will be operated jointly as part of the joint operation's activities. The joint operator that signed the lease contract has the right to recover a share of the lease costs from the other joint operators in accordance with the contractual arrangement to the joint operation (that is not structured through a separate vehicle). The request asked about the recognition of liabilities by the joint operator in relation to its interest in a joint operation.

(g) service concession arrangements:

(i) Service concession arrangements with leased infrastructure (IFRIC 12)—September 2016. The request asked to clarify how an operator accounts for a service concession arrangement in which the infrastructure is leased.

(ii) Payments made by an operator to a grantor in a service concession arrangement (IFRIC 12)—July 2016. The request asked to clarify how an operator accounts for payments it makes to a grantor in a service concession arrangement within the scope of IFRIC 12 *Service Concession Arrangements*. The Interpretations Committee considered, among other things, when an operator would consider whether the arrangement contains a lease.

12. The Interpretations Committee recommended that the IASB consider undertaking narrow-scope standard-setting in relation to:

(a) a lessee's application of IFRS 9 and IFRS 16 in accounting for a rent concession in which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract (see paragraphs 10–26 of Agenda Paper 7E for this meeting).

(b) the applicability of the sale and leaseback requirements in IFRS 16 to a transaction in which an entity sells its equity interest in a subsidiary that holds one asset to a third party and leases that asset back (see paragraphs 27–37 of Agenda Paper 7E for this meeting).[5]

(c) specific *subsequent* measurement requirements for sale and leaseback transactions. The Interpretations Committee's discussions on how the seller-lessee measures the right-of-use asset arising from the leaseback and, thus, determines any gain or loss to recognise *at the date of the transaction* (see agenda decision in paragraph 11(e)) highlighted the absence of specific *subsequent* measurement requirements for sale and leaseback transactions in IFRS 16. Therefore, in September 2022 the IASB issued Lease Liability in a Sale and Leaseback, which added subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale.[6]

Second comprehensive review of the **IFRS for SMEs** *Accounting Standard*

13. As part of the first phase of the Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard, in January 2020 the IASB published the Request for Information *Comprehensive Review of the* IFRS for SMEs Standard (2020 RFI). The 2020 RFI asked for views on aligning Section 20 *Leases* of the Standard (which is based largely on IAS 17 *Leases*) with IFRS 16 by simplifying some of the recognition and measurement requirements and the language of IFRS 16.

[5] This is currently a maintenance pipeline project. See IFRS - IASB pipeline projects for more details.

[6] Without these new requirements, a seller-lessee could have recognised a gain on the right of use it retains solely because of a remeasurement (for example, following a lease modification or change in the lease term) if it had applied the subsequent measurement requirements for lease liabilities unrelated to a sale and leaseback transaction.

14. To elicit feedback from users of SMEs' financial statements the IASB published an online survey—the IASB received 14 responses. In addition, the staff interviewed 13 users. Of the 27 users, most were financial institutions lending to SMEs, many from Asia, some from Europe and some from Latin America. Paragraphs 15–16 summarise SME users' feedback, which supplements the feedback we received in phase 1 of the PIR of IFRS 16.

15. In the survey and interviews, users were asked what information about leases in the financial statements of an SME would be useful for them to evaluate the lease obligations of an entity. Some users supported aligning the *IFRS for SMEs* Accounting Standard with IFRS 16. Their comments included that, recognising leases on the balance sheet:

    (a) would help assess repayment capacity;

    (b) would result in better disclosures, for example, about maturity of lease liabilities;

    (c) should not be challenging for SMEs because most SMEs do not enter into complex lease arrangements; and

    (d) would improve transparency about leases of large value assets (for example, properties) or in some industry sectors (for example, retail), and so would be helpful.

16. Some users did not support aligning the *IFRS for SMEs* Accounting Standard with IFRS 16. They said recognising leases on the balance sheet:

    (a) would not add value to their credit assessments because the information they need is already available in the statement of cash flows (that is, rent payments) or in the income statement (lease expense);

    (b) could be too complex for SMEs; and

    (c) would not impact their credit assessments because leased assets cannot be used as collateral.

17. Overall, feedback on the 2020 RFI about aligning Section 20 of the Standard with IFRS 16 was mixed. Stakeholders generally suggested the IASB should assess the costs and benefits of proposing amendments to the *IFRS for SMEs* Accounting Standard to reflect the requirements in IFRS 16 (even with simplifications) and gain more information about the experience of entities applying IFRS 16 (including via this PIR).

18. In September 2022, the IASB published the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard*, in which it proposed to align the Standard with IFRS 16 in a future review of the Standard and asked for further information about the cost-benefit considerations. Paragraphs 9–17 of Agenda Paper 30B for the June 2023 IASB meeting summarise feedback on the IASB's proposals, including respondents' comments on cost-benefit considerations and potential simplifications to the requirements in IFRS 16. Respondents suggested the IASB should consider:

    (a) permitting SMEs to use a risk-free rate to discount lease payments to their present value;

    (b) reducing the frequency of when the lease liability is required to be remeasured and permitting an SME to use the originally determined discount rate if the SME is unable to determine a revised discount rate;

    (c) simplifying how SMEs would determine the lease term compared to entities applying IFRS 16;

    (d) extending the exemption for leases of low-value assets, for example by specifying a percentage of total asset value or right-of-use asset value, or prescribing a monetary value, in the Standard; and

    (e) introducing simplifications similar to those for private entities applying US GAAP or the UK Financial Reporting Council's proposed amendments to

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.[7]

19. At its January 2024 meeting, the IASB tentatively decided to consider aligning the *IFRS for SMEs* Accounting Standard with IFRS 16 at the next comprehensive review of the *IFRS for SMEs* Accounting Standard.

Overview of European enforcers' decisions relating to IFRS 16

20. We have reviewed publicly available extracts from the ESMA's confidential database of enforcement decisions on financial statements (24th–28th Extracts from the EECS's Database of Enforcement) relating to application of IFRS 16. These decisions relate to:

    (a) identifying lease and non-lease components in a real estate lease and management contract—the regulator identified additional non-lease components in the contract (Decision reference EECS/0120-08).

    (b) identifying whether a contract to use plots of land for installing wind turbines contains a lease—the regulator disagreed with the issuer and concluded that the contract contained a lease (Decision reference EECS/0121-02).

    (c) accounting for costs to dismantle telecommunications equipment installed on a leased space and determining the depreciation period for such costs—the regulator agreed with the issuer including the estimate of the dismantling costs into the right-of-use asset, but disagreed with depreciating the asset over the useful life of the telecommunications licence instead of over the lease term (Decision reference EECS/0121-03).

    (d) applying IAS 36 *Impairment of Assets* to calculate the recoverable amount and carrying amount of a cash-generating unit (CGU) that contains lease balances—the regulator disagreed with the issuer's calculation and concluded

[7] In March 2024, the FRC issued Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024. See FRC revises UK and Ireland accounting standards.

that, if the carrying amount of the lease liabilities is deducted from the carrying amount of the CGU, the same amount should be deducted from the recoverable amount of the CGU. The regulator also concluded that when estimating the discount rate to calculate the recoverable amount the issuer should take into account the lease liabilities in its capital structure and its related average interest rate (Decision reference EECS/0122-07).

(e) accounting for the sale and leaseback of a building in a single-asset entity—the regulator accepted the issuer's accounting for the transaction applying IFRS 10 *Consolidated Financial Statements* and recognising the full gain on the sale, acknowledging that the Interpretations Committee had not finalised its tentative agenda decision and referred the matter to the IASB. But the regulator disagreed with the issuer not disclosing the accounting policy (Decision reference EECS/0123-01).

(f) own-use exemption—the regulator accepted the issuer's accounting treatment of power purchase agreements (PPAs), including the issuer identifying the PPAs as not containing a lease because the PPAs were not linked to specific assets and the entity only purchased a small portion of the electricity produced by the supplier (Decision reference EECS/0124-07).

(g) insufficient disclosure of leases—the regulator concluded in two different decisions that the issuers were required to, but did not, disclose various information, such as additions to right-of-use assets, total cash outflow for leases, amounts of lease expense related to short-term leases, low-value item leases and rent concessions relating to COVID-19 (Decision reference EECS/0123-05 and EECS/0124-09).

Analyst reports

21. We reviewed approximately 40 analyst reports and entities' investor presentations, mostly around the time IFRS 16 was issued, that examined the effects of the new accounting requirements for leases. These reports usually discuss:

(a) whether the implementation of IFRS 16 has improved analysts' ability to compare entities. Some reports say judgement required by IFRS 16, in particular about lease term and discount rates, makes the analysis of information that entities provide about leases complex and hinders comparability of financial information. Other reports say judgement required by IFRS 16 results in entities providing more useful information than under IAS 17. Some reports noted differences between IFRS 16 and Topic 842.

(b) the benefits of applying IFRS 16, such as the more faithful representation of leases on the balance sheet and enhanced disclosure requirements. The reports express mixed views about the usefulness of information about leases presented in the statement of cash flows or income statement.

22. Many reports analysed the changes in metrics related to earnings introduced by IFRS 16 because equity analysts often use earnings-based metrics as a proxy for cash flows, and thus, they needed to adjust valuation techniques on transition to IFRS 16. Findings and considerations in reports included:

(a) industry sectors heavily reliant on leases, such as retail, airlines, telecommunications and transport were expected to be most impacted by IFRS 16.

(b) preliminary analyses highlighted changes in metrics, for example, an increase in EBIT and EBITDA and a decrease in return on invested capital in the retail industry. These analyses were meant to help investors understand the implications of IFRS 16.

(c) some reports said investors might need to adjust information presented in accordance with IFRS 16 to achieve more meaningful results and for comparisons between IFRS 16 and US GAAP. Enhanced disclosure requirements were expected to provide information that would help make the adjustments. In addition, the reports expected that users would rely more on the information presented in the statement of cash flows, because the information presented in the income statement applying IFRS 16 was expected to be less aligned with lease-related cash flows.

(d) changes to the accounting for leases should not lead to fundamental changes in efficient capital markets (where many analysts and investors already made some adjustments for lease obligations before IFRS 16). However, in less efficient capital markets, market participants did not consider operating leases in their analyses before IFRS 16. Therefore, recognising operating leases on the balance sheet was expected to provide greater transparency (for example, before IFRS 16 became effective, some retailers in less sophisticated capital markets had experienced valuation premiums, which were then corrected after IFRS 16 became effective).

23. A credit rating agency and an investment bank (who already considered unrecognised operating lease commitments in their analyses) said IFRS 16 would not have a big impact on their models and analyses. Their adjustments included:

(a) capitalising operating leases using rent expenses and multiples; and

(b) adding back rent expenses to operating profit.

24. A credit rating agency also reported that consistent with their expectations, based on the information reported by some early adopters, IFRS 16 should not have a major impact on credit metrics for majority of entities they analyse. This is because they had historically used information disclosed under IAS 17 to estimate debt-like obligation arising from the off-balance-sheet lease agreements. This credit rating agency said since IFRS 16 became effective, they have not been adjusting entities' balance sheets or income statements, but they have reclassified lease principal repayments from financing to investing cash flows to reflect their view that leases are similar to purchases of assets.

Lessee's disclosure practices

25. Paragraph 53 of IFRS 16 requires lessees to disclose specific quantitative information, including:
    (a) depreciation charge for right-of-use assets by class of underlying assets;
    (b) interest expense on lease liabilities;
    (c) the expense relating to short-term leases and leases of low-value assets for which an entity applies the recognition exemption in paragraph 6 of IFRS 16;
    (d) the expense relating to variable lease payments not included in the measurement of lease liabilities;
    (e) additions to right-of-use assets; and
    (f) total cash outflow for leases.

26. Paragraph 52 of IFRS 16 requires a lessee to disclose information about leases in a single note or separate section in its financial statements. When this information is presented elsewhere in the financial statements, in the single note (or separate section) a lessee is required to include cross-references to that information.

27. Some users said some items of information that IFRS 16 requires entities to disclose are not available (this observation is similar to the enforcer's observation summarised in paragraph 20(g)). We looked at a sample of financial statements to understand better these users' concerns.

28. We reviewed the 2023 (or the most recently available) financial statements of 25 large European-based entities (with global operations) from five industry sectors that the IASB expected to be most affected by IFRS 16: airlines, retail, transport, telecommunications and energy. Our objective was to obtain a high-level understanding of what information entities disclose and whether this information is consistent and comparable. Our analysis of these entities' disclosure practices showed that:

(a) most entities disclosed information about lease-related expenses and additions to right-of-use assets (see paragraphs 25(a)–25(e)).

(b) some entities disclosed information about cash outflows for leases. Some of them provided a more detailed breakdown, even though it is not specifically required. However, we noted differences in the types of cash flows they included in this breakdown. For example:

   (i) some included only the repayment of the principal amount of lease liability;

   (ii) some included both the repayment of principal and interest payments; and

   (iii) some included all lease-related cash outflows, including variable lease payments that are not included in the measurement of lease liability.

(c) 18 out of 25 entities disclosed information in accordance with paragraph 52 of IFRS 16 by either including all the information in a single note or including in a single note cross-references to the information presented elsewhere in the financial statements.

Webcasts supporting implementation of IFRS 16

29. In 2016 and 2017 the IFRS Foundation published several webcasts explaining the key requirements in IFRS 16, the IASB's thinking behind some of the requirements and addressing some of the implementation questions received during the implementation of IFRS 16.[8] In particular, the webcast on lease term was held because of the number of implementation questions received on this particular topic. The implementation questions discussed in the webcasts included questions in relation to:

(a) determining the lease term:

[8] See Lease Term Q&A, IFRS 16 Exemptions and IFRS 16: Lease Modifications—Lessees.

(i) How to consider various termination and extension options in a contract?

(ii) How to apply paragraph B34 of IFRS 16 which states that 'a lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty'?

(iii) What is the meaning of 'penalty on exiting a lease contract'?

(b) IFRS 16 exemptions:

(i) What did the IASB have in mind when developing the 'short-term leases' and 'low-value assets' exemptions?

(ii) Is there a particular threshold that defines a 'low-value' asset?

(iii) How does the 'low-value asset' exemption interact with the concept of materiality?

(iv) Did the IASB consider the risk of structuring contracts to qualify for the 'short-term lease' exemption—for example, a lease is signed for a short term but then it is subsequently extended for the same period each year?

(v) Is the 'short-term lease' exemption applicable when a long-term contract is extended for less than a year at the end of the originally assessed long term and the new assessment of the lease term is made at the extension date?

(c) lease modifications:

(i) When to measure and recognise a lease modification?

(ii) When to use the original discount rate and when to use a new discount rate?

Findings from desktop research of lessees' use of alternative performance measures

30. We analysed the effect of IFRS 16 on entities' APMs by reviewing the annual reports of the UK FTSE 100 constituent entities. In our analysis, we looked at the most recent composition of the index and analysed these entities' 2023 (post-IFRS 16) and 2018 (pre-IFRS 16) annual reports for lease-related APMs.

31. For the purpose of our analysis, we defined lease-related APMs as those that have any references to leases in their definition, calculation or reconciliation. These APMs might have other components and leases might (or might not) be a significant component of the APM.

32. In 2023 financial statements, 81 entities used lease-related APMs (on average roughly two lease-related APMs each).

33. We treated net debt as a lease-related APM because entities would need to consider whether to include lease liabilities recognised under IFRS 16 in this measure of indebtedness. Net debt was the most commonly used lease-related APM, used by 81 entities in their 2023 annual reports. 44 of the entities included lease liabilities in their net debt figures, 22 of the entities excluded lease liabilities and one entity excluded some lease liabilities from their calculations of net debt. 14 entities presented net debt both excluding and including lease liabilities in their annual reports. The desktop research shows that entities have different views on whether net debt should include lease liabilities or not. Those that disclosed a net debt figure excluding lease liabilities presented a measure of net debt that was more consistent with net debt prior to the application of IFRS 16.

34. APMs that adjusted particular measures of cash flows were the second most commonly used lease-related APM category with 29 entities deducting cash payments for the principal portion of the lease liability from, for example, free cash flows, operating cash flows or trading cash flows. In doing so, these measures would be more consistent with similar measures used prior to the application of IFRS 16.

35. Eight entities (within the retail, telecommunications, oil and gas, industrial equipment, aerospace and hospitality industries) used APMs to present measures, mostly profit measures, to eliminate the effect of IFRS 16 (as if the Standard did not apply).

36. On the other hand, six entities (within the retail, airline, utilities and hospitality industries) discontinued the use of APMs that they used in 2018 applying IAS 17, because the application of IFRS 16 rendered the adjustments they were previously making redundant. Most of these APMs were designed to treat operating leases in a similar way as they are treated now under IFRS 16.

Analysis of quantitative effects of IFRS 16

37. In the *Effects Analysis* accompanying IFRS 16, the IASB estimated the potential quantitative effects of the changes to lessee accounting by analysing available information about operating leases applying previous lease accounting requirements in IFRS and US GAAP. The IASB estimated the present value of future payments for off balance sheet leases and compared this to the total assets for 1,022 entities. Appendix A to the *Effects Analysis* describes in more detail the assumptions used to estimate these quantitative effects. That analysis indicated that amounts of off balance sheet leases were substantial and the prevalence of off balance sheet leases was very different for different industries.[9]

38. We used the sample of 1,022 entities as a starting point for our analysis of the actual quantitative effects. Of the 1,022 entities, some entities have been acquired, delisted or ceased operations since 2014, so the original sample was reduced to 790 entities. We used a financial data aggregator and the entities' annual reports to gather information about the lease liabilities and total assets of these 790 entities for 2020 and compared this data with the estimates in the Effects Analysis. Table 1 includes this information detailed by industry sector.

[9] See pages 14–17 of the *Effects Analysis*.

Table 1—Actual and expected effects of applying IFRS 16 on lease liabilities / total assets ratio (US$ bn)

Industry sector	Present value of future lease payments for off balance sheet leases		Lease liability	Total assets			Present value of future lease payments for off balance sheet leases / total assets		Lease liabilities / total assets
	2014 (1,022 entities)	**2014** (790 entities)	**2020** (790 entities)	**2014** (1,022 entities)	**2014** (790 entities)	**2020** (790 entities)	**2014** (1,022 entities)	**2014** (790 entities)	**2020** (790 entities)
Airlines	119.4	106.7	134.2	526.8	473.2	697.8	22.7%	22.5%	19.2%
Retail	431.5	360.3	481.8	2,020.0	1,804.3	2,743.5	21.4%	20.0%	17.6%
Travel and leisure	83.5	68.6	99.9	403.5	325.0	474.0	20.7%	21.1%	21.1%
Transport	68.2	53.1	68.4	586.0	518.3	770.5	11.6%	10.2%	8.9%
Telecommunications	172.6	149.9	263.7	2,847.1	2,675.4	3,543.0	6.1%	5.6%	7.4%
Energy	287.9	254.8	182.8	5,192.9	4,515.7	4,452.9	5.5%	5.6%	4.1%
Media	55.8	36.5	52.7	1,020.3	624.0	882.8	5.5%	5.8%	6.0%
Distributors	25.1	22.9	52.8	581.5	550.3	626.2	4.3%	4.2%	8.4%
IT	56.8	46.5	98.5	1,911.3	1,670.0	2,720.6	3.0%	2.8%	3.6%
Healthcare	54.4	46.8	64.4	1,894.9	1,702.7	2,516.7	2.9%	2.8%	2.6%
Others	306.7	254.3	312.9	13,959.2	12,599.4	15,610.3	2.2%	2%	2%
Total	**1,661.8**	**1,400.5**	**1,811.9**	**30,943.5**	**27,458.2**	**35,038.2**	**5.4%**	**5.1%**	**5.2%**

39. Our analysis shows that, based on 2020 annual reports, the carrying amount of lease liabilities of 790 entities was approximately 5.2% of their total assets and is largely in line with the estimates included in the Effects Analysis when IFRS 16 was issued (5.1% for the comparable sample; 5.4% for the total sample of 1,022 entities). Our analysis shows that:

(a) leases are still an important source of financing. Consistent with the IASB's expectations when it issued IFRS 16, the change in accounting does not appear to have resulted in significant behavioural changes (that is, there does not appear to be a shift to now borrow to buy assets rather than leasing them).

(b) the prevalence of leases is different for different industries and the industry results are also broadly consistent with what the IASB expected in the Effects Analysis.

(c) for an individual entity, the significance of leasing activities can be very different from the average for its industry sector.

40. There are a few limitations to our analysis that together with other factors can affect comparability between the data based on the 2020 annual reports (our calculations to inform the PIR) and the data used in the Effects Analysis ('2014-based data'):

(a) our calculations used total lease liabilities reported in 2020 financial statements (they include leases that would have been classified as finance leases and operating leases under previous accounting standards). The Effects Analysis used the present value of future lease payments for off balance sheet leases (operating leases only) to estimate the additional lease liabilities that might be recognised applying IFRS 16. However, we note that only a small proportion of leases were recognised on entities' balance sheets prior to IFRS 16;[10] adjusting for this would have increased the expected lease liabilities to total assets ratios in 2014.

(b) our calculations used total assets reported in 2020 financial statements; these total assets include right-of-use assets. The Effects Analysis used information about total assets (reported before IFRS 16 was effective), which did not include right-of-use assets; adjusting for these would have reduced the expected lease liabilities to total assets ratios in 2014.

(c) the estimates in the Effects Analysis make assumptions about discount rate and lease term, and apply them to undiscounted future payments for off balance sheet leases disclosed by entities in 2014 annual reports. Our calculations use amounts reported by these entities in their 2020 annual reports; these amounts reflect, among other differences, a different economic environment, changes in entities' lease portfolios that occurred since 2014 and the entities' judgements about lease terms and discount rates.

(d) the amounts reported do not necessarily reflect the number of individual lease contracts—two industry sectors could have similar amounts of lease liabilities

[10] The press release IASB shines light on leases by bringing them onto the balance sheet states that over 85% of lease commitments did not appear on listed entities' balance sheets (based on a sample of 30,000 listed entities using IFRS Accounting Standards or US GAAP). Therefore finance leases were less than 15% of entities' total lease commitments.

but that could represent thousands of lease contracts for one industry sector and only a few hundred lease contracts for the other industry sector.

FASB's PIR of Topic 842

41. In June 2024 and October 2024 the IASB held education meetings with the FASB, at which the two boards discussed their post-implementation reviews of leases standards. Agenda Paper 7B for the June 2024 meeting provides an overview of the FASB's PIR process and activities, summarises feedback the FASB received before June 2024 and includes a list of Updates issued to clarify or modify Topic 842 since February 2016. Agenda Paper 7A for the October 2024 meeting provides an update on the FASB's PIR of Topic 842.

42. The FASB has substantially completed its information gathering on costs and benefits of the new requirements for public entities (for example, through a public entity preparer survey and user outreach) and continues to analyse the feedback. Since October 2024, the FASB's outreach has been significantly focused on private entities to evaluate the costs and benefits of the new requirements. Specifically, the FASB continues to:

   (a) conduct outreach with preparers and auditors; and

   (b) gather feedback from advisory groups.

43. The FASB's upcoming PIR activities include:

   (a) additional outreach with public and private entity financial statement investors;

   (b) launching and subsequently analysing a survey on implementation and ongoing application costs specific to non-public entities;

   (c) analysing academic research on Topic 842 implementation and application; and

(d) determining through its Private Company Council (PCC) working group whether private entity issues exist and, if so, whether potential simplifications are viable.

Question for the IASB

Question for the IASB
Do IASB members have any questions or comments on the matters discussed in this paper?