

RFI/2025/1 Post-implementation Review IFRS 16 *Leases*

# Feedback to respondents – EFRAG Final Comment Letter

March 2026

This Feedback Statement has been compiled by the EFRAG Secretariat to summarise the main comments received by EFRAG on its draft comment letter and explain how those comments were considered by EFRAG during its technical discussions leading to the publication of its final comment letter. The content of this Feedback Statement does not constitute any form of advice or opinion and does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG.

## RFI/2025/1 Post-implementation Review IFRS 16 Leases – EFRAG’s Feedback statement

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## Introduction

### Objective of this feedback statement

EFRAG published its final comment letter on the Request for Information RFI/2025/1 Post-implementation Review IFRS 16 *Leases* (‘the RFI’) on 23 October 2025. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter.

### Background to the RFI

The IASB is required to conduct a Post-implementation Review (‘PIR’) of each new IFRS Accounting Standard or major amendment under its due process (cf. IFRS Foundation [Due Process Handbook](#), 6.48 et seq.). The objective of a PIR is to assess whether the effects of applying new requirements on users of financial statements, preparers, auditors and regulators are as intended when the IASB developed those new requirements.

In January 2016, the IASB issued IFRS 16 *Leases* (‘IFRS 16’ or ‘the Standard’), which replaced IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of*

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*Transactions Involving the Legal Form of a Lease.* IFRS 16 became effective for annual periods beginning on or after 1 January 2019.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information that faithfully represents leases. The IASB expected IFRS 16 to improve the quality of financial reporting by providing greater transparency about a lessee’s financial leverage and capital employed. They also expected to improve comparability between entities that lease assets and entities that borrow to buy assets while reflecting the economic differences between these transactions.

Further details are available on the [IASB website](#).

### **EFRAG’s draft comment letter**

EFRAG published a [draft comment letter](#) (‘DCL’) for consultation on 28 July 2025 – shortly after the publication of the RFI by the IASB. The DCL was informed by a literature review and based on extensive outreach to multiple stakeholders (users, preparers, auditors, national standard setters and academics) in preparation for the expected RFI.

In the DCL, EFRAG considered that IFRS 16 was generally working well and had largely achieved its objective of improving transparency and comparability by bringing most leases onto the balance sheet. While ongoing costs – particularly in lease-intensive sectors – remained significant, preparers also reported benefits such as improved internal controls, lease monitoring and data quality.

However, EFRAG identified several potential high-priority issues requiring targeted improvements:

#### *Conceptual issues*

- *Statement of cash flows.* Stakeholders faced difficulties connecting lease-related cash flows with the statement of profit or loss and the statement of financial position as well as comparing leasing with debt-financed purchases.

#### *Application issues (scoping of IFRS 16)*

- Unclear distinction between a lease and an in-substance purchase, which affects KPIs and cash flow classification.
- Challenges in identifying lease transactions, particularly for software licences and cloud arrangements.

#### *Interactions with other Standards*

- *IFRS 9.* Lack of clarity on whether rent concessions should be treated as lease modifications or liability extinguishments. EFRAG recommended a narrow-scope project to clarify which Standard prevails.
- *IFRS 15.* Difficulties in assessing whether a sale has occurred in sale and leaseback transactions. EFRAG called for additional guidance or examples.

Users also requested enhanced disclosures in areas involving significant judgement. Overall, EFRAG considered that the transition requirements achieved an appropriate balance between cost relief and useful information.

Additional issues raised by EFRAG’s constituents that were not assessed as high priority were set out in Appendix 2 of the DCL to inform and support EFRAG’s constituents and the IASB’s analysis.

### **Comments received from respondents**

EFRAG received sixteen comment letter responses to the DCL from one user, a user organisation, an enforcer, two preparers, four preparer organisations and seven national standard setters. These comment letters are available on the [EFRAG website](#).

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### *Summary of comment letter feedback*

A majority of respondents considered IFRS 16 to be working well and to have largely met its objectives, improving transparency and comparability by bringing most leases onto the balance sheet. Preparers also reported benefits such as enhanced lease management and controls. However, implementation and ongoing costs remained substantial, particularly for lease-intensive entities. Respondents supported targeted, narrow-scope improvements rather than fundamental changes.

Judgement was seen as inherent to IFRS 16 but raised comparability and audit challenges. Key areas included determining lease term, discount rates (Incremental Borrowing Rate or ‘IBR’), and accounting for variable lease payments. Respondents called for clearer guidance, illustrative examples and enhanced disclosures to improve consistency and transparency.

Many respondents criticised the split of lease payments between operating, interest and financing activities, arguing it reduces transparency and leads to reliance on non-GAAP measures. Concerns also related to disclosure complexity and lack of clarity between leases and in-substance purchases. Several urged the IASB to address these matters in its Statement of Cash Flows project.

Ongoing costs remained high, driven by IT systems, data maintenance, IBR determination, frequent reassessments and modifications, index-linked remeasurements, and extensive disclosures. A few considered costs manageable, especially for smaller portfolios. To mitigate high costs incurred, suggested improvements included revising the low-value exemption, facilitating portfolio approaches and simplifying disclosures.

Transition options were generally viewed as balanced and pragmatic, though some preferred full retrospective application for comparability. One respondent noted that certain cost reliefs were of limited benefit.

In relation to the interaction with IFRS 9, many respondents called for clarification on whether concessions should be treated as lease modifications or liability extinguishments, noting diversity in practice. Regarding the interaction with IFRS 15, a few respondents highlighted difficulties in assessing transfer of control and gain recognition for some type of arrangements.

### *Outreach feedback*

Most outreach activities were performed in preparation for the DCL and before the RFI was published. After publishing the DCL, the following targeted outreach activities were performed:

- outreach to ASCG, AFRAC and FER stakeholders (in cooperation with these standard setters and the IASB)
- discussion with the EFRAG academic panel
- a workshop with academics jointly organised by EAA, the IASB, EFRAG and the UKEB.

Moreover, EFRAG received further feedback from a preparer, a user and a national standard setter.

## **EFRAG’s final comment letter**

EFRAG published its [final comment letter](#) (‘FCL’) on 23 October 2025. Based on the feedback received and the EFRAG FR TEG and FRB discussions, the FCL largely retained the tentative views expressed in the DCL. The changes made to the DCL mainly involved refining the rationale for addressing the issue and improving the structure of the comment letter. These changes are explained under the relevant questions below.

**EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments**

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**RFI Question 1 *Overall assessment of IFRS 16***

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**Introduction**

The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information about their leases in a manner that faithfully represents those transactions. To meet the objective, IFRS 16 requires lessees to account for almost all leases as providing finance and therefore removing the distinction between finance and operating leases under IAS 17 Leases (‘IAS 17’). Regarding lessors, most of the accounting requirements were substantially unchanged.

The IASB expected to achieve a more faithful representation of a lessee’s assets and liabilities and greater transparency about the lessee’s financial leverage and capital employed. In terms of costs, the IASB acknowledged that lessees with material off-balance sheet operating leases would incur implementation costs. However, it expected that after updating the IT systems, the ongoing costs would only be marginally higher than under IAS 17.

In question 1 of the RFI, the IASB sought stakeholders’ views on whether IFRS 16 had met its objective and whether the overall improvements to the quality and comparability of financial information about leases was as the IASB expected. The IASB also sought evidence to help assess whether the costs of preparing, auditing and enforcing the requirements were as intended when the Standard was developed.

**EFRAG’s tentative position**

EFRAG’s outreach indicated that IFRS 16 was generally working well and had largely met its objective, with constituents welcoming improved transparency and

**EFRAG’s response to respondents’ comments**

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**EFRAG’s final position**

The feedback received through the comment letters and outreach activities was largely confirmatory of the positions set out in the DCL. However, in light of feedback from many respondents highlighting significant ongoing costs, EFRAG removed the statement that such costs were broadly aligned with the IASB’s expectations. Apart from this change, the FCL largely retained the drafting of the DCL, with only minor amendments to the responses.

## **EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments**

## **EFRAG’s response to respondents’ comments**

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comparability from bringing most leases onto lessees’ balance sheets. Preparers also highlighted significant implementation costs.

Feedback also indicated that IFRS 16 had improved the quality, usefulness and comparability of lease-related financial information, particularly in lease-intensive industries, by providing a more faithful representation of lease obligations and reducing the need for user adjustments, alongside improvements in preparers’ internal controls and data quality. However, stakeholders raised concerns about non-standard lease arrangements and the high level of judgement required in areas such as lease term and discount rate determination, which may lead to diversity in practice and limit comparability.

EFRAG found that the ongoing costs and benefits of IFRS 16 were broadly aligned with expectations, though costs could be higher in industries with large and complex lease portfolios due to continuous data updates, IT maintenance and highly judgmental assessments. While practice had largely settled and stakeholders showed limited appetite for major changes, targeted improvements could potentially reduce complexity and costs.

### **Respondents’ comments**

A majority of respondents considered that IFRS 16 had largely met its objectives and agreed with EFRAG’s assessment that the Standard was generally working well and had improved lease-related financial reporting. A few respondents also highlighted the clarity of its core principles, particularly the single lessee model treating leases as debt-like transactions.

A majority of respondents noted that recognising most leases on the balance sheet improved transparency and comparability, supporting better analysis of leasing

**EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments**

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versus purchasing and reducing the need of adjustments for users. IFRS 16 also brought benefits for preparers through improved lease management and controls.

Many respondents reported substantial implementation and ongoing costs driven by system development, data collection, continuous updates and complex lease modifications, with a few questioning whether the benefits justify these costs. While IFRS 16 was generally viewed as working well, respondents supported targeted, narrow-scope amendments to reduce complexity and costs, while cautioning against fundamental changes that could be disruptive.

**EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments**

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**RFI Question 2 *Usefulness of information from lessees’ application of judgment***

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**Introduction**

IASB stakeholders raised concerns related to the fact that the subjective judgments required by IFRS 16 reduce the comparability of financial statements. The issues focused on three main aspects.

*Lease term.* Determining the non-cancellable period during which the lessee has the right to use the asset might be highly subjective, often leading to results that conflict with users’ expectations.

*Discount rates.* Calculating the IBR is complex. This often results in inconsistent rates for similar assets, though some users find it more accurate than IAS 17.

*Variable lease payment.* There is difficulty in classifying which payments to include in lease liabilities and concerns over limited disclosure.

**EFRAG’s tentative position**

EFRAG acknowledged that while IFRS 16 improved financial reporting, significant judgement in key areas led to diversity in practice and comparability issues.

*Lease Term.* Complex arrangements (e.g. tacit renewal contracts or indefinite lives with short termination notice) posed challenges in determining non-cancellable periods, enabling structuring to influence leverage and KPIs. Users called for more disclosures on assumptions.

**EFRAG’s final position**

Based on the feedback received, EFRAG revised its FCL to acknowledge that companies face considerable difficulty in determining the interest rate implicit in the lease, with this requirement often being viewed as more theoretical than practical. Most respondents reported using the IBR instead; however, feedback also highlighted significant challenges in applying the IBR. In response, EFRAG included in the FCL various suggestions from constituents regarding potential simplifications or alternative approaches that the IASB could explore.

For the assessment of the lease term and variable lease payments, the FCL incorporated only minor refinements. These adjustments aimed to more accurately reflect specific scenarios raised by constituents and to integrate requests for additional guidance or illustrative examples.

**EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments**

**EFRAG’s response to respondents’ comments**

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*Discount rates.* Determining the IBR was complex and subjective, resulting in inconsistent application and comparability issues. Stakeholders suggested more disclosures.

*Variable lease payment.* Increased use of service-based and variable lease structures may have led to off-balance sheet items and reduced relevance. Inconsistent treatment across IFRS Accounting Standards and a lack of clarity in classification added to the concerns. More guidance and transparency are needed.

Stakeholders proposed enhanced guidance, possible scope exclusions, and better disclosure of assumptions, methodologies and potential impacts related to judgement areas. Preparers, however, cautioned that expanded disclosures could increase complexity and costs and still rely heavily on management judgement.

**Respondents’ comments**

While most respondents accepted that judgement is inherent to IFRS 16, many noted that significant judgement reduces comparability and increases audit complexity.

*Lease term.* Complex contracts (e.g. those with options, indefinite terms or short-notice periods) required significant judgement, raising concerns over comparability and structuring opportunities. Some users believed this judgement reflects business needs, while others called for clearer guidance, more illustrative examples and better disclosures (e.g. average lease terms, assumptions used).

*Discount rates.* Determining the IBR was complex and varied widely due to differences in credit risk assessment and available data, impacting comparability. Suggestions included using a weighted average rate and enhancing disclosures on methodology and assumptions.

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*Variable Lease Payments.* The growing use and complexity of variable payments created classification challenges, especially in mixed structures (e.g. variable-to-fixed leases). These issues affected income recognition and cash flow presentation. Stakeholders proposed improving disclosures and reconsidering recognition rules to better reflect economic substance, while noting that alignment with other IFRS Accounting Standards may help.

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*RFI Question 3 Usefulness of information about lessees’ lease-related cash flows*

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**Introduction**

IFRS 16 requires lessees to classify lease cash flows by splitting principal (financing), interest (per IAS 7) and other certain lease payments (operating). It also requires disclosure of total lease cash outflows and relevant qualitative and quantitative information.

IAS 7 requires non-cash lease transactions to be disclosed separately and changes in lease liabilities to be reconciled.

While IFRS 16 has improved the transparency and quality of information in lessee financial statements, stakeholders found the cash flow presentation complex and noted that some entities omit disclosure of total lease cash outflows.

**EFRAG’s tentative position**

EFRAG’s outreach indicated that while IFRS 16 improved lease transparency and comparability, stakeholders raised concerns about the presentation and disclosure of lease-related cash flows. Some struggled to connect the statement of cash flows with the other primary financial statements.

Concerns focused on whether splitting lease payments between operating and financing activities, and into principal and interest components, faithfully reflected lease transactions and limited comparability with debt-financed purchases and insufficient disclosures. EFRAG considered this to be a high-priority issue and encouraged the IASB to address these in its statement of cash flows project.

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**EFRAG’s final position**

The comment letters and outreach activities feedback received were largely confirmatory of the positions expressed in the DCL. Hence, the FCL largely retained the drafting of the DCL, with only minor amendments to the responses, including the addition of a respondent’s view that certain forward-looking disclosures (e.g. extension and termination options) were complex and costly to provide.

EFRAG’s view on the distinction between lease and in-substance purchase of an asset is addressed in Question 6.4 *Other matters relevant to the assessment of the effects of IFRS 16*.

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## Respondents’ comments

Many respondents raised concerns about the presentation of lease-related cash flows under IFRS 16. They argued that splitting payments into principal (financing), interest and operating components reduced transparency and usefulness, leading many entities to rely on non-GAAP measures (e.g. adjusted free cash flow). A respondent viewed the disclosure of total lease cash outflows and certain forward-looking disclosures (e.g. extension/termination options) as inconsistent, complex or costly. A few respondents called for better transparency on non-cash movements. One respondent from the insurance industry considered the current presentation satisfactory.

A key concern – particularly in lease-intensive sectors such as retail – was that classifying principal repayments as financing did not reflect the operational nature of leases and reduced readability, especially when fixed and variable payments for the same asset are split across operating and financing sections. This respondent also highlighted the lack of clarity between leases and in-substance purchases and proposed a model for distinguishing in-substance purchases (investing/financing) from other leases (operating).

Several respondents urged the IASB to address these issues in its Statement of Cash Flows project.

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**RFI Question 4 Perspectives on ongoing costs for lessees of applying the measurement requirements**

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**Introduction**

Stakeholders expressed concerns that IFRS 16’s lease liability measurement requirements generate higher ongoing costs than expected. In particular, determining and revising discount rates, especially the incremental borrowing rate, was complex and costly.

Frequent reassessments, modifications and index-related remeasurements – especially for large lease portfolios – required significant effort and often provided limited additional benefits. Some stakeholders therefore called for simplification or further guidance to improve the cost–benefit balance.

**EFRAG’s tentative position**

EFRAG’s stakeholders expressed mixed views on the cost–benefit balance of IFRS 16. While a majority considered that benefits outweighed costs, ongoing costs remained significant for industries with large and complex lease portfolios and may be disproportionate for entities with relatively few lease assets. Key cost drivers included:

- determining discount rates, particularly the incremental borrowing rate, which was costly, subjective, often required external data, and created volatility when updated;
- lease modifications and index-based remeasurements, as frequent contractual changes and updates linked to indices (e.g. CPI) required

**EFRAG’s final position**

Based on the feedback received, EFRAG revised its final comment letter to incorporate additional feedback received on areas contributing to high ongoing costs for preparers, including:

- higher-than-expected IT costs, particularly for implementing and maintaining systems capable of modelling complex requirements (e.g. differentiated treatment of scope increases and decreases, and discount rate changes triggered by lease term revisions);
- costly and time-consuming data collection for the disclosure requirements in IFRS 16.59(b), especially regarding future cash outflows related to variability and extension/termination options.

EFRAG also incorporated potential improvements to reduce costs, including:

- revising the low-value asset exemption, suggesting that the fixed monetary threshold included in the BC should be linked to materiality (or adjusted over time) and extended to subleases;
- facilitating the practical use of the portfolio approach, which was currently limited due to concerns about reflecting one-off events; and
- reconsidering the disclosure requirements in paragraph 16.59(b), with some suggesting replacing forward-looking variability disclosures with

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### EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

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repeated, complex recalculations that were operationally burdensome and often demanded dedicated IT solutions; and

- disclosure requirements and the management of numerous immaterial leases, which generated high manual effort despite limited financial statement impact.

### Respondents’ comments

Many respondents reported that ongoing costs under IFRS 16 remained high and, in some cases, higher than expected when replacing IAS 17. Key cost drivers included:

- IT and systems costs, especially for complex requirements (e.g. scope changes, discount rate updates) and storing contract data;
- determining and updating the IBR, including reliance on external market data providers;
- frequent reassessments and lease modifications, particularly in large portfolios;
- index- or rate-linked remeasurements, which are operationally demanding; and
- extensive disclosure requirements (notably IFRS 16.59(b)).

A few respondents considered ongoing costs manageable and broadly aligned with expectations, especially where lease portfolios were smaller and more standardised. Reported benefits were mainly internal (e.g. improved controls and lease data visibility).

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### EFRAG’s response to respondents’ comments

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more granular qualitative and quantitative information on actual cash flows to better reflect how leases are used in practice.

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Some respondents suggested cost-reduction measures, including revising the low-value asset exemption (e.g. linking it to materiality or adjusting for inflation), facilitating portfolio application, and reconsidering detailed disclosure requirements.

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**RFI Question 5 *Potential improvements to future transition requirements***

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**Introduction**

IFRS 16 included transition reliefs, allowing either full retrospective application or a modified retrospective approach without restating comparatives. Most entities chose the modified approach for cost–benefit reasons and found the practical expedients helpful. The IASB asked respondents whether it should do anything differently when developing transition requirements in future projects.

**EFRAG’s tentative position**

EFRAG’s constituents welcomed the transition options, with the majority applying the modified retrospective approach for cost and simplicity, and some opting for full retrospective application to enhance comparability. Users generally found the transition information useful. EFRAG considered that the requirements achieved an appropriate balance between cost relief and decision-useful information.

**Respondents’ comments**

Respondents agreed that IFRS 16 transition options and simplifications struck an appropriate balance between user information and preparer costs. However, one respondent noted that the exemption from discounting where the effect is not material was of limited benefit.

A few respondents preferred the full retrospective approach to enhance comparability, while acknowledging the need for practical exemptions. A regulator

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**EFRAG’s final position**

Based on the feedback received, EFRAG revised its final comment letter to reflect relevant constituents’ views. In particular, EFRAG stated that the IASB should, in future standard-setting projects, continue to assess on a case-by-case basis whether exemptions from full retrospective application are justified, ensuring that comparability for users of financial statements is not undermined.

EFRAG also recommended that the IASB avoid introducing cost-relief measures where applying the relief would itself require entities to incur the costs the measure sought to eliminate – for example, where assessing whether discounting was immaterial already required performing the discounting calculation.

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cautioned that exemptions from full retrospective application should be carefully assessed in future projects to safeguard transparency and comparability.

One respondent considered that transition costs – especially lease identification and documentation – had been underestimated.

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**EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments**

**EFRAG’s response to respondents’ comments**

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**RFI Question 6.1 *Applying IFRS 16 with IFRS 9 to rent concessions***

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**Introduction**

The IFRS Interpretations Committee discussed the accounting for rent concessions involving forgiveness of lease payments and identified two approaches: treating the forgiven amount as a partial extinguishment under IFRS 9 (recognised in profit or loss) or as a lease modification under IFRS 16 (adjusting the right-of-use ('ROU') asset). The Committee recommended that the IASB clarify the distinction, as feedback indicated ongoing uncertainty about the interaction between IFRS 16 and IFRS 9.

**EFRAG’s tentative position**

EFRAG noted uncertainty about whether forgiveness of lease payments should be treated under IFRS 9 or IFRS 16. EFRAG considered that the IASB’s July 2024 amendments to IFRS 9 did not resolve this conflict and viewed the issue as high priority. It recommended a narrow-scope project to clarify the distinction and determine which Standard prevails when the distinction is unclear.

**Respondents’ comments**

Many respondents encouraged the IASB to clarify the appropriate treatment. One suggested distinguishing between stand-alone rent concessions (accounted for as derecognition under IFRS 9) and concessions combined with other lease modifications (accounted for under IFRS 16).

A few respondents noted that stand-alone rent concessions are uncommon outside periods of severe economic stress (e.g. COVID-19), although they may occur more

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**EFRAG’s final position**

Based on the feedback received, EFRAG revised its final comment letter to specify that stand-alone rent concessions are especially frequent during periods of severe economic difficulty, such as the COVID-19 pandemic.

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frequently in certain industries. One respondent also noted that when IFRS 9 was applied, the timing of recognising the income in profit or loss may have also varied.

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**RFI 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**

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**Introduction**

As part of its review, the IASB asked whether stakeholders had observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction qualified as a sale under IFRS 15, and how the IASB could assist seller–lessees.

Stakeholders requested additional guidance, noting judgement challenges in cases such as renewal options covering most of the asset’s life, partial leasebacks, leasing back a different asset than the one sold, rights of first refusal, or when the buyer–lessor classified the leaseback as a finance lease. They also expressed uncertainty about whether transfer of control could be reassessed and whether specific thresholds of asset value or life would preclude sale accounting.

**EFRAG’s tentative position**

EFRAG received feedback highlighting challenges in assessing whether the transfer of an asset in a sale and leaseback transaction qualified as a sale. IFRS 16 provided limited specific guidance, and entities relied on IFRS 15 to assess transfer of control.

Key issues included whether renewal options covering most of an asset’s economic life precluded sale accounting and how to determine the unit of account in partial leasebacks (e.g. one floor of a building). In the absence of clear guidance, different approaches had emerged, leading to diversity in practice and reduced comparability.

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**EFRAG’s final position**

The feedback received through the comment letter and outreach activities was largely confirmatory of the positions expressed in the DCL. Hence the FCL retained the DCL’s drafting with minor amendments made to the responses.

EFRAG’s constituents raised application challenges on the interaction between IFRS 16 and IFRS 10 when a sale and leaseback transaction involved the disposal of a single asset through a corporate wrapper. Stakeholders had expressed concern regarding the fact that current guidance did not provide sufficient clarity on how the requirements in IFRS 10 (concerning derecognition and recognition of gain or loss) interacted with the IFRS 16 requirements on sale and leaseback transactions, potentially leading to inconsistent accounting outcomes in practice.

EFRAG did not address the issue as part of the response to this question but included it in Appendix 2 – *Other issues* of the comment letter. EFRAG considered this to be a broader topic that had previously been considered by the IASB in the context of the Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, as well as the Post-implementation Review of IFRS 15, and that it was expected to be considered by the IASB in the next Agenda Consultation.

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**EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments**

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These issues were considered prevalent and high priority. EFRAG recommended that the IASB undertake standard-setting action, such as providing clarifying guidance or illustrative examples, to address these challenges and reduce diversity.

**Respondents’ comments**

A few respondents highlighted difficulties in assessing transfer of control in sale and leaseback transactions, particularly when lease terms (including renewal options) covered most of the asset’s economic life and the lessee retained significant risks and rewards. Applying IFRS 15 in these cases may have led to differing approaches and reduced comparability.

A few respondents called for additional guidance or examples to reduce diversity, especially for contracts with extension options covering most of the asset’s life. One suggested focusing on clearer presentation and disclosure instead.

Concerns were also raised about sale and leaseback transactions involving corporate wrappers, where different interpretations of transfer of control could affect whether gains were recognised in full or only partially.

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

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**Introduction**

IFRS 16 requires a seller–lessee in a sale and leaseback transaction to recognise only the portion of the gain or loss that relates to the rights transferred to the buyer–lessor. This restriction was intended to reduce incentives to structure transactions to achieve preferred accounting outcomes.

However, some stakeholders considered partial gain or loss recognition inconsistent with the general model in IFRS 15. They also noted that the measurement of the ROU asset and lease liability differed from normal lease accounting and that the model involved complex calculations that were difficult for users to understand.

**EFRAG’s tentative position**

EFRAG received limited feedback on this issue. The only concern raised related to the complexity of determining the gain or loss attributable solely to the rights transferred to the buyer–lessor. Some noted that the US GAAP approach – recognising the full gain or loss – was simpler to apply. However, no broader issues were identified, and EFRAG did not consider changes in this area to be a priority.

**Respondents’ comments**

A few respondents supported the partial gain or loss recognition model in sale and leaseback transactions, considering it useful when the seller–lessee retains control, and did not identify significant cost–benefit concerns. However, one respondent preferred full gain recognition supplemented by enhanced disclosures.

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**EFRAG’s final position**

Based on the feedback received, EFRAG revised its final comment letter to specify that it was not aware of new information indicating that the cost–benefit balance of the partial gain or loss recognition requirements was significantly different from what was expected.

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## RFI Question 6.4 *Other matters relevant to the assessment of the effects of IFRS 16*

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### Introduction

In Question 11 of the RFI, the IASB asked for any other information it should examine as part of the Post-implementation Review of IFRS 16.

### EFRAG’s tentative position

EFRAG highlighted two additional high-priority issues not covered in the RFI: (1) the distinction between a lease and an in-substance purchase of an asset, and (2) identifying lease transactions, particularly in software arrangements. Other issues brought to EFRAG’s attention were included in Appendix 2 – *Other issues*.

#### *Distinction between lease and in-substance purchase*

Stakeholders considered the lack of clear guidance in IFRS 16 on distinguishing leases from in-substance purchases a significant and complex issue. This affected KPIs, financial statement presentation and cash flow classification, and may have reduced comparability with debt-financed purchases. Common challenging scenarios included leases covering most of an asset’s useful life, contracts with purchase options, Power Purchase Agreements (PPAs), and arrangements where the lessee was involved before the asset was available for use (e.g. a financial entity managing the construction of an asset on behalf of the entity). EFRAG considered this a high-priority issue that should be addressed within the PIR.

#### *Identifying lease transactions*

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### EFRAG’s final position

Based on the feedback received, EFRAG revised its final comment letter to better explain the distinction between a lease and an in-substance purchase of an asset.

EFRAG also included in Appendix 2 – *Other issues* additional application issues raised by constituents that were not included in the DCL and that were not considered to be high priority issues. EFRAG specifically added the following issues.

- *Major maintenance cost.* A respondent noted diversity in accounting for major maintenance costs of leased transport assets. In practice, entities applied either a provision approach (accruing expenses over time) or a components approach (capitalising costs as part of the ROU asset and depreciating them). Clarification from the IASB was requested to ensure consistency.
  - *Interaction with IAS 29 Financial Reporting in Hyperinflationary Economies.* A respondent highlighted asymmetry arising from the different nature of the ROU asset (non-monetary) and lease liability (monetary), which was amplified in hyperinflationary economies. While foreign currency remeasurement under IAS 21 already created asymmetry, IAS 29 further increased it by requiring revaluation of the non-monetary ROU asset. The respondent suggested addressing this
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**EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments**

Identifying whether a contract contained a lease remains a major application challenge, requiring significant judgement and leading to diversity in practice. Difficulties included assessing control, ‘substantially all’ economic benefits, substitution rights, and distinguishing leases from service or multi-component contracts. EFRAG considered that the IASB’s provision of more guidance on the identification of lease transactions was of high priority.

**Respondents’ comments**

Several respondents highlighted practical difficulties in distinguishing between a lease and an in-substance purchase, particularly when lease terms approached the asset’s useful life or included extension or ownership transfer options. The issue was increasingly relevant in areas such as electricity contracts. The classification affected cash flow presentation and measurement, especially where variable payments were involved and where other Standards (e.g. IAS 16 or IAS 38) provided limited guidance.

A respondent recommended that the IASB clarify the distinction, potentially based on whether economic benefits were received over a limited period or over the asset’s useful life, and reconsidered the related cash flow classification. One respondent questioned whether the issue was sufficiently significant to remain a priority.

In addition, several respondents raised challenges in identifying leases within the scope of IFRS 16, particularly when distinguishing leases from service contracts (e.g. PPAs), in corporate wrapper structures, and in technology-related arrangements such as cloud services. They called for further guidance and illustrative examples, including on the interaction with IAS 38 and IFRS 15.

**EFRAG’s response to respondents’ comments**

issue in any future revision of IAS 29 and clarifying whether ROU assets and lease liabilities qualified as items linked to price changes.

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**EFRAG’s tentative views expressed in the draft comment letter  
and respondents’ comments**

**EFRAG’s response to respondents’ comments**

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Individual respondents also raised other application issues or issues related to the interaction with other IFRS Accounting Standards.

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## Appendix 1: List of respondents

**Table 1: List of respondents**

<b>Name of respondent</b>	<b>Country</b>	<b>Type / Category</b>
Felipe Herranz	Spain	User
Autostrade per l’Italia S.p.A.	Italy	Preparer
European Federation of Financial Analysts Societies (EFFAS)	Europe	Users/ User organisation
Instituto de Contabilidad y Auditoría de Cuentas (ICAC)	Spain	Standard Setter
Austrian Financial Reporting and Auditing Committee (AFRAC)	Austria	Standard Setter
Leaseurope	Europe	Preparer/ Preparer organisation
Assuralia	Europe	Preparer/ Preparer organisation
European Securities and Markets Authority (ESMA)	Europe	Regulator/Enforcer
Organismo Italiano di Contabilità (OIC)	Italy	Standard Setter
Dutch Accounting Standards Board (DASB)	Netherlands	Standard Setter
Autorité des Normes Comptables (ANC)	France	Standard Setter
European Savings and Retail Banking Group (ESBG)	Europe	Preparer/ Preparer organisation
Siemens	Germany	Preparer
Accounting Standards Committee of Germany (ASCG)	Germany	Standard Setter
Norwegian Accounting Standards Board (NASB)	Norway	Standard Setter

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Business Europe	Europe	Preparer/ Preparer organisation
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