

Nomos One response to IFRS16 Post Implementation Review

David Hayman, Director of Professional Services

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Question 1 — Overall assessment of IFRS 16

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

Yes, I think IFRS 16 is providing a good framework to provide users with more useful and relevant information about the leasing arrangements that an entity has committed to. I think the core principles are clear, but the real-world application of these principles is not always clear.

(b) In your view, are the overall improvements to the quality and comparability of financial information about leases largely as the IASB expected? If your view is that the overall improvements are significantly lower than expected, please explain why.

Yes, I think the quality of an entity's financial information has improved following the application of IFRS 16. I think the comparability across years, within the same entity is as expected and provides good benefit to users. I do not think the qualitative disclosures are being consistently and sufficiently applied to ensure comparability across entities to provide good benefit. I think providing supporting context about term lengths, interest rates and lease types will provide more comparability and information of benefit to users.

(c) In your view, are the overall ongoing costs of applying the requirements and auditing and enforcing their application largely as the IASB expected? If your view is that the overall ongoing costs are significantly higher than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of IFRS 16.

While I do not know for certain what ongoing costs the IASB expected in relation to application and auditing of IFRS 16, I think ongoing costs are a necessary reflection of the better processes needed to support lease contracts within an entity, as these tended to only be for annual reporting purposes previously and were therefore not providing good information to internal and external users. The simplest way to reduce ongoing costs associated is to leverage technology to reduce manual time spent on administration of information. Automation and having a single source of information is key.

Question 2 — Usefulness of information resulting from lessees' application of judgement

(a) Do you agree that the usefulness of financial information resulting from lessees' application of judgement is largely as the IASB expected? If your view is that lessees' application of judgement has a significant negative effect on the usefulness of financial information, please explain why.

I do not think the extent of the usefulness of financial information, with relation to lessee's judgements is as the IASB expected. Many entities take simplified approaches to reduce administration, such as only including lease terms when extensions are signed, and this

reduces the effectiveness of information presented at any point in time. Entities with multiple business units involved in the lease process can result in more informal analysis or decision making isn't always spread across teams.

(b) Do you agree that the requirements in IFRS 16 provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently? If not, please explain why not.

I do think the IFRS 16 requirements are largely clear in the bases for making judgements, but that they aren't consistently applied. This is particularly evident when looking at the expected term, and when that is extended. A specific example is around lease options that start on the 1st of July, but on the 30th of June, many entities recognise a lease liability of zero. This might be because the extension hasn't been signed, but it could also be because the entity doesn't recognise it until it has commenced. Accounting standard setters need to put some consideration to month and year ends and how these sorts of situations should play out.

(c) If your view is that the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, please explain:

(i) what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or

(ii) what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

No comment to this question, as we do not have as much visibility on the judgements that entities make, until they reach the Nomos One system.

Question 3 — Usefulness of information about lessees' lease-related cash flows

Do you agree that the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are largely as the IASB expected? If your view is that the improvements are significantly lower than expected, please explain why.

Yes, I think the improvements are beneficial, though I don't know the extent to what the IASB expected. Nothing further to add.

Question 4 — Ongoing costs for lessees of applying the measurement requirements

(a) Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected? If your view is that the ongoing costs are significantly higher than expected, please explain why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs.

I think the ongoing costs in administering leases are higher than the IASB expected, but I think that is due to the lack of awareness of how much more administration is needed to get lease processes to a higher standard. Prior to IFRS 16 lease processes were largely lacking and this change forced entities to do more, which is beneficial as a whole and not just for compliance.

(b) If your view is that the ongoing costs are significantly higher than expected, please explain how you propose the IASB reduce these costs without a significant negative effect on the usefulness of financial information about leases.

Technology is the best way to reduce costs, because as mentioned, a lot of the costs are in relation to manual administration time. This will benefit the entity as a whole and not just in compliance.

Question 5 — Potential improvements to future transition requirements

Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

(a) users have enough information to allow them to understand the effect of any new requirements on entities' financial performance, financial position and cash flows; and

(b) preparers can appropriately reduce their transition costs when implementing new requirements for the first time.

No comments on this question

Question 6.1 — Applying IFRS 16 with IFRS 9 to rent concessions

(a) How often have you observed the type of rent concession described in Spotlight 6.1?

(b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?

(c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

No comments on this question

Question 6.2 — Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale

(a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?

(b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?

(c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

No comments on this question

Question 6.3 — Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction

(a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?

(b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?

(c) If your view is that the IASB should improve the cost–benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.

No comments on this question

Question 6.4 — Other matters relevant to the assessment of the effects of IFRS 16

Are there any further matters the IASB should examine as part of the post-implementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5.

No comments on this question