IFRS Accounting

Staff paper

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Project	**Post-implementation Review of IFRS 16 *Leases***
Topic	**Feedback analysis—Identifying a lease, lease term and the lessee accounting model**
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Purpose and structure of this paper

1. This paper analyses feedback on the requirements in IFRS 16 *Leases* for identifying a lease, determining the lease term and the lessee accounting model, and provides staff recommendations on which matters to include in a request for information (RFI) on the Post-implementation Review (PIR) of IFRS 16.

2. This paper includes:

   (a) analysis of feedback on the requirements in IFRS 16 for:

      (i) identifying a lease (paragraphs 3–16);

      (ii) determining lease term (paragraphs 17–29); and

      (iii) the lessee accounting model (paragraphs 30–101);

   (b) summary of staff recommendations (paragraphs 102–103); and

   (c) questions for the International Accounting Standards Board (IASB).

Identifying a lease

Background

3. IFRS 16 requires an entity to assess whether a contract is (or contains) a lease at inception of the contract[1].

4. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

5. IFRS 16 retained the definition of a lease in IAS 17 *Leases* but changed the guidance setting out how to apply it. The changes mainly relate to the concept of control used within the definition.

6. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, an entity assesses whether, throughout the period of use, the customer has both of the following:

    (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and

    (b) the right to direct the use of the identified asset.[2]

7. Lease and non-lease components are often combined in a contract and the accounting for lease and non-lease components is different. Therefore, IFRS 16 also addresses the separation of lease and non-lease components of contracts and IFRS 16 applies only to leases, or lease components of a contract.[3]

[1] Paragraph 9 of IFRS 16.

[2] Paragraph B9 of IFRS 16.

[3] Paragraphs 12–17 and B32–B33 of IFRS 16.

Feedback summary

8. Some stakeholders commented on the requirements for identifying a lease. A few users of financial statements (users) said there seem to be opportunities to structure what might otherwise have been a lease as a service contract—to avoid lease accounting and thereby achieve a preferable reporting outcome.

9. A few standard-setters said it is often challenging to identify whether a power purchase agreement is a lease because the contracts are complex and it is not clear whether a customer has the right to obtain substantially all the economic benefits from, and to direct the use of, an identified asset (for example, a windfarm). An accounting firm made similar comments in the context of a sublease contract with a revenue-sharing feature between a real estate property owner and a property manager, saying that it is challenging to determine who controls the use of the property, and, as a consequence, to identify whether the property manager is either:

    (a) a lessee (intermediate lessor) who subleases the property to third parties (tenants); or

    (b) a provider of management services to the property owner or tenants (or both).

    There were other more general comments on distinguishing between a lease and a service contract.

10. Other comments on challenges with identifying a lease included determining whether:

    (a) a part of an asset is an identified asset (for example, an advertising space on a bus); and

    (b) a supplier's right to substitute an asset is substantive throughout the period of use, in particular, whether a supplier benefits economically from the substitution.

11. An accounting firm and a standard-setter suggested the IASB add guidance on how to distinguish a lease (that is a contract that conveys the right to control the use of the underlying asset) from an in-substance purchase (that is, a contract that transfers

control over the underlying asset under IAS 16 *Property, Plant and Equipment*)—for example, if the lease term is close to the economic life of the underlying asset or a lessee is involved in construction of an underlying asset.[4] In these respondents' view, there can be differences in accounting treatment because of the different requirements in applicable IFRS Accounting Standards, for example IFRS 16 and IAS 16.

Staff analysis and recommendations

12. Feedback indicates that challenges in identifying a lease mostly relate to the application of the requirements to unique or complex contracts. In our view, the nature of stakeholders' comments suggests that these challenges might arise because of the facts and circumstances surrounding the contracts and do not seem to be pervasive. We have not heard fundamental questions or concerns about the clarity or suitability of the definition of a lease, the application guidance or illustrative examples.

13. We note that IFRS 16 retained the definition of a lease in IAS 17 but changed the guidance. The changes mainly relate to the concept of control used within the definition. The changes to the guidance on the definition in IFRS 16 were not expected to affect conclusions about whether contracts contain a lease for the vast majority of contracts—a lease applying IAS 17 was generally expected to be a lease applying IFRS 16.[5] The IASB added application guidance to make it easier for entities to make the lease assessment for more complicated scenarios[6]—paragraphs B9–B31 of IRS 16 provide application guidance for identifying a lease.

14. In addition, examples 1–10 accompanying IFRS 16 illustrate how an entity might apply the requirements in IFRS 16 to identify a lease, including in a contract for energy/power (Example 9) and in a contract for network services (Example 10). In

[4] FASB ASC paragraph 842-40-55-5 provides a list of circumstances in which a lessee controls an underlying asset that is under construction before the commencement date.

[5] Page 11 of the *Effects Analysis* accompanying IFRS 16.

[6] Paragraph BC109 of the Basis for Conclusions on IFRS 16.

addition, in the period 2019–2023 the IFRS Interpretations Committee (Interpretations Committee) published five agenda decisions which explain how an entity might apply the requirements in IFRS 16 to identify a lease (see paragraph 11(a) of Agenda Paper 7A).

15. With respect to the matters discussed in paragraph 11, the staff note that the questions are not new. In paragraphs BC138–BC140 of the Basis for Conclusions on IFRS 16 the IASB explained that it considered these questions and decided not to provide requirements in IFRS 16 to distinguish a lease from a sale or purchase of an asset because there was little support from stakeholders for including such requirements. The IASB observed that:

    (a) the accounting for leases that are similar to the sale or purchase of the underlying asset would be similar to that for sales and purchases applying the respective requirements of IFRS 15 *Revenue from Contracts with Customers* and IAS 16.

    (b) accounting for a transaction depends on the substance of that transaction and not its legal form. Consequently, if a contract grants rights that represent the in-substance purchase of an item of property, plant and equipment, those rights meet the definition of property, plant and equipment in IAS 16 and would be accounted for applying that Standard, regardless of whether legal title transfers. If the contract grants rights that do not represent the in-substance purchase of an item of property, plant and equipment but that meets the definition of a lease, the contract would be accounted for applying IFRS 16.

16. For the reasons discussed in paragraphs 12–15, the staff recommend not including in the RFI a specific question about the requirements for identifying a lease. However, if respondents would like to provide feedback on these requirements, they would be able to do so in response to a catch-all question. When drafting the RFI, we will consider whether to include some limited information about what we heard on this matter.

Lease term

Background

17. Lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

    (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

    (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.[7]

18. In determining the lease term and assessing the length of the non-cancellable period of a lease, an entity applies the definition of a contract and determines the period for which the contract is enforceable.[8]

19. In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.[9]

20. An entity revises the lease term if there is a change in the non-cancellable period of a lease.[10]

Feedback summary

21. Some users said IFRS 16 requires judgement to determine lease term, which might hinder comparability of reported financial information. Some users said in some cases

[7] Paragraph 18 of IFRS 16.

[8] Paragraph B34 of IFRS 16.

[9] Paragraph 19 of IFRS 16.

[10] Paragraph 21 of IFRS 16.

lease terms that entities determine were inconsistent with their expectations (which might be based on past practice, the entities' business models, lease terms determined by peer entities or assumptions the entity makes when testing assets for impairment). However, some users said IFRS 16 provides more accurate information than the previous methodology they used to estimate lease liabilities based on operating lease expense multiples or present value of future minimum lease payments that lessees disclosed under IAS 17 (see also paragraphs 6–7 of Agenda Paper 7F for the summary of academic research findings).

22. Some users said in some industries shorter-term leases have become more prevalent than before IFRS 16. In some users' view, entities might enter into short-term lease contracts in order to apply the short-term contract recognition exemption in IFRS 16 or enter into shorter-term contracts to achieve a preferable accounting outcome by, for example, reporting lower amounts of lease liabilities than its competitors. However, one user organisation said that, in their view, concerns about structuring lease contracts to reduce lease terms did not come to pass.

23. A few users said significant judgments that entities make to determine the lease term do not influence users' investment decisions or recommendations as to whether to buy or sell an investment because analysts focus on the income statement and cash flow statement rather than on the balance sheet. Some users said that they recalculate lease liabilities based on the lease payments over the life of the underlying asset rather than the lease term estimated by the entities because they want to have a consistent basis to compare entities that lease assets with those that borrow funds and buy assets.

24. Many stakeholders (mostly standard-setters and preparers) said that determining the lease term involves complex judgements which might lead to diversity in practice. Determining what constitutes a 'reasonably certain' threshold, whether the contract is enforceable and what constitutes a penalty are among the most challenging judgements that entities need to make.

Staff analysis and recommendations

25. We note that:

    (a) in November 2019 the Interpretations Committee published Agenda Decision Lease Term and Useful Life of Leasehold Improvements (IFRS 16 and IAS 16) which illustrates how an entity applies the requirements in IFRS 16 to determine the lease term, including the notions of reasonable certainty, contract enforceability and penalty.

    (b) in October 2017 the IFRS Foundation published a webcast Lease term Q&A to address some of the implementation questions received during the implementation of IFRS 16 (see paragraph 29(a) of Agenda Paper 7A).

26. Feedback indicates that some of the stakeholders' concerns relate to the use of judgement in determining lease term. We acknowledge that this determination might be complex for some contracts. We also acknowledge that differences in lease terms might simply reflect different facts and circumstances. However, in our view, the feedback could also suggest that some of the requirements might not be well understood, for example, those that relate to the notions of reasonable certainty, contract enforceability and penalty.

27. In our view, gathering further information about lease term in a public consultation would help the IASB determine whether the requirements in IFRS 16 provide a clear and sufficient basis for entities to determine lease term.

28. In addition, feedback from users indicates that judgements and assumptions that lessees make about lease term negatively affect comparability. Therefore, we recommend that the IASB seek further evidence in public consultation to determine whether the benefits for users of information resulting from the application of lease term requirements are *not* significantly lower than expected.

29. Feedback from public consultation might provide evidence for whether the requirements are capable of being applied consistently. If there is inconsistency in

application, responses to the RFI might provide useful information about the root cause for inconsistency and whether it has widespread effects.

Lessee accounting—Recognition

Background

30. At the commencement date of the lease, a lessee recognises a right-of-use asset and a lease liability[11]. A lessee is permitted to elect not to recognise right-of-use assets and lease liabilities for short-term leases (leases of 12 months or less) and leases of low-value assets (for example, personal computers).

31. If a lessee elects not to apply the recognition requirements to leases of low-value assets, the lessee recognises the lease payments associated with leases of low-value assets as an expense over the lease term.[12]

32. Paragraphs B3–B8 of IFRS 16 provide guidance to assess whether an underlying asset is of low value. In addition, paragraph BC100 of the Basis for Conclusions on IFRS 16 states that 'at the time of reaching decisions about the exemption in 2015, the IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of US$5,000 or less'.

Feedback summary

33. Most users agreed (or did not disagree) with recognition of leases on balance sheet because in these users' view leases are debt-like transactions. However, a few other users expressed a different view and said:

    (a) the operating lease commitment note under IAS 17 provided users with sufficient information to analyse and compare lessees;

[11] Paragraph 22 of IFRS 16.

[12] Paragraphs 5–8 of IFRS 16.

(b) recognition in balance sheet is not useful, because the lease liability does not include all the contractual obligations of a lessee (that is, it excludes variable lease payments that in some industry sectors are significant); and

(c) users (other than analysts of entities in the financial services sector) do not usually use information presented in the balance sheet, because in their analyses they primarily focus on the information presented in the cash flow statement or income statement.

34. Overall feedback from other stakeholders on the recognition of lease liabilities by lessees is included in Agenda Paper 7B to this meeting.

35. Some stakeholders, mainly preparers, commented on the recognition exemption for leases of low-value assets. Their comments included:

(a) the threshold of $5,000 is not helpful. In their view, it leads to diversity in practice and, in some cases, complicates discussions about materiality.

(b) the threshold of $5,000 is outdated; it has not been updated for inflation since the Standard was issued almost 10 years ago.

(c) the reference to cars in paragraph B6 of IFRS 16[13] has led to significant additional implementation and ongoing costs without any associated benefits, and diversity in practice, in their view. There is, moreover, a lack of clarity about how to treat other motor vehicles.

36. Some preparers suggested the IASB remove:

(a) the $5,000 threshold from the Basis for Conclusions on IFRS 16. They cautioned against including any specific amounts in future IFRS Accounting Standards.

(b) the example of a car lease from paragraph B6 of IFRS 16.

[13] 'For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.'

37. Conversely, joint research by the Australian Accounting Standards Board and the Malaysian Accounting Standards Board on Transition Relief and Ongoing Practical Expedients in IFRS 16 *Leases* states:

> Providing transition relief and/or ongoing practical expedients based on 'bright lines' [such as the 12-month lease term benchmark and the USD5,000 low-value lease asset benchmark in the BC], while not principle-based, can provide much needed clarity for all stakeholders. Provided those benchmarks are reasonable, and there is suitable disclosure, users are not generally adversely affected.

Staff analysis and recommendations

38. In our view, feedback summarised in paragraphs 33–34 (together with stakeholders' overall assessment of IFRS 16 summarised in Agenda Paper 7B) indicates that the recognition requirements for lessees work as the IASB intended and so we think there is no need to ask a specific question about the clarity or suitability of recognition requirements. However, because recognition of almost all leases on the balance sheet underpins the lessee accounting model, we recommend that the RFI ask an overarching question to help the IASB determine whether the objective of IFRS 16 is being met and whether the core principles of the Standard are clear (see summary of staff recommendations in Agenda Paper 7B).

39. In relation to the low-value asset recognition exemption, we do not recommend seeking further feedback because:

    (a) the feedback relates mainly to the Basis for Conclusions;

    (b) the Basis for Conclusions, in our view, provides explanations in relation to the concerns raised by the stakeholders:

        (i) paragraphs BC100–BC101 of the Basis for Conclusions on IFRS 16 explain the relationship between the concept of materiality and the exemption. The IASB decided that the exemption is not based on the size or nature of the lessee. The IASB considered whether the exemption would provide cost relief to lessees because most leases that would be within its scope might instead be excluded from the recognition requirements of IFRS 16 by applying the concept of materiality. However, preparers said the exemptions would provide substantial cost relief to many lessees (in particular, smaller entities) by removing the burden of justifying that such leases would not be material in the aggregate.

(ii) paragraph BC100 of the Basis for Conclusions on IFRS 16 explains that the magnitude of $5,000 was in the IASB's mind at the time of reaching decisions in 2015.

40. If respondents would like to provide feedback on these matters, they would be able to do so in response to a catch-all question. When drafting the RFI, we will consider whether to include some limited information about what we heard on this matter.

41. We think stakeholders' feedback about how and what to include in bases for conclusions provides valuable information for the IASB to consider in its future standard-setting.

Lessee accounting—Measurement

42. This section summarises the principles and requirements in IFRS 16 (paragraphs 43–50) and analyses feedback on the most common measurement-related matters that stakeholders commented on:

(a) variable lease payments (paragraphs 51–62);

(b) discount rates (paragraphs 63–72);

(c) non-cash consideration (paragraphs 73–75); and

(d) reassessment of the lease liability and lease modifications (paragraphs 76–81).

Background

43. At the commencement date, a lessee measures:

    (a) the right-of-use asset at cost.[14]

    (b) the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If not, the lessee uses the lessee's incremental borrowing rate.[15]

44. The lease payments included in the measurement of the lease liability comprise:

    (a) fixed payments, less any lease incentives receivable;

    (b) variable lease payments that depend on an index or a rate;

    (c) amounts expected to be payable by the lessee under residual value guarantees;

    (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

    (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.[16]

45. A lessee's incremental borrowing rate is defined as 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.[17]

46. After the commencement date, a lessee measures:

[14] Paragraph 23 of IFRS 16.

[15] Paragraph 26 of IFRS 16.

[16] Paragraphs 26–28 of IFRS 16.

[17] See Appendix A to IFRS 16.

(a) the right-of-use asset applying a cost model (unless it applies the fair value model to right-of-use assets that meet the definition of investment property in IAS 40 *Investment Property* or the revaluation model in IAS 16);[18] and

(b) the lease liability by:

(i) increasing the carrying amount to reflect interest on the lease liability;

(ii) reducing the carrying amount to reflect the lease payments made; and

(iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.[19]

47. A lessee recognises variable lease payments not included in the measurement of the lease liability in profit or loss in the period in which the event or condition that triggers those payments occurs.[20] IFRS 16 requires a lessee to disclose the expenses relating to variable lease payments not included in the measurement of lease liabilities.[21]

48. A lessee remeasures the lease liability to reflect changes to the lease payments by discounting the revised lease payments:

(a) using a revised discount rate if there is a change in:

(i) the lease term; or

(ii) the assessment of an option to purchase the underlying asset;

(b) using an unchanged discount rate if there is a change in:

(i) the amounts expected to be payable under a residual value guarantee; or

(ii) future lease payments resulting from a change in an index or a rate used to determine those payments.[22]

[18] Paragraph 29 of IFRS 16.
[19] Paragraph 36 of IFRS 16.
[20] Paragraph 38 of IFRS 16.
[21] Paragraph 53(e) of IFRS 16.
[22] Paragraphs 39–43 of IFRS 16.

49. A lessee reassesses an option to extend or terminate a lease upon the occurrence of a significant event or significant change in circumstances that:

    (a) is within the control of the lessee; and

    (b) affects the lessee's judgement of the exercise of an option.[23]

50. IFRS 16 defines a lease modification as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease.[24] A lease modification is accounted for as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets, and the consideration increases by an amount commensurate with the stand-alone price for the increase in scope. In other cases, the lessee accounts for the remeasurement of the lease liability by:

    (a) decreasing the carrying amount of the right-of-use asset for lease modifications that decrease the scope of the lease. The lessee recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.

    (b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.[25]

Variable lease payments

Feedback summary

51. Many stakeholders commented on the requirements for variable lease payments. Some of them, including users, expressed concerns about different accounting requirements for fixed lease payments (included in the measurement of lease liability)

[23] Paragraph 20 of IFRS 16.

[24] See Appendix A to IFRS 16.

[25] Paragraphs 44–46 of IFRS 16.

and variable lease payments that are not included in the measurement of lease liabilities. Their comments related to:

(a) *comparability*—some said it is difficult to analyse and compare (i) information about leases with fixed (or in-substance fixed) payments with (ii) information about leases with variable payments (that are not included in the measurement of lease liability). This difficulty arises in particular when a lease contract includes both types of payments and variable lease payments are significant to entities' business operations (in industry sectors such as retail). Stakeholders' concerns relate to differences in:

   (i) the timing of expense recognition and presentation of lease-related information in the income statement. Lease payments included in the measurement of the lease liability (and reflected in the measurement of the right-of-use asset) are depreciated (typically on a straight-line basis) over the useful life of the right-of-use asset. Variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event (or condition) that triggers those payments occurs. These differences might lead to volatility in operating profit and affect EBITDA. One regulator, although acknowledging this was discussed during the development of IFRS 16, went as far as citing this as a flaw in the Standard (in their view).

   (ii) the presentation of lease-related information in the cash flow statement. Repayments of the lease liability are presented in financing activities, and variable lease payments (that are not included in the measurement of lease liability) are presented in operating activities.

(b) *faithful representation*—a few stakeholders said different requirements for fixed lease payments and variable lease payments (that are not included in the measurement of lease liability) result in different accounting for economically similar contracts, which does not reflect the entity's performance.

(c) *structuring opportunities*—a few stakeholders said the accounting for variable lease payments (that are not included in the measurement of lease liability) might incentivise entities to structure lease contracts to avoid recognition of (or recognise a lower amount of) lease liability. These stakeholders said they observe more contracts with variable lease payments than before, even though such contracts are generally more costly for lessees (this feedback is consistent with the findings from academic research of the effects of FASB ASC Topic 842, Leases that show that entities increased the use of variable lease payments—see paragraph 9(c) of Agenda Paper 7F).

(d) *quality of information disclosed*—a few users said some entities do not provide information about variable lease payments, even though IFRS 16 requires them to disclose such information.[26]

52. Other stakeholders agreed with the requirements. Their comments included:

(a) the nature of variable lease payments (profit sharing, which provides flexibility and can help entities survive hardships such as the covid-19 pandemic) differs from that of fixed or in-substance fixed payments (debt-like obligation);

(b) in some jurisdictions variable lease payments seem to be less prevalent than they expected and their concerns about potential structuring opportunities did not materialise; and

(c) disclosures provide sufficient information about variable lease payments.

53. Some stakeholders (a regulator, a large accounting firm and a few standard-setters) from various regions said sometimes it is difficult to determine whether variable lease payments that do not depend on the future activity of the lessee are:

(a) variable lease payments that depend on an index or a rate. For example, it is unclear whether variable lease payments (for a retail unit at the airport) linked

[26] Paragraphs 53(e) and 59 of IFRS 16.

to the passenger index (number of passengers) announced by the airport depend on an index or a rate.

(b) in-substance fixed lease payments (which are payments that may, in form, contain variability but that, in substance, are unavoidable). For example, in renewable electricity contracts it is unclear whether variable lease payments linked to a nature-dependent source of electricity (such as sun and wind) are (or are not) in substance-fixed lease payments.

Staff analysis and recommendations

54. We note that stakeholders raised matters similar to those summarised in paragraphs 51–52 when the IASB developed IFRS 16. The *Effects Analysis* accompanying the Standard describes the likely costs and benefits of IFRS 16. Simplified measurement requirements for variable lease payments were expected to be one of the key cost reliefs of IFRS 16.[27] In developing IFRS 16, the IASB considered the feedback from stakeholders that the costs of including variable lease payments linked to future performance or use would outweigh the benefits, particularly because of the concerns expressed about the high level of measurement uncertainty and high volume of leases held by some lessees.[28] However, in our review of academic literature we identified evidence from an academic study on Topic 842 that variable lease payments have similar predictability to operating and finance lease expenses arising from recognised lease assets and liabilities (see paragraph 5(c) of Agenda Paper 7F).

55. The IASB also considered whether the information provided about leases applying IFRS 16 would be incomplete because of these simplifications. The requirements of IFRS 16 for variable lease payments could be viewed as causing the accounting for some economically similar contracts to be less comparable, for example, two leases of a similar retail outlet for the same lease term, with lease payments being fixed for one lease and linked to sales for the other.

[27] Page 40 of the *Effects Analysis* accompanying IFRS 16.
[28] Paragraphs BC168–BC169 of the Basis for Conclusions on IFRS 16.

56. Those two contracts could be viewed as economically similar transactions that should be reported in the same way. However, even though both leases may result in the same cash outflows, the entities are in different economic positions and so would report different outcomes. For example, if there is an economic downturn resulting in lower-than-expected sales, the entity committed to making variable lease payments would make correspondingly smaller lease payments than the entity committed to making fixed lease payments. The IASB concluded that this difference in the contractual commitments of an entity is best reflected by reporting different assets and liabilities for those two contracts.[29] Feedback in paragraph 52(a) supports this view. However, the academic study in paragraph 54 of US entities applying Topic 842 shows that despite being designed to respond to changes in economic conditions, the variable lease payments reported by entities have similar properties to those of operating and finance lease expenses arising from recognised lease assets and liabilities, challenging the rationale to keep variable lease payments off balance sheet (see paragraph 21(c) of Agenda Paper 7F).

57. We note that when the IASB was developing IFRS 16, stakeholders had different views about whether variable payments linked to future performance or use of an underlying asset meet the definition of a liability. Some thought that a lessee's obligation to make variable lease payments does not exist until the future event requiring the payment occurs (for example, when the underlying asset is used, or a sale is made). Others thought that a lessee's obligation to make variable lease payments exists at the commencement date by virtue of the lease contract and receipt of the right-of-use asset. Consequently, they thought that all variable lease payments meet the definition of a liability for the lessee because it is the amount of the liability that is uncertain, rather than the existence of that liability.[30]

58. Similarly, some IASB members were of the view that all variable lease payments meet the definition of a liability for the lessee. Some other IASB members did not

[29] Page 30 of the *Effects Analysis* accompanying IFRS 16.
[30] Paragraph BC168 of the Basis for Conclusions on IFRS 16.

think that variable lease payments linked to future performance or use meet the definition of a liability for the lessee until the performance or use occurs. They regarded those payments to be avoidable by the lessee and, accordingly, concluded that the lessee does not have a present obligation to make those payments at the commencement date. In addition, variable lease payments linked to future performance or use could be viewed as a means by which the lessee and lessor can share future economic benefits to be derived from use of the asset. We note that the IASB did not conclude whether variable payments linked to future performance or use of an underlying asset meet the definition of a liability. The IASB decided to exclude variable lease payments linked to future performance or use of an underlying asset from the measurement of lease liabilities. For IASB members who were of the view that all variable lease payments meet the definition of a liability, this decision was made solely for cost-benefit reasons.[31]

59. We note that in the past the Interpretations Committee discussed several issues relating to variable or contingent consideration.[32] The Interpretations Committee debated:

(a) the initial accounting—when should a liability be recognised for a payment of variable or contingent consideration, at what amount, and should part or all that amount be reflected in the measurement of the asset acquired?

(b) the subsequent accounting—after the liability is recognised, do remeasurements of the liability result in revisions to the measurement of the asset acquired or should those remeasurements be reported as income or an expense in the income statement?

60. In our view, to change the requirements in IFRS 16 for variable lease payments linked to future performance or use would require a broader and holistic consideration of reporting requirements for variable and contingent consideration in IFRS Accounting

[31] Paragraph BC169 of the Basis for Conclusions on IFRS 16.

[32] For example, in July 2016, the Interpretations Committee concluded that addressing how an operator accounts for variable payments that it makes to a grantor when the intangible asset model in IFRIC 12 *Service Concession Arrangements* applies is too broad for the Interpretations Committee to address within the confines of Accounting Standards.

Standards. In its Third Agenda Consultation, the IASB sought feedback on a potential project on variable and contingent consideration, but feedback about the priority of this project was mixed.[33] We also note that, despite some limited academic evidence that might challenge the rationale for keeping variable lease payments in Topic 842 off balance sheet (paragraphs 54 and 56), feedback from stakeholders has not provided any new information compared to that discussed by the IASB when it developed the requirements in IFRS 16. Therefore, we do not recommend seeking further feedback on this topic.

61. In response to the feedback summarised in paragraph 53 we note that IFRS 16 does not provide a definition of variable lease payments depending on an index or a rate but instead provides examples of variable payments in paragraph 28 of IFRS 16 and guidance on in-substance fixed lease payments in paragraph B42 of IFRS 16. Paragraphs BC164–BC165 of the Basis for Conclusions on IFRS 16 state that the IASB decided to include these variable lease payments in the measurement of lease liability because they are unavoidable, and do not depend on any future activity of the lessee. In our view, the determination of what constitutes variable lease payments that depend on an index or a rate or whether variable lease payments are in-substance fixed lease payments is a matter of fact but sometimes might require the application of judgement. However, the feedback from some stakeholders might indicate that the application of judgement is difficult because the requirements are not sufficiently clear.

62. For the reasons discussed in paragraphs 54–61, the staff recommend including a question in the RFI to assess whether the requirements for variable lease payments provide a clear and sufficient basis for lessees to determine which variable lease payments are (or are not) included in the measurement of the lease liability.

[33] See Third Agenda Consultation Feedback Statement.

Discount rates

Feedback summary

63. Many stakeholders, including users, commented on the requirements for discount rates and information provided by applying these requirements.

64. Some preparers and standard-setters said determination of discount rates (lessee's incremental borrowing rate) remains costly and challenging due to its complexity. Stakeholders also said the requirement for lessees to determine revised discount rates when remeasuring lease liabilities to reflect reassessments or lease modifications contributes to the high ongoing costs of applying IFRS 16.

65. Some stakeholders said determination of discount rates involves significant judgement, which, if applied inappropriately, might lead to differences in discount rates determined for similar contracts or result in rates that do not reflect entities' borrowing rates. Some users said the level of judgement required to determine discount rates might hinder comparability between entities, which is consistent with some analysts' conclusions (see paragraph 21 of Agenda Paper 7A). Conversely, some other users said that despite this measurement uncertainty, a lessee's determination of lease liability is more accurate than the users' estimates of the present value of future lease payments under IAS 17.

66. Some stakeholders said the IASB should provide additional guidance on determining incremental borrowing rates. Other stakeholders said the IASB should simplify the requirements to improve the cost-benefit balance of the requirements. For example, a standard-setter said in its jurisdiction entities applying IFRS 16 are permitted to use risk-free rates to discount future lease payments.

67. A few stakeholders commented specifically on interest rates implicit in the lease and said that these interest rates are not directly observable or cannot be readily determined.

Staff analysis and recommendations

68. IFRS 16 requires lessees to determine discount rates for the initial measurement of the lease liability and to use revised discount rates when remeasuring the lease liability to reflect lease modifications and some reassessments of the lease liability (for example, on revising the lease term when an option not included in the lease term is exercised).

69. When the IASB issued IFRS 16, it expected entities with material off balance sheet leases to incur costs to determine the discount rates used to measure lease assets and lease liabilities on a present value basis. Once an entity has updated its systems and processes to provide the information required by IFRS 16, the IASB expected ongoing costs to be only marginally higher compared to those incurred when applying IAS 17. The data required to apply IFRS 16 is similar to that needed to apply IAS 17, with the exception of discount rates that are required for all leases when applying IFRS 16, (unless an entity applies recognition exemptions).

70. The IASB expected that lessees would not need to reassess many lease liabilities (and thereby not need to determine revised discount rates) because the IASB decided to require—in considering the costs for entities with many leases that include options—reassessment of options only upon the occurrence of a significant event or a significant change in circumstances that are within the control of the lessee.[34] Nonetheless, because some leases are required to be reassessed, the IASB expected some entities to incur costs to remeasure lease liabilities over the term of the lease.[35]

71. Feedback summarised in paragraph 64 indicates that some entities continue to incur high ongoing costs of applying the requirements for discount rates. We think that gathering further information to determine whether the costs of applying the requirements for discount rates are *significantly* greater than expected (and, if so, why) would help the IASB determine whether to take any action (see Agenda Paper 7B for a broader discussion supporting the recommendation to collect information

[34] Paragraph 20 of IFRS 16.

[35] Paragraphs BC184–185 of the Basis for Conclusions on IFRS 16 and page 36 of the *Effects Analysis* accompanying IFRS 16.

about whether the actual ongoing costs of applying the requirements of IFRS 16 are higher than expected). We also note that respondents to the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* suggested that the IASB should consider permitting SMEs to use a risk-free rate as a potential simplification (see paragraph 18 of Agenda Paper 7A).

72. The feedback summarised in paragraph 65 indicates that there might be inappropriate differences in applying the requirements for determining discount rates.[36] However, it is unclear whether the differences arise due to: (a) the specific facts and circumstances surrounding each contract; (b) unclear requirements (or insufficient application guidance); or (c) inappropriate application of the requirements. To determine the root cause for inconsistency, we suggest the IASB gather further evidence and information about fact patterns in which the requirements are unclear or applied inconsistently and how pervasive the matter is. This will help the IASB assess whether there are *fundamental* questions about the clarity and suitability of the requirements for discount rates and whether the benefits of the requirements to users are *significantly* lower than expected.

Non-cash consideration

Feedback summary

73. A few stakeholders, mainly standard-setters, said IFRS 16 does not specify how a lessee accounts for non-cash consideration, including barter transactions—whether non-cash consideration is included in the lease liability and, if so, how non-cash consideration is measured. They said the lack of specific requirements or guidance might lead to diversity.

[36] In September 2019 the IFRS Interpretations Committee published Agenda Decision Lessee's Incremental Borrowing Rates (IFRS 16), which explains whether a lessee's incremental borrowing rate is required to reflect both a similar maturity and similar payment profile. This could be an example of a requirement that could be applied differently because the Standard does not, in this example, explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments.

Staff analysis and recommendations

74. The matter was raised by only a few stakeholders, and therefore, it does not indicate that the matter is prevalent enough to warrant the inclusion of a specific question in the RFI.[37] Also, some of the feedback referred to specific fact patterns. We note that Appendix A to IFRS 16 defines a lease as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration and defines lease payments. However, the terms consideration and payments are not specifically defined. In our view, depending on facts and circumstances surrounding a lease contract, an entity might need to apply judgement to determine whether a specific payment in a non-cash form is consideration to obtain the right to use an underlying asset, and meets the definition of lease payment.

75. We recommend not including in the RFI a specific question about non-cash consideration. However, if respondents would like to provide feedback on this matter, they would be able to do so in response to a catch-all question. When drafting the RFI, we will consider whether to include some limited information about what we heard on this matter.

Reassessment of the lease liability and lease modifications

Feedback summary

76. Some stakeholders raised concerns about the clarity of the interaction of the requirements for lease modifications with the requirements for extinguishment (or partial extinguishment) of a financial liability in IFRS 9 *Financial Instruments*. See paragraphs 10–26 in Agenda Paper 7E for more details on this matter.

[37] We note that in its Invitation to Comment *Agenda Consultation* published in January 2025, the FASB is seeking feedback on the prevalence of lease agreements in which the lessee pays the lessor by transferring non-cash consideration in the form of a share-based payment and whether there is a need for additional guidance for recognition and measurement of share-based lease payments.

77. Some stakeholders, mainly preparers (from the telecommunications industry) and standard-setters, expressed concerns about the cost-benefit balance of the requirements for the subsequent measurement of the lease liability (to reflect reassessments and lease modifications). Their comments included:

(a) in some industry sectors, events that trigger reassessments of the lease liability (or lease modifications) occur frequently and affect large portfolios of contracts that might have complex terms and conditions. In some circumstances, accounting for the remeasurements requires a lot of time and resources and often involves manual work (such as analysis of changes to contracts) that cannot be automated easily.

(b) the requirements are generally complex to apply, and in some circumstances it might be difficult to distinguish between a reassessment of the lease liability and a lease modification. For example, it might be difficult to determine the amount to recognise as an adjustment to the right-of-use asset and in profit or loss when a change in the lease term and a lease modification (that decreases the scope of the lease) happen at the same time. A regulator said that, despite the complexity, the practice seems to have developed, and in this regulator's view, the IASB should focus on higher priority projects, such as Statement of Cash Flows and Related Matters rather than spend a lot of effort on IFRS 16.

(c) determining revised discount rates is costly.

(d) frequent remeasurements of the lease liability do not improve the transparency of financial information and the resulting information might be immaterial.

(e) accounting for the change in future lease payments resulting from a change in an index or a rate used to determine those payments contributes to high ongoing costs. It requires determining the amount of the remeasurement of the lease liability and adjusting the carrying amount of the right-of-use asset, which in turn affects the depreciation charge in future periods.

78. Stakeholders' suggestions for reducing the costs of applying the requirements included simplifying the requirements or providing practical expedients, for example:

(a) reducing the frequency of when the lease liability is remeasured and permitting an entity to use the originally determined discount rate if the entity is unable to determine a revised discount rate (see suggestions from respondents to the Exposure Draft *Third edition of the* IFRS for SME's *Accounting Standard* in paragraph 18 of Agenda Paper 7A);

(b) permitting entities to account for multiple types of modifications (for example, when they increase the scope of the lease and reduce the lease term) as one modification rather than requiring them to account for each type of modification separately;[38] and

(c) permitting lease modifications of an aircraft to be accounted for as a separate lease, regardless of whether the criteria in paragraph 44 of IFRS 16 are met.[39]

Staff analysis and recommendations

79. Staff analysis and our recommendations for the interaction between the lease modification requirements in IFRS 16 and the requirements in IFRS 9 for extinguishment (or partial extinguishment) of a financial liability are discussed in paragraphs 10–26 of Agenda Paper 7E.

80. We note that, because of the simplifications the IASB made to the reassessment requirements (see paragraph 70), the IASB expected that entities would not need to reassess many lease liabilities. However, because some leases are required to be reassessed, the IASB expected some entities to incur costs to remeasure lease liabilities over the term of the lease. Feedback summarised in paragraphs 77–78 indicates that there might be high ongoing costs to remeasure lease liabilities and these high costs arise not because of a lack of clarity of the requirements for reassessment of the lease liability or lease modifications (or determining the revised discount rates).

[38] These stakeholders referred to the Illustrative Example 18 accompanying IFRS 16.
[39] Suggested by an airline.

81. Consequently, we think that gathering further information to determine whether the costs of applying the requirements for remeasurement of the lease liability (to reflect reassessments or lease modifications) are *significantly* greater than was expected would help the IASB to determine whether to take any action in relation to this matter (see Agenda Paper 7B for a broader discussion supporting the recommendation to collect information about whether the actual ongoing costs of applying the requirements of IFRS 16 are higher than expected). This is also consistent with our recommendation in paragraph 71, because in some circumstances a lessee must determine a revised discount rate when remeasuring the lease liability.

Lessee accounting—Presentation and disclosure

Background

82. In the balance sheet, a lessee presents right-of-use assets (lease liabilities) separately from other assets (other liabilities). If a lessee does not present right-of-use assets (lease liabilities) separately in the balance sheet, it discloses which line items in the balance sheet include those right-of-use assets (lease liabilities).[40]

83. In the income statement, a lessee presents interest expense on the lease liability separately from the depreciation charge for the right-of-use asset.[41]

84. In the cash flow statement, a lessee classifies:

    (a) cash payments for the principal portion of the lease liability within financing activities;

    (b) cash payments for the interest portion of the lease liability in accordance with IAS 7 *Statement of Cash Flows*; and

[40] Paragraphs 47–48 of IFRS 16.

[41] Paragraphs 49 of IFRS 16.

(c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of lease liabilities within operating activities.[42]

85. To give a basis for users to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee, IFRS 16 requires a lessee to disclose:

(a) a breakdown of lease-related expenses (depreciation charge for right-of-use assets, interest expense on lease liabilities, the expense relating to variable lease payments not included in the measurement of lease liabilities and the expense relating to leases for which the lessee applied recognition exemptions);

(b) income from subleasing;

(c) total cash outflow for leases;

(d) additions to right-of-use assets;

(e) gains or losses from sale and leaseback transactions;

(f) a maturity analysis of lease liabilities; and

(g) the carrying amount of right-of-use assets by class of underlying asset.[43]

86. For leases that contain complex features, IFRS 16 requires a lessee to disclose additional qualitative and quantitative entity-specific information that is not covered elsewhere in the financial statements. This additional information helps users to assess, for example:

(a) the nature of the lessee's leasing activities; and

(b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities.[44]

[42] Paragraph 50 of IFRS 16.
[43] Paragraphs 51–58 of IFRS 16.
[44] Paragraphs 59–60A and B48–B52 of IFRS 16.

87. IAS 7 requires entities:

(a) to exclude from a cash flow statement investing and financing transactions that do not require the use of cash or cash equivalents (such as the acquisition of assets by means of a lease) and to disclose such transactions elsewhere in the financial statements; and

(b) to disclose information that enables users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.[45]

Feedback summary

Presentation requirements

88. As we summarised in Agenda Paper 7B, most stakeholders (except for preparers) said IFRS 16 has improved transparency and the quality of financial information. This is consistent with some academic studies (see the summary of key messages in paragraphs 6–7 of Agenda Paper 7F). However, many preparers questioned whether IFRS 16 has improved the quality of financial information, because they reverse the effects of IFRS 16 for their management purposes and they observe some users do the same in their models.

89. In contrast to the overall support for the lessee model in IFRS 16, some stakeholders raised concerns about the presentation of leases in the income statement or cash flow statement (or both). Their comments included:

(a) some users said they would prefer it if leases were fully presented in the operating category in the income statement and in operating activities in the statement of cash flows (consistent with the results of academic research summarised in paragraph 10 of Agenda Paper 7F). We note that users' views on the presentation of leases differed depending on the class of underlying

[45] Paragraphs 43–44E of IAS 7.

assets, types of users, or industries they follow. For example, retail space lease expenses are typically considered operating expenses and users include them in EBITDA calculations used to value entities. We also note that our review of alternative performance measures (APMs) used by FTSE 100 entities indicates that the second most commonly used lease-related APM were adjusted measures of cash flows (see paragraph 34 of Agenda Paper 7A). Some users said it is relatively easy to make adjustments because the enhanced disclosure requirements provide detailed information about depreciation charge and interest expense. Others asked for additional disclosures.

(b) some preparers (in retail and telecommunications industry sectors) said some leases should be presented in the operating category in the income statement and in operating cash flows to faithfully represent the substance of these leases. In these stakeholders' view, the decision to lease is not a financing decision (or a decision between buying or leasing an asset) but a necessity because certain assets (for example, retail space in a shopping mall or part of a roof leased to install telecommunications equipment) cannot be purchased.

(c) some users said the IASB should consider requiring additional information in the cash flow statement about non-cash transactions related to the initial recognition of leases (that is, presentation of financing inflows and investing outflows) to improve comparability between entities that lease assets and entities that borrow funds to buy assets.[46] Some users acknowledged that the information about additions to right-of-use assets might serve as a proxy for a lessee's capital expenditure.

(d) some users raised concerns about complexity in the cash flows statement because cash payments for the principal portion of the lease liability are presented in financing cash flows, interest paid might be presented (together

[46] When an entity borrows to purchase assets, it presents cash proceeds from borrowings in financing activities and cash payments to acquire an asset in investing activities. Conversely, the acquisition of assets either by assuming directly related liabilities or by means of a lease are examples of non-cash transactions in paragraph 44 of IAS 7 *Statement of Cash Flows* that do not have an initial direct effect on cash flows. We also note that, although these transactions are economically similar, they have different contractual cash flows resulting in different entries in the cash flow statement. Also, if the purchaser of an asset negotiates deferred payment terms with the supplier, the cash flow entries would be similar to those of a lessee.

with any other interest paid) in operating or financing activities,[47] and variable lease payments (not included in the measurement of lease liability) are presented in operating activities.

(e) a few users raised concerns about insufficient disaggregation of information presented in the cash flow statement. They also said some entities do not disclose the total cash outflow for leases (consistent with what we have found reviewing a sample of financial statements—see paragraph 28 of Agenda Paper 7A),[48] in which case some users use depreciation charge and interest expense as a proxy for lease cash outflows. Users acknowledge that there are differences between the two amounts because interest expense is 'front-loaded'.

Disclosure requirements

90. Most users and a regulator said the usefulness of disclosed information has improved. Some users said that the quality and granularity of provided information varies depending on the industry sector (or jurisdiction) in which an entity operates. For example, they said some lessees provide boilerplate information to explain material entity-specific information. Academic research findings showed that entities' compliance with IFRS 16 disclosure requirements varied but improved over time (see paragraph 4(c) of Agenda Paper 7F).

91. Some users said IFRS 16 provides them with information they need and some users suggested requiring presentation (or disclosure) of additional information (some of which is similar to that required by US GAAP), including:

[47] IFRS 18 *Presentation and Disclosure in Financial Statements* has removed the presentation alternatives for interest cash flows for most companies. Interest paid is generally classified in cash flows from financing activities. The Standard is effective for annual reporting periods beginning on or after 1 January 2027.

[48] The findings from our research indicate that there might be some differences in the types of cash flows that lessees include in the total cash outflow for leases.

(a) disaggregation of total cash outflow for leases into principal and interest portions.[49]

(b) information about discount rates and lease terms and how they were determined, including better disclosure of lease termination and extension options.[50]

(c) information about either the useful life of the underlying asset or the nature of the underlying asset that would enable users to estimate the relevant useful lives. This information would help these users to measure a real economic return on invested capital regardless of whether an entity chooses to lease or purchase an asset ('whole-asset model'). We note that some users recalculate lease liabilities based on the lease payments over the life of the asset (instead of the lease term estimated by the entity).

(d) more information in interim financial statements—for timely analysis and better-informed investment decisions.

92. We received little feedback on the disclosure requirements from preparers. A few preparers referred to costs to comply with disclosure requirements.

Staff analysis and recommendations

93. In our view, feedback on the presentation and disclosure requirements can be classified into one of three categories:

(a) classification of lease-related items in the cash flow statement and income statement;

[49] Paragraph ASC 842-20-50-4 requires a lessee to disclose cash paid for amounts included in the measurement of lease liabilities, segregated between finance and operating leases and segregated between operating and financing cash flows. Under Topic 842 Leases, for financing leases, the principal portion is presented in financing activities and the interest portion is presented in operating activities in the cash flow statement. Cash payments arising from operating leases are presented in operating activities.

[50] Paragraph 59(b)(ii) of IFRS 16 describes extension and termination options as examples of additional information to be disclosed. Paragraph ASC 842-20-50-4 requires a lessee to disclose the weighted-average remaining lease term and the weighted-average discount rate.

(b) presentation and disclosure of information about non-cash movements in the cash flow statement; and

(c) suggestions for potential improvements to presentation and disclosure requirements (for example, disaggregation of information about lease-related cash flows).

94. In response to suggestions that some leases should be presented in the operating category in the income statement, we note that the IASB considered this when developing IFRS 16:

(a) the first Exposure Draft *Leases* published in 2010 proposed a single lessee expense model based on the premise that all leases provide finance to the lessee, and received a significant amount of feedback with stakeholders expressing differing views.

(b) in the light of the feedback, the second Exposure Draft *Leases* published in 2013 proposed a dual lessee expense model. Based on the proposed model, lessees would have recognised a single straight-line lease expense in the income statement for most property leases. Although some stakeholders supported a dual model, the feedback received reiterated the mixed views that had been received throughout the project.

(c) as a result of redeliberation, the IASB concluded that a single model provides information useful to a broader range of users.[51]

95. The staff suggest not including in the RFI a specific question about the presentation requirements in the income statement considering the IASB's previous discussions and the history of the project on leases. In addition, our engagement with a broad range of stakeholders provides no new information on this matter.

96. We note that some of the feedback on the presentation of leases in the cash flow statement also relates to a dual lessee expense model that the IASB proposed in the

[51] Paragraphs BC44–BC53 of the Basis for Conclusions on IFRS 16.

2013 Exposure Draft. However, other feedback, especially from users, relates to their concerns about the comparability of cash flows of entities that lease assets and entities that borrow to buy assets.

97. Improved comparability of financial information between entities that lease assets and entities that borrow to buy assets was one of the expected benefits of IFRS 16 although we acknowledge that despite these transactions being economically similar, the contractual cash flows differ.[52]

98. We note that in September 2024, the IASB started a project on the Statement of Cash Flows and Related Matters and it is now performing research on the nature and extent of perceived deficiencies in the requirements of IAS 7.[53] We think that the feedback the IASB will receive in response to its RFI on the PIR of IFRS 16 might inform the IASB's thinking in the research project on the Statement of Cash Flows and Related Matters. One of the topics the IASB might explore in that project is the presentation and disclosure requirements for additional information about the non-cash effects of some transactions.

99. In response to suggestions for potential improvements to the presentation and disclosure requirements, we note that:

(a) IAS 7 requires disclosure of non-cash transactions and changes in liabilities arising from financing activities (paragraph 87); and

(b) IFRS 16 requires disclosure of any additional information to meet disclosure objectives.

100. Nevertheless, we think it would be useful if the IASB gathered further information to assess whether the benefits to users (of information that lessees present and disclose about lease-related cash flows) are not significantly lower than was expected. We

[52] See also footnote 46.

[53] Paragraph 9 of Agenda Paper 20B for the September 2024 IASB meeting summarises stakeholders' feedback on a potential project on the statement of cash flows and related matters that the IASB received in its Third Agenda Consultation. For example, stakeholders said it is difficult to reconcile the balance sheet to the cash flow statement because of non-cash effects of some transactions such as leases. They said the IASB should require companies to either present these non-cash effects in the cashflow statement or disclose them in the notes.

therefore recommend the IASB include in the RFI a specific question about the presentation and disclosure requirements for lessees about lease-related cash flows.

101. In response to suggestions for additional non-cash-flow-related disclosures (some of them similar to those required by Topic 842), we note that in Agenda Paper 7B we recommend including a question in the RFI to assess whether the IASB could make any improvements to the disclosure requirements in IFRS 16 that would help users of financial statements analyse and compare entities that apply IFRS 16 and entities that apply Topic 842 (see paragraph 46 of Agenda Paper 7B).

Summary of staff recommendations

102. We recommend the IASB include questions in the RFI about:

(a) the lease term requirements to assess whether:

(i) they provide a clear and sufficient basis for entities to determine lease term and are capable of being applied consistently; and

(ii) the benefits to users of the information reported in accordance with these requirements are *not* significantly lower than was expected;

(b) the requirements for variable lease payments to assess whether they provide a clear and sufficient basis for lessees to determine which variable lease payments are (or are not) included in the measurement of the lease liability;

(c) the requirements for discount rates to assess whether:

(i) they provide a clear and sufficient basis for lessees to determine discount rate (incremental borrowing rate) and are capable of being applied consistently; and

(ii) the effects of applying these requirements are *not* significantly different than was expected;

(d) the ongoing costs of remeasuring lease liabilities (to reflect reassessments of the lease liability or lease modifications) to assess whether they are *not* significantly higher than was expected; and

(e) the benefits to users of the information about lease-related cash flows that *lessees* present in the statement of cash flows (or disclose in the notes to financial statements) to assess whether they are *not* significantly lower than was expected.[54]

103. We recommend the IASB include *no* questions in the RFI about: (a) the requirements for identifying a lease; (b) the lessee recognition requirements; and (c) the effects of the lack of specific requirements for lessees to account for non-cash consideration. Instead, these matters, along with other matters not covered by specific questions in the RFI, will be covered by a general catch-all question.

Questions for the IASB

Questions for the IASB
1. Do IASB members agree with the staff recommendations in paragraphs 102–103 of this paper? 2. Are there any additional matters discussed in this paper that the IASB would like to seek feedback on in the RFI?

[54] Feedback that the IASB will receive might also inform the IASB's thinking in its research project on the Statement of Cash Flows and Related Matters.