Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

14 October 2025

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Submitted to: www.ifrs.org

Dear Andreas

IASB/RFI/2025/1 *Request for Information – Post-implementation review IFRS 16 Leases*

Thank you for the opportunity to comment on the Request for Information IASB/RFI/2025/1 *Request for Information – Post-implementation review IFRS 16 Leases* (the RFI).

The RFI has been exposed for comment in New Zealand, and some constituents may submit their comment directly to you. Our comments have been informed by outreach activities and consultation with preparers, users and practitioners and cover a range of industries and sectors.

We support the technical objectives of IFRS 16 (the standard) and believe its requirements enable the lessees and lessors to provide relevant information about their leases in a manner that faithfully represents those transactions. Our findings suggest that in practice, the standard results in significant costs and complexities for many preparers which are perceived to be disproportionate to the benefits. While there is limited desire for substantial changes given the risk of disrupting established procedures, refinements are required to more effectively align the standard's objectives with associated ongoing costs.

We believe that targeted actions by the IASB in several areas could enhance the usefulness of the information in the financial statements resulting from this standard and reduce the cost burden for most preparers of financial statements. Our key observations relate to:

- **Impact of lease accounting judgements on financial information –** Judgemental areas such as incremental borrowing rate (IBR) calculations and lease term assumptions have led to wide variability in practice, eroding comparability. We recommend introducing a clearer framework for IBR estimation (e.g. utilising sector benchmarks or suggested methodologies utilising commonly sourced market rates) and clearer criteria for lease term assessments and lease renewals to allow preparers to better understand and apply their judgements.

- **Lease-related cash flow presentation –** Most preparers and users have noted that IFRS 16 does not improve the visibility of lease-related cash flows, and certain metrics are skewed by the requirements. Reclassifying certain lease payment elements as financing activities has obscured operational cash flow insights, especially when a single lease payment is made. We recommend the IASB explore the presentation and disclosure of lease-related cash flows further as part of the on-going Statement of Cash Flows and Related Matters project.

- **Ongoing compliance costs –** Many preparers report that the ongoing cost of applying IFRS 16 remains significantly higher than anticipated, especially due to frequent remeasurement triggers (e.g. rental adjustments and fleet vehicle lease renewals) and manual processing due to leasing system limitations. We recommend introducing clearer guidance (e.g. decision trees) and simplified reassessment criteria to reduce the unnecessary compliance burden.

We appreciate the IASB's commitment to ongoing improvement of international financial reporting standards and thank you for the opportunity to contribute to this RFI. Our recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter.

If you have any queries or require clarification of any matters in this letter, please contact Nimash Bhikha (nimash.bhikha@xrb.govt.nz) or me.

Yours sincerely

Dr Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix

Question 1 — Overall assessment of IFRS 16
(a) In your view, is IFRS 16 meeting its objective (see page 9) and are its core principles clear? If not, please explain why not. *(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.* *(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.* *The Effects Analysis on IFRS 16 describes the expected likely effects of the Standard, including benefits and implementation and ongoing costs.*

Response to Question 1: Overall assessment of IFRS 16

Is IFRS 16 meeting its objective and are its core principles clear?

1. IFRS 16 was intended to provide relevant information that faithfully represent lease transactions, by requiring lessees to recognise nearly all leases on the balance sheet. Conceptually, the objective is sound and well-understood, and we support this objective overall.

2. In practice, the benefits of more faithful representation of leases within the financial statements have not been fully realised due to users' difficulties in understanding judgements and finding the relevant information needed for decision-making. Most preparers have reported that users – particularly banks and analysts – find the standard's complexity results in information being less understandable and comparable, consequently diminishing the usefulness of information, particularly in the following aspects:

   (a) Most banks and analysts explicitly request additional information about lease expenses and cash outflows, to understand the impact of leases on an entity's performance. They adjust IFRS 16-related balances when analysing financial statements. We recognise that the IASB expected users' systems and processes to adapt to IFRS 16, however this has not happened, even though seven years has elapsed since the standard took effect in 2019.

   (b) We have heard that preparers continue to receive feedback from most of their users that:

      (i) They prefer to see a direct total lease expense amount, rather than manually having to identify lease related depreciation of the right-of-use asset and interest on the lease liability.

      (ii) Covenants within loan agreements are based on total lease expenses being included in metrics such as Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).

(iii) Leases are excluded from calculations of return on asset and debt-ratio calculations are based on assets and liabilities. We note that, while some banks are looking to stop adjusting IFRS 16-related amounts, particularly in relation to temporary loan covenants, this amended practice is still currently limited and not common.

(c) Many preparers have also noted that judgement-heavy requirements — such as those involving the lease term, incremental borrowing rates (IBR), and extension options — add significant complexity, and consequently increase costs, without delivering corresponding benefits. Many preparers report spending disproportionate time on manual processes in these areas.

3. We also note that one of the IASB's expected benefits for preparers is enhanced internal decision-making, as noted on page 26 of the IFRS 16 Effects Analysis. Many preparers have highlighted that rental costs are no longer reflected in EBITDA, which is the primary internal performance metric. This leads to inflated profitability measures and reduces internal visibility of recurring lease obligations. To improve internal decision making requires users and preparers to view leases as financing arrangements, rather than operational arrangements.

Are the improvements to information quality and comparability as expected?

4. Based on the feedback we have received, the comparability and quality improvements resulting from IFRS 16 are lower than expected. While lessees recognise nearly all leases on the balance sheet which improves information quality and comparability, practical application of aspects of the standard results in information that is difficult to compare, as differences in discount rate determinations, lease term assumptions, and variable lease treatments for similar leases mean lease balances are not comparable between reporting entities.

5. There are concerns from most preparers that inconsistent disclosure of key assumptions like renewals and discount rate, do not meaningfully improve understanding nor allow for consistent analysis by users. Some users, such as banks and analysts, have noted that the IFRS 16 disclosures in practice do not provide information specific to the entity being evaluated, and therefore they disregard the lease disclosures made in the financial statements.

Are the ongoing costs largely as the IASB expected?

6. No. While the IASB anticipated implementation costs would be high, it expected ongoing compliance costs to be only marginally greater than under the previous IAS 17 *Leases*. Feedback from many New Zealand preparers shows this is not the case for preparers with moderate to large lease portfolios or frequent lease modifications. We have heard that IFRS 16 is viewed as a compliance exercise rather than a value-adding or decision-informing standard.

7. Examples of significantly higher ongoing compliance costs include determining IBR rates for lease liability calculations and time spent on processing accounting adjustments due to the lease liability reassessment requirements. Costs also arise from identifying and accounting for lease modification requirements in IFRS 16, which requires significant manual effort.

8. We have heard from many preparers that this manual effort involves the equivalent of several months of full-time resources across the reporting period, as well as additional time for entity governance's review of technical judgements. Based on the feedback, coupled with annual licence fees for lease accounting software, many preparers highlighted that the overall cumulative costs are disproportionate to the resulting benefits of the standard.

How could the IASB reduce ongoing costs and how they would affect the benefits of IFRS 16?

9. We recommend the IASB take the following actions to reduce the ongoing cost burden:

    (a) Provide additional IBR guidance by utilising sector benchmarks or suggested methodologies utilising commonly sourced market rates for short-to-medium term leases (e.g. government bond rate with additional sector margins for financing and asset factors) and allow for the use of publicly available ranges based on lease term and asset class.

    (b) Provide clarity on how preparers can evaluate lease terms, modifications and renewals, particularly for property leases, to ensure consistent judgments and when they would impact on the right-of-use and lease liability balances. This will help preparers focus their analysis on the key matters which may impact on applying IFRS 16, rather than tracking and assessing all lease reassessments and modifications which may not impact on the application of the standard.

    (c) Evaluate whether additional disclosures which are currently being requested by users, such as reconciliation of cash rental payments to IFRS 16 expenses, disclosures about the useful life of leased assets and information about impact of lease extension options would be useful to include into the requirements of the standard. This will provide information which is more aligned to user needs and reduces costs for entities who are voluntarily providing this information in response to user requests.

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. *(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.* *(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).*

Response to Question 2: Usefulness of information resulting from lessees' application of judgement

Is the impact of the application of judgement on the usefulness of financial information as expected?

10. No. Based on feedback from our stakeholders, lessees' application of judgement has reduced the usefulness of financial statements in impacted on users' understandability.

11. The requirement for substantial judgement in determining discount rates has led to inconsistent outcomes and comparability concerns, particularly as this judgement is applied inconsistently between most preparers. The determination of discount rates varies considerably even for similar entities and similar leases, due to lack of observable rates, especially for long-term property leases (which are common in New Zealand).

12. There has also been varying application of lease term judgements, and whether a lessee is "reasonably certain" to extend or terminate a lease relies on entity-specific economic incentives, which are highly subjective. There is also divergence in recognition of extension options and modifications of leases which limits the usefulness of IFRS 16 information.

13. Several preparers have noted that technology gaps amplify judgement risks, as lease software often cannot accommodate complex lease features, meaning judgement is applied offline and risks human error. The lack of required disclosures on judgements when determining IBRs and assessing lease modifications and renewals have resulted in inconsistent information, which has reduced the usefulness of financial information.

Are IFRS 16 requirements sufficiently clear to support appropriate judgements and can the requirements be applied consistently?

14. No. We do not consider the requirements of IFRS 16 are sufficiently clear to support the consistent application of judgements, particularly when determining IBRs and the assessment of lease terms involving contractual break clauses or renewal rights. We note that the IFRS Interpretations Committee has issued six separate agenda decisions relating to IFRS 16 since its introduction, across November 2019 to April 2023, which indicates that many preparers have significant questions when applying the standard.

15. At present, most lease contracts, and contract negotiation practices in New Zealand, do not provide sufficient information for lessees to be able to determine the interest rate implicit in the lease, often making these requirements redundant. Most preparers default to estimating an IBR and the definition of the lessee's IBR within Appendix A of the standard is broad. This has led to diverse estimation methodologies, and preparers working in similar sectors report wide variation in inputs and assumptions due to the absence of market-wide guidance or standardised data sources.

16. The requirements related to IBR are interpreted differently, with some preparers using "bottom-up" IBR calculations built from risk-free rates, while other use a "top-down" comparable rate evaluated from peers. IBR approaches are often challenged by auditors and require multiple

iterations using differing methodologies to demonstrate they are appropriate, which adds significant costs to resolve differing views on what constitutes an appropriate IBR.

17. There is a need for more standardised guidance on how to use market data when developing IBR rates, when to reassess lease terms and how to account for extension and termination options to avoid diversity in practice. The concept of "reasonably certain" (within IFRS 16.B37–B40) is open to interpretation, as the determination of whether the entity has economic incentives to extend a lease when assessing the lease term is subjective and difficult to apply in practice.

Suggestions to improve the usefulness of financial information resulting from application of judgement

18. We recommend the IASB develop a framework for IBR determination using publicly available yield curves and credit spreads and requiring additional disclosure on the assumptions and sensitivities surrounding lease term and IBR judgements, enabling better comparability of information for users. The IASB should address the following aspects in their guidance:

    (a) Introduce a more detailed framework for IBR estimation. This could specify a default method for IBR assessments (e.g. government bond yield and credit spread), with sector benchmarks and uncertainty adjustments based on differing lease terms. This could also include examples of IBR curves or ranges, to allow for anchored estimation and improved comparability. This would reduce complexity for many preparers.

    (b) Clarify "reasonably certain" thresholds for lease term assumptions to allow for more consistent application in these judgements. Clarification could consider how this threshold should be applied for leases which an entity's operations fundamentally depend upon and how longer-term renewals and break clauses can be evaluated. This would reduce ambiguity and allow auditors and preparers to work from a common starting point.

    (c) Clarify the criteria needed to distinguish between variable payments and in-substance fixed payments, particularly for market rent reviews which do not depend upon an index or a rate. Payments that appear variable but are economically unavoidable require nuanced interpretation and such interpretations are often inconsistently applied.

    (d) Provide illustrative examples or guidance of disclosures required by IFRS 16.59 relating to additional qualitative and quantitative information. This could include examples which demonstrate disclosures concerning the range of IBRs used and method of derivation, extension/termination options included in the lease calculations and rationale and sensitivity analysis of lease liability to IBR and lease term assumptions. This would improve user understanding of the underlying estimates, support comparability and would provide information which many preparers are voluntarily providing to meet user needs.

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.

Response to Question 3: Usefulness of information about lessees' lease-related cash flows

19. Based on feedback from our stakeholders, we do not believe the improvements in the quality and comparability of lease-related cash flow information are as significant as the IASB expected. While IFRS 16 has increased the visibility of lease-related balances on the balance sheet and provided a consistent framework for lease liability measurement, it has not significantly enhanced the usefulness or comparability of cash flow information for most users. In some cases, it has obscured meaningful operational insights and required users to make manual adjustments or rely on non-GAAP metrics.

20. Under IFRS 16, in the Statement of Cash Flows the principal repayments of lease liabilities are classified as financing activities, and interest is shown as either an operating or financing cash flow (IFRS 16.50). This prevents users from seeing total lease costs within operating activities as before; rental payments, once fully included in operating cash flows, are now split, complicating year-on-year comparisons.

21. Key external stakeholders (including banks, analysts and the entity's governance) continue to remove or restate IFRS 16 effects when performing operational cash flow trends and margins, credit assessments, enterprise valuation, or covenant monitoring. Banks specifically request total lease cash outflow information, as part of their lending arrangements and analysts use non-GAAP reconciliations to calculate adjusted metrics that remove or restate the effects of IFRS 16, rendering the IFRS 16 classification of lease cash flows less relevant to decision-making.

22. This widespread adjustment behaviour indicates that the cash flow presentation under IFRS 16 is not aligned with user needs, reducing the practical comparability the standard sought to deliver. While a longer-term mindset change is needed from preparers and users to see leases as primarily financing arrangements, rather than operational arrangements, the current short-term focus is on removing IFRS 16 balances and continuing their analyses unchanged.

23. While IFRS 16 requires disclosure of total cash outflows for leases (IFRS 16.53(g)), it is difficult for users to understand how this single-line disclosure reconciles to the cash flows which are presented in the Statement of Cash Flows (in line with IFRS 16.50). As the interest in lease liabilities is front-loaded, the cash flow implications are not intuitively understood, especially when compared to historical rent expense patterns.

24. In addition, many preparers apply different approaches to aggregating lease cash flows. Some preparers disclose only cash outflows for lease liabilities, while others include short-term and low-value leases or include or exclude variable lease payments depending on judgements. This diversity limits comparability among preparers, particularly for analysts attempting to benchmark leasing intensity, cash coverage ratios, or operating cash flows.

25. Preparers with multiple lease systems or spreadsheets face challenges in accurately classifying lease-related cash flows across interest payments, principal repayments, variable lease payments, and non-lease components. For many preparers, a high level of manual work is required to reconcile and report lease-related cash flows, due to system limitations and inconsistent data capture. In some cases, preparers rely on proxy allocation methods to split the interest and principal, introducing estimation "noise" and undermining comparability.

26. We recommend the IASB:

    (a) Engage with investors, banks and analysts to critically examine which disclosure requirements within IFRS 16 are meeting user's needs, and which information is being removed from their analyses, and consider **replacing** seldom-used disclosures with disaggregated disclosures of total cash lease payments into principal and interest, and reconciliation of cash rental payments to IFRS 16 expenses.

    (b) Further explore the presentation and disclosure of lease-related cash flows further as part of the on-going Statement of Cash Flows and Related Matters project, to encourage consistent application of presentation and disclosure requirements in a way that is useful to users. As user needs evolve over time, we consider this to be the appropriate time to reassess what information users are interested in when understanding lease cash flows.

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. *(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.*

Response to Question 4: Ongoing costs for lessees of applying the measurement requirements

Are the costs of applying the measurement requirements in IFRS 16 largely as the IASB expected?

27. No. While we recognise the IASB's intent to balance costs and benefits, we consider the ongoing costs of applying the measurement requirements in IFRS 16 are significantly higher than expected. Most preparers flagged the frequent remeasurement of lease liabilities, particularly due to changes in IBR, lease modifications, and changes in variable lease payments as a major recurring burden. Many preparers we heard from also noted they manually reassess leases every time there is a new lease, or a change in the lease term, which happens frequently for fleet vehicle leases and multi-entity operations.

28. We have also heard that many lease systems lack integration (e.g., fixed asset register, general ledger code, or asset tracking) or do not have all the desired functionality needed for complex or

tailored leases, which causes redundant data entry and high internal control risk. In addition, using entity-specific IBRs introduces estimation volatility, and for large lease portfolios makes auditor review more difficult, raising compliance costs with little added benefit.

How the IASB can reduce these costs without a significant negative effect on the usefulness of financial information about leases

29. We believe the IASB can significantly reduce ongoing costs by implementing targeted simplifications that preserve the integrity and usefulness of lease information. We recommend the IASB:

    (a) Establish a simplified IBR framework for preparers without observable borrowing rates, such as use of government bond rates plus fixed margins by lease term buckets or sectoral reference curves which are published periodically (like the discounting guidance contained in IFRS 17 *Insurance Contracts*). This will reduce efforts to estimate bespoke IBRs, improve auditability and comparability and will be useful for many preparers with small lease portfolios.

    (b) Clarify the requirements relating to reassessment of the lease liability and lease modifications by providing illustrative decision trees for lease modification and remeasurement triggers within the core text of the standard. This action could address common areas of confusion, such as whether rental changes due to changes in inflation would be a lease modification, and how to treat expected and enforceable renewal rights. This will benefit both preparers and auditors, streamline systems processes and support documentation.

    (c) Provide clearer guidance in the core text of the standard in relation to the importance of materiality in the context of recognition exemptions for "short-term leases" (IFRS 16.5(a)) and "leases for which the underlying asset is low value" (IFRS 16.5(b) and B5-B8). Given these exemptions were developed in 2015, updating the thresholds to more appropriate values and longer terms, will better align with the materiality principles in the Conceptual Framework and provide relief for performing complex calculations for immaterial leases which are not expected to impact on users' decision-making.

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.*

Response to Question 5: Potential improvements to future transition requirements

30. The first year of reporting under IFRS 16 was particularly challenging due to the volume and complexity of data required, especially for preparers with large lease portfolios, combined with the pandemic in 2020–2022. Most preparers found the availability of both full retrospective and modified retrospective approaches helpful in adopting IFRS 16, with most preparers using the modified retrospective approach.

31. However, we noted that some users have found comparability across preparers challenging due to preparers using different transition methods and expedients. Further, early IT solutions were immature, leading to inconsistent data quality and reconciliation issues and prior year adjustments after transition.

32. We recommend for future standard-setting projects which have significant impacts on the internal processes of preparers, that the IASB consider field-testing transition requirements, to gauge which transition methods would be beneficial. This will provide insights into the practical considerations preparers would make as part of their transition processes and will help ensure users have consistent information to allow them to understand the effects of any new requirements on preparers' financial performance, financial position and cash flows.

33. We recommend the IASB allow for extended implementation timeframes when systems and software are not readily available and encouraging early development of IT solutions that would align with transition guidance. This will allow many preparers to reduce their transition costs when implementing new requirements for the first time by allowing them to consider appropriate system solutions, rather than establishing temporary manual processes which are then subsequently changed soon after the effective date.

34. We also recommend the IASB consider, in the future, providing more guidance or Frequently Asked Questions during the adoption and implementation phase of standards to help preparers understand and address transition challenges in an active way. We also consider the IASB could emphasise the importance of the post-implementation review process upfront as standards are released and being adopted, to allow preparers and users to think about challenges and resolutions and provide feedback dynamically as they apply the standard.

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.*

Response to Question 6.1: Applying IFRS 16 with IFRS 9 to rent concessions

35. In New Zealand, the type of rent concession described — where the only change to the lease contract is the forgiveness of lease payments — was most observed during the global pandemic in 2020–2022. Although most of these concessions were temporary, their financial reporting impact was significant in sectors such as retail, hospitality, and logistics, where landlords provided several months of rent relief, often unaccompanied by other lease modifications.

36. Such concessions are no longer prevalent in current lease negotiations. However, they remain a material historical reporting matter, and there has been diversity in how lessees have accounted for such concessions, with two primary approaches adopted — either the IFRS 16 lease modification approach or the IFRS 9 *Financial Instruments* derecognition approach.

37. These two approaches have led to materially different financial statement outcomes, including timing of profit recognition and differences in presentation of cash and non-cash changes in lease liabilities. This divergence has caused confusion for users trying to interpret variances across periods and preparers and has reduced comparability in reported figures.

38. While these types of concessions may not be common going forward, we recommend the IASB follow the IFRS Interpretations Committee's recommendation to conduct a narrow-scope standard setting project to address this application challenge. Any actions the IASB explores should consider the following aspects:

    (a) Establishing a clear principle to distinguish between lease modifications that adjust the scope, term, or economics of the lease and require remeasurement under IFRS 16, and partial extinguishments where the lessee is legally released from a payment obligation with no corresponding change to the lease structure or rights of use.

    (b) Providing criteria to determine when forgiveness is a modification compared to an extinguishment, such as whether the lease consideration or term is amended, whether the forgiveness was contractually embedded or discretionary and whether the forgiven payment is past due or future dated. This could include illustrative examples showing concessions during lease holidays, retroactive and prospective forgiveness and concessions linked to one-off events.

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.

Response to 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

39. We have heard that many preparers often find it difficult to determine if a sale has occurred in sale and leaseback transactions, especially in real estate intensive sectors, like infrastructure and agriculture, where these transactions are becoming more frequent.

40. The current IFRS 15 *Revenue from Contracts with Customers* guidance on transfer of control does not adequately address partial asset sales, leading to inconsistent reporting and potentially affecting the accuracy and usefulness of financial information.

41. We recommend that the IASB take action to clarify how seller–lessees assess whether the transfer of an asset in a sale and leaseback transaction meets the criteria for a sale under IFRS 15. This could include issuing targeted implementation guidance which should consider the following aspects:

    (a) Introducing a decision tree or flowchart that maps whether the buyer obtains substantially all the remaining economic benefits, whether the seller retains a continuing substantive involvement, how lease terms (including extension and termination options) affect control and when the leaseback is deemed to undermine the transfer of control.

    (b) Clarifying how to treat partial asset disposals, such as sales of subdivided assets (e.g. one floor of a multi-story building) and sale and leasebacks involving renovated or altered assets.

    (c) Illustrating the impact of non-substantive repurchase rights or residual value guarantees on the transfer of control, or when the leaseback term is significantly longer or shorter than the remaining useful life of the asset.

Question 6.3 — Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction
(a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information? *(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.*

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

42. We do not agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information. Although the technical rationale for this restriction is clear, this does not result in useful information about the impact of such transactions, as the restricted amount is less understandable and comparable to other transactions which generate unrestricted gains (or losses). Additionally, most sale and leaseback software does not fully capture these arrangements, requiring substantial manual intervention.

43. We have heard from many preparers that users (including analysts and banks) find the partial gain (or loss) model opaque and often ask preparers to adjust back to full gain or loss, as this provides more understandable and comparable information to aid in their forecasting of performance. This necessitates the need for more non-GAAP disclosures and reduces trust in the IFRS 16 figures.

44. We recommend the IASB simplify measurement rules and permit full gain recognition when risk transfer is clear, and leaseback terms are market-based. This will reduce preparer costs and support user forecasting by providing more useful financial statement information. This will also align with changes proposed to remove the restriction of gains (or losses) within IAS 28 *Investments in Associates and Joint Ventures*, through the recent Exposure Draft on the equity method of accounting (IASB/ED/2024/7).

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.

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

45. No additional matters or comments.