ICAEW
REPRESENTATION 87/25

POST-IMPLEMENTATION REVIEW OF IFRS 16 LEASES

Issued 13 October 2025

ICAEW welcomes the opportunity to comment on the Post-implementation Review of IFRS 16 *Leases* published by the International Accounting Standards Board (IASB) on 17 June 2025, a copy of which is available from this link.

We believe that, overall, IFRS 16 *Leases* is working as intended and has met the International Accounting Standards Board's (IASB's) objective for the Standard. Consequently, our response focuses on matters that, in our view, are pervasive with substantial consequences or would be straightforward to resolve without extensive resources and due process.

We have identified four pervasive matters with substantial consequences that we consider should be addressed as a high priority:

- We believe the IASB should clarify requirements for disclosures about significant judgements made by lessees, which would lead to improvements in the transparency and comparability of financial information about leases.
- We would welcome additional guidance to reduce challenges in accounting for lease modifications, including clarification of the interaction between IFRS 16 and IFRS 9 *Financial Instruments* when accounting for certain rent concessions.
- Seeking to reduce diversity in practice in respect of sale and leaseback transactions, we recommend the IASB provides additional guidance to assist the assessment of whether the transfer of an asset is a sale, and to clarify the interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* when such transactions involve an asset under construction.
- In our view, the IASB should prioritise developing comprehensive guidance to assist lessors in applying IFRS 16's lessor accounting requirements, which would lead to improved comparability.

We have noted some other observations and points we believe the IASB should consider for action, for which we do not anticipate extensive resource or due process would be required to address, in the appendix.

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KEY POINTS

IFRS 16 IS WORKING AS INTENDED

1. We welcome the opportunity to comment on the IASB's Post-implementation Review of IFRS 16 *Leases*. From the perspective of providing relevant information that faithfully represents leases in financial statements, on balance we believe that, overall, IFRS 16 is meeting the IASB's objective for the Standard.
2. Nevertheless, with the aim of improving transparency and comparability, we have identified a need for some improvements to the Standard, in the form of clarifications and additional guidance.
3. We understand and accept that the IASB must prioritise matters raised in a post-implementation review such that only pervasive issues with substantial consequences are addressed as a high priority. Consequently, the main body of our response focuses on matters that meet these criteria and therefore should be addressed as a high priority. For this reason, not all the questions in the Request for Information contain responses in the main body.
4. We have then identified other areas that we think can be addressed without extensive resource or due process. These points are contained within the appendix and include comments related to questions in the Request for Information that have not been addressed in the main body of this response.

CLARIFY DISCLOSURE REQUIREMENTS ABOUT SIGNIFICANT JUDGEMENTS

5. We recommend the IASB clarifies the requirements for disclosures by lessees about significant judgements made when applying IFRS 16.
6. We have observed that disclosures about significant judgements made by lessees are not often included in financial statements. For example, we rarely see disclosures about significant judgements and sources of estimation uncertainty in determining the lease term, or the discount rates used when measuring the lease liability. In our view, this lack of disclosure is widespread and is impairing the usefulness of financial information resulting from lessees' application of judgement. It makes it more difficult for users of financial statements to understand the approaches taken and compare the impact of lease transactions on the financial statements of different entities.
7. While a lack of disclosure can be considered an enforcement issue, we believe a contributing factor is the lack of clarity and specificity in IFRS 16 regarding disclosure requirements for significant judgements about leases. IFRS 16 sets a disclosure objective to provide information that gives a basis for financial statement users to assess the effect of leases on the financial results of the lessee. We believe that disclosures of significant judgements made by lessees, including disclosures about sources of estimation uncertainty, are necessary to satisfy this disclosure objective.
8. Further details on the issue of disclosures about significant judgements are included in our response to question 2 below.

ADDITIONAL GUIDANCE ON LEASE MODIFICATIONS

9. With members highlighting challenges in applying IFRS 16's requirements in respect of lease modifications, we think additional guidance in this area would be helpful.

10. Specifically, we have observed a lack of clarity regarding the interaction of IFRS 16 and IFRS 9 *Financial Instruments* when accounting for the rent concessions highlighted in Spotlight 6.1 of the IASB's Request for Information. We particularly encourage the IASB to develop guidance to clarify this interaction for lessees.
11. Further details on the challenges we have identified in relation to applying IFRS 16 with IFRS 9 to rent concessions are noted in our response to question 6.1 below.

SALE AND LEASEBACK TRANSACTIONS

12. We would welcome additional guidance from the IASB to support preparers in applying IFRS 16 to determine whether the transfer of an asset subject to sale and leaseback assessment is a sale, and to clarify the interaction of IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* for sale and leaseback transactions involving the construction of an asset. Linking to our previous key point, clearer disclosures about significant judgements made in relation to material sale and leaseback transactions would also improve transparency in this area.
13. Preparers commonly encounter challenges when determining whether the transfer of an asset subject to sale and leaseback assessment is a sale and we have observed diversity in seller-lessees' assessments of the transfer of control. Given that this drives whether the lessor's contractual obligation to make a payment falls within the scope of IFRS 9 or IFRS 16, presentation and potential measurement differences can arise as a result. Further challenges arise in respect of the interaction between IFRS 16 and IFRS 15, particularly where a sale and leaseback transaction involves the construction of an asset.
14. The above issues contribute to diversity in practice, reducing the usefulness and comparability of financial information about sale and leaseback transactions, which can be material.
15. Further details on our observations about sale and leaseback transactions are provided in our response to question 6.2 below.

LESSOR ACCOUNTING GUIDANCE

16. We believe it is appropriate, as outlined in the Basis for Conclusions to IFRS 16, to have separate accounting models for lessees and lessors and we do not seek significant changes to the existing lessor accounting model. However, in our view, the IASB should prioritise developing comprehensive guidance to assist lessors in applying IFRS 16's requirements. This would improve comparability between accounting approaches taken by lessors as well as achieve consistency with the level of guidance available to lessees.
17. Further details on our observations about lessor accounting guidance are provided in our response to question 6.4 below.

ANSWERS TO SPECIFIC QUESTIONS

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.

(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.

18. From the perspective of providing relevant information that faithfully represents leases in financial statements, on balance we believe that, overall, IFRS 16 is meeting the IASB's objective for the Standard. Most users of the financial statements have welcomed the amendments introduced by IFRS 16.

19. Our members have highlighted some areas, however, where there is diversity in practice or a lack of transparency about the impact of leases on the financial statements. Consequently, we have provided some suggestions for improvements to the Standard throughout this response, for example by making clarifications and providing additional guidance in certain circumstances.

20. We are also aware that some investors continue to adjust financial information to reverse the effects of IFRS 16, preferring to determine their own measures of liabilities related to leases to interpret financial results. That said, we understand their reasons for making adjustments do not necessarily reflect major deficiencies in the Standard and the practice is not widespread.

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).

Disclosure of significant judgements and sources of estimation uncertainty

21. On the whole, we do not believe that lessees' application of judgement has a significant negative effect on the usefulness of financial information. However, we have identified a need for improvement in respect of the relevant disclosures. We recommend that the IASB clarifies requirements for disclosure of information about significant judgements made by lessees, including disclosures about sources of estimation uncertainty. This will improve transparency, comparability and understandability for users of the financial statements.
22. IAS 1 *Presentation of Financial Statements*, paragraph 122 requires an entity to disclose the judgements made that have the most significant effects on the amounts recognised in the financial statements. Paragraph 125 requires an entity to disclose information about the assumptions and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. While these requirements might be expected to capture significant judgements made by lessees, including disclosures about sources of estimation uncertainty, these disclosures are not typically being seen in practice. For example, disclosures about significant judgements made when determining the lease term or the discount rates used in measuring the lease liability are rarely observed. Throughout this letter and in the appendix of this response, we have identified a number of other specific areas where inconsistencies in application of judgement arise. These would serve as other good examples of where entities might need to provide further disclosure on the application of judgment.
23. We understand that investors often base cash flow predictions on lease liabilities reported in the statement of financial position. As these may be lower than the actual cash flows resulting from leases due to the judgements made (eg, in relation to variable lease payments and the lease term), adequate information about significant judgements is needed to support investor analysis.
24. In addition, we note that in its 2020 thematic review of IFRS 16 disclosures in the first year of application, the UK's Financial Reporting Council (FRC) found inadequate disclosures, including a lack of entity-specific detail and explanation of significant judgements made in relation to leases. While a lack of disclosure can be considered an enforcement issue, we believe a contributing factor is the lack of clarity and specificity in IFRS 16 regarding disclosure requirements for significant judgements about leases.
25. We therefore encourage the IASB to clarify that disclosure of significant judgements, including disclosures about sources of estimation uncertainty, may be necessary to satisfy the disclosure objective set out in paragraph 51 of IFRS 16. We think there are several ways in which the IASB may achieve this. The IASB may wish to consider amendments or clarifications to the requirements of IAS 1. Alternatively, amendments could be made to IFRS 16 to refer specifically to the existing IAS 1 requirements. A further option would be to apply a similar approach to that taken in IFRS 15, whereby IFRS 15 specifically includes a requirement for entities to disclose the judgements made in applying the Standard (IFRS 15 paragraph 110(b)) that significantly affect the amount and timing of revenue from contracts with customers. Some of our members suggested that adopting such an approach in IFRS 16, with more targeted disclosure requirements, would help preparers understand which judgements to disclose. A particular area where clarity might be helpful is whether disclosures are required of significant judgements relating to discount rates and lease terms. Even though it is often the case that an entity has a large number of individually immaterial leases that are material in aggregate, which would lead to disclosures relating to ranges or weighted averages, we think such disclosure would still be beneficial.
26. While there may be some extra costs for preparers of disclosing additional information about significant judgements, we would not expect the costs to be significant.

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

Do you agree 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.

27. See comments in the appendix.

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 tha 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.

28. See comments in the appendix.

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.

29. See comments in the appendix.

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? 6.
(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.

30. We believe lease modifications are common and that challenges arise on application of the relevant IFRS 16 requirements. Given the complexity of this area, we recommend the IASB considers developing additional guidance to assist preparers in understanding and applying the requirements of IFRS 16 for lease modifications.

31. Specifically, we believe there is a lack of clarity about when a rent concession is a modification to a lease (and therefore accounted for under IFRS 16) and when it is an extinguishment, or partial extinguishment of a lease liability (and therefore accounted for under IFRS 9). While the type of rent concession described in Spotlight 6.1 of the IASB's Request for Information was more commonly seen in practice during the COVID-19 pandemic, our members noted that it is not unusual to encounter them today. This means that challenges linked to accounting for rent concessions are increasing the ongoing costs of applying the standard.

32. Given the IFRS Interpretations Committee clarified how IFRS 16 and IFRS 9 apply to the type of rent concession described in Spotlight 6.1 for lessors in its IFRIC Agenda Decision of October 2022, it appears appropriate to provide similar clarification for lessees. This could be included in the Application Guidance to IFRS 16.

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.

33. Sale and leaseback transactions are often material, with a significant impact on the financial statements. We have outlined below some commonly encountered issues which are leading to diversity in practice. We believe that additional guidance to support the below judgements relating to sale and leaseback transactions would improve consistency of approach, without incurring undue costs. Linking to our first key point above, clearer disclosures about the significant judgements made by entities in relation to material sale and leaseback transactions would also help users of the financial statements to understand the impact of such transactions.

Assessing whether the transfer of an asset in a sale and leaseback transaction is a sale

34. Difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale or not are common, especially in the financial services and real estate sectors.

35. Diversity is arising in seller-lessees' assessments of the transfer of control, particularly in the following situations:

- **When the asset being sold is substantially different from the asset being leased back:** for example, when a partially constructed asset is sold and a fully constructed asset is leased back, or a whole building is sold and only one floor of the building is leased back, challenges arise in determining whether the arrangement is in scope of sale and leaseback guidance. Challenges also arise in establishing the unit of account when assessing whether a sale has taken place. As the subsequent accounting treatment varies significantly based on the assessment of whether the asset being leased back is a different asset (treated as a separate sale and a separate lease) or a modified version of the same asset (treated as a sale and leaseback), guidance in this area would be helpful.
- **When a seller-lessee's renewal option in a sale and leaseback transaction would permit the seller-lessee to extend the lease for substantially all of the remaining economic life of the underlying asset:** when applying IFRS 15 to determine if there is a sale, while some lessees view the renewal option to, in substance, be a purchase option, others take the view that the renewal option should only be considered if the lessee is reasonably certain to exercise that option.
- **When a seller-lessee has a repurchase option that expires:** for example, in a potential sale and leaseback transaction where it has been determined that no sale occurred under IFRS 15 and a repurchase option subsequently expires, diversity in practice exists regarding whether to conclude that the contract has been modified. This then determines whether there is a need to reassess if there was a transfer of control of the underlying asset (and therefore a sale) or not.

Assets under construction

36. With respect to assets under construction, we understand that seller-lessees face challenges when assessing whether they controlled the asset before the transaction which is subject to the sale and leaseback assessment (paragraph B46). While the considerations may differ, these challenges exist regardless of whether the seller-lessee is personally constructing the underlying asset or the seller-lessee instructs a third party to construct the underlying asset.

This assessment can affect the determination of whether a sale and leaseback transaction has occurred.

37. We understand sale and leaseback transactions involving assets under construction are becoming more frequent and typically involve an entity selling a partially constructed asset and then leasing it back once the asset is ready for use. IFRS 16 requires that preparers apply IFRS 15 to determine whether a sale has taken place. In some instances, however, there is a mismatch between IFRS 16 and IFRS 15 regarding when the sale is recognised. While IFRS 15 may require recognition of the sale over time as the asset is constructed, IFRS 16's guidance is more aligned to recognising the sale at a point in time. For instance, paragraph 99 in the annotated edition of IFRS 16 directs preparers only to indicators for "point in time" recognition in IFRS 15. There is therefore a lack of clarity regarding whether the sale and leaseback requirements of IFRS 16 apply when control of the asset is transferred over time, which leads to diversity in practice. We would encourage the IASB to develop additional guidance in the form of an illustrative example, to clarify the interaction between IFRS 16 and IFRS 15 in this scenario.

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.

38. See comments in the appendix.

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

Are there any other 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.

39. We understand why the IASB has prioritised addressing and improving accounting requirements, as well as the provision of guidance, for lessees and we believe this has improved the quality and comparability of financial information about leases from the perspective of lessees.

40. We note the discussion of the lessor accounting model in the Basis for Conclusions to IFRS 16 (paragraphs BC57 – BC66) and agree that it would be inappropriate to amend the lessor accounting model solely to achieve symmetry with the lessee accounting model. We are not therefore seeking significant changes to the existing accounting requirements for lessors in IFRS 16.

41. However, we recommend that the IASB now considers adding a separate project to its potential pipeline of work to develop more detailed guidance to assist lessors in applying the lessor accounting model. Due to a lack of specific guidance, lessors often apply the accounting guidance for lessees by analogy to inform their approach rather than having a clear framework to apply. In our view, this risks inconsistency of approach between lessors. We think there is a lack of guidance for lessors in relation to areas such as:

- when the lessor should reassess the lease term;
- when the lessor should remeasure the net investment in the lease to reflect variable lease payments; and
- how the lessor treats changes in variable lease payments arising from a change in an index or a rate, or where there are revised in-substance fixed payments.

APPENDIX – OTHER OBSERVATIONS AND POINTS FOR THE IASB TO CONSIDER

We have noted below some observations and other areas where we believe the IASB should consider taking action beyond the key matters discussed above. We think addressing these points would help improve consistent application of IFRS 16 in practice and that they could be addressed without extensive resource or due process.

OBSERVATIONS

Ongoing costs of applying the Standard

A1. In our experience, the ongoing costs of applying the IFRS 16 requirements, and auditing and enforcing their application vary substantially depending on an entity's size or business sector. While for most entities the ongoing costs are only marginally higher compared with those previously incurred when applying IAS 17 *Leases*, for others (eg, smaller entities or retail, apparel, hospitality, leisure, manufacturing and asset-heavy industries such as shipping) the ongoing costs are proportionately higher and, in some cases, significantly so.

A2. The more judgemental areas of the Standard incur more ongoing costs due to resource requirements as well as the additional costs of auditing those judgements (eg, relating to determining the lease term, discount rates to use and identifying variable lease payments when measuring the lease liability). However, on balance, we do not believe that the ongoing costs are significantly higher than the IASB expected, as set out in the IFRS 16 Effects Analysis.

A3. We note that in practice, despite the additional costs, IFRS 16 has resulted in certain benefits to preparers of the financial statements. For example, from a controls perspective, it has led to significantly better-quality information over asset portfolios.

OTHER AREAS WHERE WE BELIEVE THE IASB SHOULD CONSIDER TAKING ACTION

Usefulness of information resulting from lessees' application of judgement

A4. While we do not believe the following issues have a significant negative effect on the usefulness of financial information, we have observed some specific areas where inconsistencies in application of judgement arise, which can sometimes reduce comparability. Additional guidance to support financial statement preparers in making the below judgements would therefore improve consistency.

Lease term

A5. We have observed entities applying varying levels of caution when making judgements about the treatment of extension and termination options when measuring the lease term. This can often have a direct impact on the measurement of lease liabilities and right-of-use assets in the statement of financial position. Some of our members commented that the Application Guidance regarding judgements about the lease term (paragraphs B34-41) is difficult to understand, which may be contributing to diversity in practice. For example, application of the guidance can be challenging when a lease involves complex extension and termination options.

A6. We recommend that the IASB considers revisiting the Application Guidance relating to determining the lease term, to improve its understandability.

Discount rates

A7. Due to the significant amount of judgement required, challenges often arise when determining the discount rate to measure the lease liability. We rarely see the interest rate implicit in the lease being used in practice and the incremental borrowing rate can also be difficult to determine. We understand that some analysts do not rely on the value of lease liabilities presented in the statement of financial position, preferring to calculate lease liabilities in other ways. In some cases, it's been indicated that this is due to a lack of confidence in how the discount rate is calculated. As explained in more detail below, we note the UK FRC has opted to introduce a simplified discount rate option when reflecting IFRS 16 requirements in UK accounting standards.

Variable lease payments

A8. We have observed a lack of guidance regarding variable lease payments and challenges in determining at what point they become "in-substance fixed lease payments" for the remainder of the lease term (paragraph B42). This is particularly evident when, at different points throughout the term of the lease, their nature changes or multiple variable "tranches" become fixed. For example, if the lease payments are based on prior year sales, a right-of-use asset may be built up gradually over time, leading to an unusual depreciation profile (ie, depreciation being higher in later periods than in earlier periods). This may be further distorted when a fixed element subsequently becomes variable again, and it is therefore no longer capitalised and depreciated over the remaining lease term.

Other judgements

A9. In addition, we have identified the following areas where guidance would be helpful to clarify:

- the treatment of evergreen or cancellable leases;
- how to determine the lease term when the written contract has ended but the lessee continues to use the underlying asset (ie, a "holdover period"); and
- how to identify what is an index or a rate in relation to variable lease payments.

Simplifying application of lease accounting requirements for small and medium-sized entities

A10. In the UK, the FRC introduced some simplifications when incorporating IFRS 16's requirements within the amended FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, published in September 2024. These simplifications were intended to ensure that the requirements for lease accounting remain proportionate and cost effective to apply for UK and Irish entities that are not required to apply IFRS® Accounting Standards.

A11. For example, the FRC has permitted an additional discount rate to be used when the interest rate implicit in the lease cannot be determined, known as the "obtainable borrowing rate". This is intended to be simpler to determine than the incremental borrowing rate, thus reducing the amount of judgement required.

A12. As noted above, lease modifications are common and IFRS 16's requirements in this area are complex to apply. Additionally in updating FRS 102, the FRC reduced the number of situations where a revised discount rate is required when accounting for a lease modification.

A13. We note that the IFRS for SMEs® Accounting Standard is targeted at preparers where a similarly proportionate approach may be needed. The IASB may wish to monitor the impact of the above simplifications in the UK and consider any implications for the IFRS for SMEs Accounting Standard in the future.

Usefulness of information about lessees' lease-related cash flows

A14. We agree that the improvements to the quality and comparability of financial information about lessees' lease-related cash flows are largely as the IASB expected. However, we have noted some common issues arising in practice below.

A15. Errors are often made in accounting for lessees' lease-related cash flows, including classification errors. This may be due to a lack of understanding of the requirements or the rationale for splitting variable lease payments between financing and operating cash flows.

A16. We believe the fact that fixed lease payments are presented in financing activities and variable lease payments (not included in the measurement of the lease liability) are presented in operating activities can reduce comparability between entities. The cash flows of two entities with a similar lease arrangement may look significantly different simply because of the way the lease payments are structured.

A17. IFRS 16 requires disclosure of the expense relating to variable lease payments that are not included in the measurement of the lease liability (and which therefore are presented in operating activities in the cash flow statement). We understand not all entities are making this disclosure. While this is more of an enforcement issue and not a deficiency in the Standard, we nevertheless think the IASB should be aware.

A18. The IASB may wish to take the above points into consideration as part of its ongoing project on the nature and extent of perceived deficiencies in the requirements of IAS 7 *Statement of Cash Flows*.

Potential improvements to future transition requirements

A19. We believe that the transitional options available for initial application of IFRS 16 were reasonable and suitable for the Standard. Giving preparers the choice of whether to apply the new requirements fully retrospectively or using the modified retrospective approach was helpful because the benefits of full retrospective application did not generally outweigh the costs. The practical expedients were helpful and frequently used in practice.

A20. However, we would not suggest that the IASB uses IFRS 16 as a model for transition requirements in future Standards, as we believe each new or amended Standard should be judged on its own merits. For example, we believe that a fully retrospective approach is appropriate for initial application of IFRS 18 *Presentation and Disclosure in Financial Statements.* As IFRS 18 changes the presentation of financial information, a consistent approach for current and prior periods will enhance the usefulness of that financial information.

Gain or loss recognition in a sale and leaseback transaction

A21. We agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction is a sensible starting point and provides useful information.

A22. However, we have observed that this approach can be conceptually difficult to understand, particularly in relation to sale and leasebacks with variable lease payments, because it leads to a substantially different accounting outcome than that achieved through the normal lessee accounting model for the lease liability. For example, variable lease payments that do not depend on an index or rate are, for sale and leaseback transactions, included in the initial measurement of the lease liability whereas, for a normal lease, such payments are excluded from the lease liability. Furthermore, complexities arise in respect of sale and leaseback transactions with variable lease payments due to the need to make predictions, potentially over a long lease term, and when dealing with subsequent lease modifications.

A23. We would welcome additional guidance from the IASB to support preparers in understanding the approach taken for sale and leaseback transactions with variable lease payments.

Other matters

Identifying low-value assets

A24. While we understand the IASB did not intend the $5,000 monetary threshold for assets to be considered low-value (in IFRS 16 BC100) as a rule, or a “bright line”, in practice we commonly see it being interpreted in this way. This appears at odds with the IASB’s objective of focusing on principles rather than rules to ensure effective communication of financial information (Conceptual Framework for Financial Reporting, paragraph 7.2). In addition, $5,000 is likely to become an inappropriate reference point with the passage of time due to inflation (if it has not already). We would encourage the IASB to consider removing this example monetary threshold from the Basis for Conclusions to IFRS 16, and to instead provide guidance to further assist entities with making judgements about whether underlying assets are of low value.

A25. In the UK, when amending FRS 102 to incorporate the requirements of IFRS 16, the FRC has not provided a monetary threshold but has instead provided examples of items that are not of low value. This approach is being widely welcomed by preparers. The IASB may wish to consider the approach taken by the FRC in determining what action to take in this area, if any.

Corporate wrappers

A26. In paragraph 37 of this response, we noted some observations regarding the timing of revenue recognition in a sale and leaseback transaction and the interaction between IFRS 16 and IFRS 15. We note that similar issues may arise in situations where there is a sale and leaseback of an asset within a “corporate wrapper” ie, a sale made as part of an entity’s ordinary activities by selling an equity interest in a single-asset entity that is a subsidiary. We acknowledge that the IASB has already committed to include accounting for corporate wrapper transactions as a potential project in its next agenda consultation. We encourage the IASB to also consider any implications for IFRS 16 as part of this review.

Interaction with the FASB on leasing accounting standards

A27. Reflecting on the evolution of IFRS 16, we are mindful that initially the Standard was jointly developed with the Financial Accounting Standards Board (FASB) and was therefore somewhat aligned with ASC Topic 842 Leases in US GAAP when first issued. Both Standards have since developed, with clarifications made to assist with implementation of the requirements. The IASB might wish to analyse the potential benefits of adopting some of the clarifications to Topic 842 in IFRS 16; this may be a cost-effective exercise as evidence of those benefits is likely to be readily available.