

15 October 2025

International Accounting Standards Board
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United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON IASB/RFI/2025/1 – REQUEST FOR INFORMATION - POST-IMPLEMENTATION REVIEW OF IFRS 16 – LEASES

In response to your request for comments on SAICA Submission on IASB/RFI/2025/1 – Request for Information - Post-Implementation Review of IFRS 16 *Leases*, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, preparers, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

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Chairperson: APC

Mulala Ratshitanga
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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.*

Response to question 1(a) and (b)

The members had mixed views on this question. Some members were of the view that IFRS 16 is fit for purpose and aligned with its objectives of providing users of financial statements with a faithful representation of lease transactions, ensuring more transparent and comparable financial reporting by requiring lessees to recognize assets and liabilities from leases on their balance sheets. These members acknowledged that their assessment could be based on the fact that their transition from IAS 17 principles to the single lease model was relatively straightforward largely due to the low volume and non-complex nature of their lease portfolio

While this group of members believe that IFRS 16 broadly meets its objectives, they did express a concern that it does not fully address certain complex scenarios, particularly:

- Lease payments escalating with indexes, which introduce accounting remeasurement challenges.
- Power purchase agreements (PPAs) that may fall under IFRS 16 but there is a lack of clear guidance.

Other members highlighted that the standard does not accommodate all business complexities, especially those that are not pervasive across all industries, but in the industries impacted have significant impact. Members acknowledged this limitation and suggested that while IFRS 16 is effective in general, additional guidance or illustrative examples are needed for complex arrangements. It was also noted that there are also challenges on reassessing the lease term, particularly when evaluating whether renewal is “reasonably certain.” This is due to information sometimes not available to make this judgement.

Further, there were members that noted that although the standard is conceptually sound, there are current implementation gaps and challenges in applying it in practice, particularly considering technological advancements and evolving business practices. Some of the members in this group believe that the standard is currently needs revamping and doesn’t sufficiently cater for the shift from physical record-keeping to cloud computing and digital storage. Members provided the following examples:

- **Technological Evolution:** the technological environment has evolved significantly since IFRS 16 implementation. While IFRS 16 may still be suitable for traditional tangible asset leasing (e.g., vehicles, buildings), it is no longer fit for purpose in contexts involving digital infrastructure and cloud-based services.
- **Cloud Computing Misalignment:** IFRS 16 does not adequately address cloud computing arrangements. Although cloud services often involve exclusive access to data center space, they are generally not treated as leases under IFRS 16 as it a challenge to prove that the exclusive access grants control over the underlying space. This leads to inconsistent interpretations and undisclosed judgements in financial statements. The IFRS Interpretations Committee guidance on cloud computing is currently insufficient and it leaves preparers to make their own judgement without clear disclosure requirements.

Response to question 1(c)

In assessing the cost of applying IFRS 16, some members concluded that it is substantially higher than under IAS 17, especially in industries with complex and high volume of leases (e.g., mining and extractive sectors). Most of these leases are often negotiated by non-accountants, requiring ongoing training for procurement teams to identify implicit lease components. Other prepares also noted that high staff turnover further increases costs due to continuous retraining.

The key challenges noted include:

- **Discount Rate Calculation:** The standard requires specific adjustments to the discount rate, but these rates are not readily available and must often be procured externally. This necessitates consultation with experts, adding to the cost burden. We believe that this cost can reduce if IASB was to allow for use of alternative readily available discount rates.
- **Theory vs. Practice:** While IFRS 16 is theoretically sound, its practical application is problematic. Many real-world scenarios, such as renegotiated payment terms or delayed payments, are not clearly addressed by the standard. This results in added capacity requirements for the prepares to come up with acceptable accounting treatment and additional audit hours. We believe that this cost can reduce if the standard can include additional illustrative examples on complex scenarios.
- **Outsourcing Limitations:** Previously, under IAS 17 lease-related processes such as contracting and payments were outsourced. However, IFRS 16's accounting complexity means that the leasing function can no longer be outsourced in full, requiring companies to hire or train internal teams for IFRS 16 accounting while still maintaining the outsource arrangement to cater for the contracting and payments. The application of IFRS 16 is complex and often requires management judgement, thus, due to financial impact, it is too risky to outsource the IFRS 16 calculation and accounting.
- **System Demands and Maintenance:** Entities with large lease portfolios (e.g., 15,000 leases and above and approximately 300 monthly changes on the lease portfolio) face system performance issues. Even specialised lease accounting systems struggle with high volumes and frequent modifications, leading to manual interventions and increased labour costs. This results in ongoing maintenance. Some prepares noted that for complex lease arrangement, the system struggles and end up using manual calculations. The manual processing of complex leases has led to higher-than-expected implementation and operational costs. This cost can be reduced by adding additional practical expedients to reduce the numbers of lease that need to be capitalized. The expedient can aim on reducing the number of frequent changes and number of leases that end up being capitalized as it is the frequent changes that results to high system costs.
- **Volume-Driven Complexity:** With tens of thousands of leases across multiple operations, managing lease data and compliance is extremely difficult on an ongoing basis. Theoretically, the standard works well for entities with fewer leases. However, in high-volume environments like telecoms, challenges arise in managing frequent lease modifications, handling complex lease structures and accounting for leases where the lease terms are finalized after the lease commencement date (backdated leases), which are common in the sector. A practical expedient that aims to reduce the number of leases that end up being capitalized such as increase the low value threshold, less judgement required on application of the principles and less remeasurement requirements can assist to reduce the added capacity requirements.
- **Communication and Coordination:** Lessee accounting requires input not just from the accounting teams, but across the business value chain (procurement, asset users, legal, contracting teams), ensuring clear understanding of the requirements and that business teams communicate effectively with accounting teams is a challenge, especially when there is high staff turnover and complex high number of leases. Additional practical expedient that aims to reduce the number of arrangement that requires to be accounted as capitalized leases can assist to reduce the cost as it will mean lesser stakeholders involved in the process.

- **Jurisdictional Complexity:** Lease terms vary across jurisdictions; some preparers noted that they have intercompany leases with their subsidiaries in different jurisdiction. These preparers noted that it is hard to find systems that can accommodate all variations and complexities. Preparers in this instance end up using manual calculations which take a lot of capacity. Practical expedient that reduces the requirements around intercompany leases can assist to reduce the capacity required and reduce the costs.
- **Sale and Leaseback Transactions:** Systems used for lease accounting do not integrate well with those used for sale and leaseback transactions, particularly in group company structures, where the sale and leaseback are supposed to not impact the Group, and system cannot fully eliminate/reverse adding further complexity. Practical expedient that reduces the requirements around intercompany leases can assist to reduce the capacity required and reduce the costs.

Some preparers noted that regarding their South African entities, no significant additional costs were incurred because existing accounting system were adapted for IFRS 16 compliance. However, in other African regions, although the existing system needed to be changed to accommodate IFRS 16, the cost-benefit of upgrading systems was not justified, therefore manual Excel templates continue to be utilised.

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 requires entities to disclose (and how the benefits would outweigh the costs).*

Response to Question 2 (a)

Overall, we agree that the usefulness of financial information resulting from lessees' application of judgement is as expected but requires improvements. This is because while IFRS 16 provides a framework that aims to ensure usefulness of financial information for lease accounting, its application in some areas introduces practical difficulties and inconsistencies that could be mitigated through clearer guidance and simplifications.

Response to Question 2 (b) and (c)

Members noted that judgement-related challenges under IFRS 16 are particularly evident in two areas: namely in determining the lease term and calculating the discount rate.

Complexities specifically arise in accounting for evergreen leases, which are expected to continue indefinitely, resulting on mixed views on whether they qualify as short-term or not, however, some members noted that classifying them as short-term leases might not reflect their economic substance. This creates inconsistencies in how entities apply the short-term lease expedient, especially when such leases are integral to revenue generation and valuation processes, such as CGU assessments. Some entities treat these leases as short-term as they run on month-to-month and usually require a less than 12 month notice to terminate, while others align them with budgeting periods (period used in the IAS 36 value in use calculation, i.e. if the income from the lease is

assumed to be over the 5 year, budget period then assume these leases will run for 5 years), leading to comparability issues.

Members have concerns about how judgement is applied under IFRS 16, particularly in determining whether a lease qualifies as short-term and whether the lessee has control over the asset. Members recommend that the IASB consider updating the definition of lease term. There is a need for clarification in IFRS 16 regarding how judgement is applied to lease term assessments. The core issue is whether the standard should be interpreted based on the lessee's current intention to continue using the asset or on whether it is reasonably certain that the lease will be extended based on other factors such as historic practice and contractual terms. This clarification is necessary as often the lease agreement will require both parties to agree on the extension, thus, even though the lessee might intend to extend, without the confirmation from the lessor, the lessee cannot be reasonably certain that it will extend. This distinction affects how lease terms are determined and disclosed. We believe that IFRS 16 could benefit from clearer guidance on whether the standard is driven more by subjective intention or by objective certainty, as this ambiguity currently leads to inconsistent application and interpretation.

Another example of judgement on the lease term verses the economic life of an asset:

In April 2023, the IFRS Interpretations Committee finalised an agenda decision '*Definition of a Lease–Substitution Rights (IFRS 16 Leases)*'. However, the Committee did not conclude what the lease term would be in a situation where a lease exists and the period of use of the identified asset was shorter than the contract term. Where a lessor has a right or obligation to replace a leased asset with another identical asset, the period of use of the leased asset might be shorter than the contract term. The question is how should the lease term be determined in this situation? Members have observed diversity in practice and suggest further guidance in this regard.

Some members have also noted a key complexity in month-to-month lease arrangements under IFRS 16 taking into consideration the fact that the lessor also has the right to terminate leases. In group structures, where both parties may be under common control, this is easier to manage. However, in independent arrangements, the lessor may choose to end the lease for reasons such as securing a better rental or repurposing the asset. Therefore, assuming indefinite continuation from the lessee's side is unrealistic. This dual-sided uncertainty introduces practical challenges in determining the lease term and applying the standard consistently.

In addition, some members had concerns over the requirement to include lease extension or termination options in the lease term if it is "reasonably certain" that they will be exercised. Because these are options, the lessee can choose not to exercise them and thereby avoid future payments, supporting the view of not including them. This requirement adds complexity and increases costs, as entities often need to engage legal specialists to assess whether an option is reasonably certain to be exercised. These members suggested that if there is an option to extend, it would be simpler to view the extension period as a month-to-month lease rather than applying the "reasonably certain" test to the extension option. Some members view this requirement of the standard as adding to the burden that complicates lease term judgments and drives up implementation costs. These members have also noted that unlike other financial liabilities, lease extension options can be avoided, which technically means they do not meet the definition of a liability. This inconsistency creates confusion and raises questions about whether such options should be included in the lease term. However, all the members agreed that excluding lease options from the lease term under IFRS 16 (not considering options) particularly cancellation clause, could result in unintended consequences such as leases being treated as indefinite, especially when the lease lacks a defined term and either party can cancel with short notice. Based on this, the members suggested that both extension and cancellation options application requirements need to be considered carefully, as excluding them entirely could lead to unintended consequences in lease classification and duration.

In addition to the above, in light of IFRS 16 para 20 that states that the entity shall reassess renewal (extension) options upon the occurrence of significant events or significant change in circumstances (with certain requirements), practically a question arises as to whether an entity is permitted to voluntarily reassess at a point

other than (earlier than or more frequently than) what is required in the standard. If the intention is to restrict the reassessment, this could be addressed possibly by clarifying that re-assessments are “only” undertaken in the circumstances outlined in para 20.

Members second area of concern is around the determination of the discount rate, specifically the incremental borrowing rate. The most significant issue encountered by preparers was determining the appropriate discount rate. Banks cannot provide rates at the level of granularity required, that is, per asset nature and per lease term. Preparers have noted that in practice, the tendency to default to external guidance is often driven by a desire to avoid prolonged discussions or disputes with their auditors, but it undermines the principle of preparer led judgement that IFRS 16 is meant to support. Members noted that the UK GAAP (FRS 102) offers a practical simplification by allowing the use of the lessee’s obtainable borrowing rate. This approach is considered more intuitive, as it considers the total lease payments and what it would cost to borrow that amount in the current economic environment. Some members supported adopting the UK GAAP simplification and noted that it would reduce both the cost and complexity of calculating and auditing discount rates. Other members supported the use of the risk-free rate as an alternative rate. Both these options will eliminate the need for significant judgement on the discount rate calculation.

In terms of market rent reviews or resets, members have noted that IFRS 16 para 42(b) states that a lessee shall remeasure the lease liability by discounting revised lease payment resulting from a change in variable lease payments reflecting a change in market rental rates following a market rent review, only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). Members have observed diversity in practice in this regard. Two approaches have been practically observed, as explained below using the following simplified example:

On 1 January 20X1, entity A (lessee) enters into a lease of retail space. The non-cancellable lease term is seven years. The annual lease payment is R 10,000 in the first year, with a 5% increase in every following year; and R 10,000 reflects the market rent at the commencement date. Entity A has the option to extend the lease term for another five-year period. The revised rent for the extension period will be agreed by the lessor and the lessee at the date when the option is exercised, based on the market rent at that time. At the commencement date, the lessee concludes that it is reasonably certain to exercise the extension option.

- **View 1:**

Because both lessor and lessee have to agree to the revised rent for the extension period, it can be assumed that the rent will be the market rent at that time. Variable lease payments that depend on an index or a rate, such as payments that vary to reflect changes in market rental rates, are initially measured using the index or rate as at the commencement date. [IFRS 16 para 27]. The lease payments for the extension period that are included in the initial measurement of the lease liability are therefore R10,000 (market rent at the commencement date) for each year of the renewal period. Only at the point which Entity A agrees the amount of the payment for year 8 will it remeasure the lease liability to reflect the market rent at that time.

- **View 2:**

In practice, the rental for years 8-12 will not decline below the rental for year 7. Thus, for periods 8-12, in practice, the value included in the initial measurement of the lease liability could be the value of the expected lease payment in year 7 (i.e. R13,401).

Based on the above, the members suggested that the IASB considered making it clearer which approach is appropriate through application guidance. This will help minimise diversity in practice. Members have also noted that this fact-pattern is common and could result in material differences for leases with large portfolios such the retail sector.

The preparers have faced technical challenges in determining whether lease payments are based on an index or rate, particularly when linked to factors like inflation or foreign exchange. For example, it is unclear whether to use the current inflation or treat general inflation as a variable component. Similarly, when lease payments are loosely tied to exchange rates (e.g. lease payments will change with exchange rate without being specific which exchange rate and when), it becomes difficult to assess if they meet IFRS 16's definition of being based on an index or rate. These ambiguities suggest a need for clearer guidance on what "based on an index or rate" means and how closely linked the changes in payments must be.

Additionally, there is significant judgment involved in distinguishing between variable and in-substance fixed payments, which can lead to diversity in practice, especially in complex cases like solar farm leases in South Africa whereby payments are based on the volume of electricity produced.

Although leases often receive minimal attention in discussions about critical estimates and judgments disclosures, they involve significant judgment, particularly in determining whether an arrangement qualifies as a lease. Therefore, one potential improvement is to provide clearer guidance on what constitutes critical estimates and judgments in the context of lease accounting and therefore requires disclosure. For example is a lease term a judgement when the contract has an extension and/or termination option and not a judgement when it has no judgement; is the low value threshold a judgement that should be disclosed?

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.

The members noted that since the IASB is currently researching the statement of cash flows, it may be a more appropriate context for addressing the judgment-related issues identified, particularly the inconsistencies in how companies treat lease payments in cash flow reporting and agreed with the view that input on this question will not provide a full view. Given the varied interpretations observed, members believe that it may be best to defer detailed comments until the IASB progresses further with its cash flow project.

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 (a)

Overall, there was two views, the preparers with few leases noted that the ongoing costs were as expected, while prepares with huge volumes and complex frequently changing lease portfolio indicated that the on-going costs were significantly higher than expected, refer to question 1 above for facts and circumstances around the costs.

Response to Question 4 (b)

In addition to the suggestion noted in question 1 above on how the costs can be reduced, the prepares with huge lease volumes believe that the introduction of simplification around lease modification accounting, where a new

discount rate is not required if the payment changes are not significant could assist reduce the costs. Preparers acknowledge that this would be a practical measure rather than one grounded in conceptual reasoning. However, while this approach may help reduce costs related to remeasurement capacity, it will not reduce discount rate costs highlighted in question 3 above.

There is general agreement among preparers that calculating discount rates is more costly and complex than initially expected, due to the fact that the discount rate calculation requires valuation specialist and professional judgement to compute. In this regard as noted in question 3 above, preparers suggested that the IASB considers prescribing a risk-free rate or entity borrowing rate as a standard discount rate. This would enhance comparability and reduce the cost and judgement burden on the preparers. Both these rates are typically audited and readily available. This rate aligns with the Standard's intent to compare lessees who borrow to buy with those who lease. Preparers have noted that the current requirements for determining the incremental borrowing rate are seen as overly complex, and simplification is widely supported.

Additionally, frequent remeasurements currently required by the standard raises operational challenges. For example, if a leased asset like a tower is not functioning (e.g., no electricity), the lessee may stop payments temporarily and the stopping of the payment is then documented as a mini addendum to the lease contract making it a lease modification. Accounting for such rental cuts is complex, and it may be excessive to treat every such instance as a lease modification. It would be helpful if the IASB provided guidance on the threshold of change that warrants a remeasurement and to also consider allowing exceptions where not all changes or modifications require a formal lease adjustment, for example lease payment changes that are temporary and not for a material period in conjunction to the lease can be accounted through income statement and not as a remeasurement.

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 (a) and (b)

Preparers suggest that the Board should always have an option that allows entities to recognise the cumulative impact directly in opening retained earnings to simplify the transition. This approach is seen as more practical, especially since transition costs are incurred only once and do not recur, while also ensuring that users have sufficient information to allow them to understand the changes. While IAS 8 can lead to better comparability, it is also more costly and complex. Further, it is suggested that the option to apply IAS 8 should remain available for entities that have the necessary information, while others should be allowed to use a simpler retrospective approach without restating prior periods, but including an adjustment to opening retained earnings to ensure useful information to users.

Another challenge preparers faced during the IFRS 16 transition was the reliance on hindsight, which created inconsistencies between past decisions and current reporting. This issue could have been better addressed using an IFRS 3 transition style approach, possibly with a time limitation to manage the overlap between old and new standards. Ultimately, the recommendation is to retain both transition options and consider the IFRS 3 approach with clear guidance on its application period, depending on the nature of the standard being implemented.

Lastly, based on the experience of some preparers on transition to IFRS 16, even with the simplified retrospective approach, preparing reconciliations has proven costly due to the lack of readily available information, and these preparers recommended that such reconciliations be made optional to allow them to provide necessary useful information in alternative formats.

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 [accounting for rental concessions in which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract, resulting in partial extinguishment of the lessee's lease liability]?*
- 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 (a)

Members noted that rent concessions like these during COVID, do occur, and there is usually confusion about which Standard is applicable.

Response to Question 6.1 (b)

Members noted that they have observed diversity as some preparers use IFRS 9 principles while others use IFRS 16 principles for these rent concessions. Members have noted that applying IFRS 9 versus IFRS 16 can lead to very different outcomes.

Response to Question 6.1 (c)

Member's view was that the issue discussed in the agenda decision could be clarified through an additional illustrative example. While the theoretical reasoning in the agenda decision is sound, a worked example would help explain how the guidance should apply in practice, especially regarding the interaction between IFRS 9 and IFRS 16. This clarification could be effectively communicated through an illustrative example. Members proposed that the Board clarify that if a rent concession is due to the lessee's financial difficulties, it may fall under IFRS 9, otherwise under 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.*

Response to Question 6.2 (a)

Members noted that challenges often arise when IFRS 16 intersects with other standards. A common difficulty in practice is in determining whether the transfer of an asset in a sale and leaseback transaction qualifies as a sale, which often hinges on applying IFRS 15 criteria. One of the key considerations is the assessment of significant risks and rewards of ownership in terms of the IFRS 15 indicators that a customer has obtained control over an asset, which is difficult to contextualize within sale and leaseback arrangements.

Response to Question 6.2 (b)

Members have noted that sale and leaseback transactions often present challenges, particularly when applying IFRS 15 criteria to determine whether a sale has occurred. These transactions can vary significantly, and this variability contributes to the tension in reaching a conclusion. Some members confirmed that they have encountered both clear sale and leaseback arrangements, where gains were deferred, and others that resembled pure financing arrangements.

An example to illustrate the complexity encountered is a situation whereby a company sells their entire building and they then lease back a portion of the building, or where a company sells an unrenovated asset that the buyer improves before leaseback, or sale agreements that require the asset to be modified for a specific purpose before being leased back. These scenarios have led to challenging discussions.

Response to Question 6.2 (c)

Members suggest that IASB should provide additional guidance to assist with

- sale agreements that require the asset to be modified for a specific purpose before being leased back.
- addressing sales for which the transfer of control is over time and the lease commences upon completion of the sale. It is currently not clear whether the gain or loss on the sale and leaseback is recognised at the commencement date of the lease despite control transferring over time, or whether analogy with IFRS 15 is appropriate, and accordingly, the gain or loss should be recognised over time similarly to the pattern of recognition that would have arisen under IFRS 15.

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.*

In response to question 6.3 as a whole, the members can confirmed that in practice, the preparers involved have found the sale and leaseback transactions to be relatively straightforward and are comfortable with how measurement and gain/loss treatment were handled, which aligns with the auditor's view that restricting the gain or loss is seen as providing useful information, especially when the asset is leased back..

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.

Materiality

Members suggest that the IASB provides guidance on when and how the materiality threshold guidance for low-value leases, (\$5,000 exemption) should be adjusted. This threshold guideline was originally set when the Standard was introduced and is now outdated due to inflation.

Lessor accounting

Some members requested more specific guidance on lessor accounting, especially regarding the lease term. In the absence of clear direction, entities often apply lessee related guidance to lessors, which can be problematic. Terms such as “lease term” are highly judgmental, particularly in cases like evergreen leases, and this creates challenges in assessing the impact of lessee options while a lessor.

Some members suggested that the Board reconsider how finance leases are treated from the lessor's perspective, particularly in cases where ownership of the asset is ultimately transferred to the lessee. The question is on whether such arrangements should still fall under IFRS 16, as they resemble a typical loan structure, where a company borrows funds, purchases an asset, and repays the lender in instalments until ownership is transferred.

Some members also require clarity on how transaction costs should be treated under IFRS 16 for lessors, and whether the definition aligns with that under IFRS 9.

Power purchase agreements

Regarding power purchase agreements (PPAs), members have noted that while IFRS 9 has been amended to include guidance on PPAs, certain contract designs may result in these agreements being classified under IFRS 16. Members suggest that the board includes additional examples considering the current common types of PPA to illustrate when a PPA might be considered a lease under IFRS 16.

Lease modifications

Lastly, a practical concern was raised about the sequence of accounting for lease modifications, in practice. There can be cases where lease contracts change in multiple ways simultaneously, i.e. both a change in scope of the lease as well as a change in consideration of the original lease. There is no specific guidance in IFRS 16 that states in which sequence the modifications should be accounted for. In practice, it has been observed that preparers generally account first for the change in scope and then change in consideration. Members recommend that the IASB considers providing further clarity and guidance on the accounting for these type of lease modifications.