

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Post-Implementation Review of IFRS 16

Cover Note

Introduction

- 1 In [December 2023](#) the IASB decided to start the PIR of IFRS 16 *Leases* (“PIR of IFRS 16”) in Q2 2024. The IASB’s decision was based on the guidance in the *Due Process Handbook* and the discussion on the [clarifications](#) to the description of the objective, process and outcomes of a PIR. Staff resourcing and priorities were also discussed by the IASB. In addition, the following previous discussions points were considered:
 - (a) more trend information applying IFRS 16 has become available (e.g., in 2023, entities will have published financial statements with comparative information prepared applying IFRS 16 for the third time);
 - (b) the World Health Organisation has declared the end of Covid-19 as a global health emergency;
 - (c) The academic research on IFRS 16 is growing although it remains limited; and
 - (d) It would enable the IASB to consider the effects of IFRS 16 both through a period of shock and in a stable state.
- 2 Starting from Q1 2024, the EFRAG Secretariat will be in the process of undertaking preparatory work in anticipation of the IASB IFRS 16 PIR Request for Information (RFI). The preparatory work will involve researching and an initial identification of issues through outreaches and existing literature review (e.g., IFRS IC questions, ESMA enforcement reports).

Objective

- 3 The objectives of the session are to:
 - (a) provide an overview of the EFRAG Secretariat preparatory work in anticipation of the IASB IFRS 16 PIR Request for Information (RFI) and to receive feedback;
 - (b) seek EFRAG FR TEG preliminary inputs on the main impacted industries and on the critical areas of focus for this first step of PIR - taking inventory of issues; and
 - (c) discuss the content and the timing of the proposed EFRAG survey to users and preparers to collect preliminary feedback on the effects of IFRS 16.

Background of the IASB project

Overview of IFRS 16

- 4 IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.
- 5 IFRS 16 became effective for annual reporting periods beginning on or after 1 January 2019 and had a pervasive effect on many entities. It required a lessee to recognise assets and liabilities for all leases of more than 12 months (unless the underlying asset is of low value). In addition, to complement the lessee accounting model, it introduced disclosure requirements requiring lessees to disclose information about:
 - (a) the amounts recognised in the financial statements; and
 - (b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities.
- 6 The significance of the effect of IFRS 16 varied by industry and region, as well as between entities.

Overview of the IASB Post-Implementation Review process

- 7 During the PIR, the IASB will assess the effect of IFRS 16 on users, preparers and auditors. More specifically, the IASB will assess whether:
 - (a) the objectives of the standard-setting project have been met;
 - (b) information provided by IFRS 16 is useful to users;
 - (c) the costs arising from IFRS 16 are broadly as expected by the IASB when it developed the Standard; and
 - (d) the requirements are capable of being applied consistently.
- 8 These assessments help the IASB to determine what, if any, action it might take relating to IFRS 16. The PIR is not intended to open up the redeliberation on points of disagreement on the Standard, unless there are new elements to consider.
- 9 Each PIR has two phases where the IASB:
 - (a) Phase 1: identifies matters to be examined (Request for Information);
 - (b) Phase 2: considers the information gathered from the public consultation and publishes a Report and Feedback Statement, including a summary of the finding and outline of next steps.

EFRAG Secretariat preparatory work for the PIR of IFRS 16

- 10 The EFRAG Secretariat proposes two phases for this project:
 - (a) identify issues for the forthcoming PIR of IFRS 16 – taking inventory of issues; and
 - (b) analyse some of the issues in more detail in order to prioritise the identified issues.
- 11 As the PIR on IFRS 10, 11 and 12, IFRS 9 and IFRS 15 only took place recently (after the effectiveness of IFRS 16) there are already comprehensive findings on the interaction

between IFRS 16 and these Standards. Therefore, the work will concentrate to complete this list of issues and to identify the issues in IFRS 16 itself. The main part of preparatory work for the identification of issues should consequently be related to the issues within IFRS 16.

- 12 To identify issues for the forthcoming PIR of IFRS 16 (taking inventory of issues), in Q1 2024 the EFRAG Secretariat is in the process of undertaking preparatory work which includes:
 - (a) Research activity and review of existing literature and other publications;
 - (b) On-line survey to users and preparers; and
 - (c) Outreaches with different stakeholders.

Research activity and review of existing literature and other publications

- 13 The EFRAG Secretariat will review the result arising from a study from an independent economic consultancy that EFRAG commissioned in 2017 as an input to its Endorsement Advice on IFRS 16 Leases ([here](#)). Indeed, it would be useful to identify the industries that were most likely to experience significant impacts from IFRS 16 and, therefore, on which our outreach activities should focus on (please refer to “Table 5.1 Sector coverage of the sample” for further information¹).
- 14 In addition, the EFRAG Secretariat will review IFRS 16 issues raised before to the IFRS Interpretation Committee (IFRS IC) and those included in the enforcement decisions on financial statements issued by ESMA.
- 15 Furthermore, the EFRAG Secretariat is planning to review some academic papers related to the application of IFRS 16.
- 16 Finally, the large audit firms’ publications will be reviewed.

EFRAG’s online survey to users and preparers

- 17 The EFRAG Secretariat is planning to launch an on-line survey to be addressed to preparers and their auditors and users in Q1 2024 in order to develop a preliminary list of issues to be further investigated during the outreaches expected in Q2 and Q3 2024.
- 18 The survey which will be addressed to preparers and their auditors (please refer to the **agenda paper 06-02** for further details) aims to collect preliminary information about:
 - (a) Overall assessment and experiences relating IFRS 16, including information about the most impacted sectors and the impact on the entity’s internal control and performance reporting system (e.g., impact on KPI used in public communications);
 - (b) Application challenges arising from the application of IFRS 16, at transition and an on-going basis;
 - (c) Application challenges arising from the interaction with other IFRS Accounting Standards, including for example: IFRS 9 (e.g., Derecognition of lease liabilities - lease

¹ Table 5.1 of the report shows the % of operating lease obligations to total assets based on the financial statements of a sample of 2,212 European-headquartered listed companies with outstanding leasing obligations at the end of 2015. The most operating-lease-intensive industries that are most likely to experience significant impacts from IFRS 16 including, among the others: Airlines, Retail and Travel & Leisure, Health Care, Personal & Household Goods, Real Estate and Industrial Goods & Services.

modification vs liability extinguishment), IFRS 10 (e.g., Sale and Leaseback of an Asset in a Single-Asset Entity), IFRS 11 (Joint arrangements), IFRS 15 (e.g., identification of lease contract, separating lease and non-lease components) and IFRIC 12 (Service Concession Arrangements);

- (d) The presentation and disclosure requirements, including:
 - (i) whether the resulting information is useful to users; and
 - (ii) whether the costs of applying some or all of the IFRS 16 requirements and auditing and enforcing their application are broadly as expected;
- (e) stakeholders' transition experience to assess whether the transition requirements worked as intended.

19 The survey to be addressed to users, in addition to the general part related to the overall assessment of IFRS 16, should aim to collect specific information about the following topics:

- (a) If and which disclosure requirements in IFRS 16 result in entities providing useful information to users of financial statements in performing their analysis;
- (b) If and which disclosure requirement in IFRS 16, if any, need to be improved or reduced ensuring a better cost-benefit balance; and
- (c) How IFRS 16 balances have impacted their analysis (e.g., extensive use of adjusted KPIs to neutralise the effect of IFRS 16 in the statements of financial position, profit or loss and cash flows).

At this stage the EFRAG Secretariat is still working on the content and the structure of the survey to be addressed to users; therefore, the EFRAG Secretariat will be sharing it with EFRAG FR TEG members at a later stage.

Outreaches with stakeholders

20 EFRAG Secretariat is planning to conduct outreach to different constituents (preparers and its sector organisations, users, auditors, national standard setters, and academics) to get their overall assessment of how IFRS 16 has worked and to identify issues for the PIR, including:

- (a) Outreach to preparers operating in the main impacted sectors (e.g., real estate, telecommunication, aerospace, software, Oil & Gas, pharmaceutical, construction etc)
- (b) Outreach to users operating in the main impacted sectors;
- (c) Outreach to audit firms;
- (d) Meetings with EFRAG working groups (EFRAG FIWG, IAWG, User Panel and EFRAG Academic Panel);
- (e) Meeting with other organisations (e.g., EFFAS - European Federation of Financial Analysts Societies, Accountancy Europe, Business Europe and EPRA - European Real Estate Association).

21 EFRAG Secretariat will further update and seek input from EFRAG FR TEG, EFRAG CFSS and EFRAG FRB in H2 2024 after completing the preliminary outreach and research on the issues for the IFRS 16 PIR as detailed above.

22 Please refer to **Appendix A** for further details on the EFRAG Secretariat preparatory work plan.

Questions for EFRAG FR TEG

- 23 Do EFRAG FR TEG members have any comments on how to start the preparatory work (as detailed in paragraph 10 to 22 above) in anticipation of the IASB PIR of IFRS 16?
- 24 Which are the industries EFRAG should focus its research on? Are the industries identified in the economic study 2017 the right ones (please refer to paragraph 13 above)?
- 25 Do EFRAG FR TEG members have any comments, additional suggestions or recommendations about the content and structure of the EFRAG on-line survey for preparers and their auditors contained in the agenda paper 06-02? In particular, do you agree with the EFRAG Secretariat proposal to include a specific question about:
- (a) the interaction between IFRS 16 and other IFRS Accounting Standards, without excluding those for which comprehensive findings have already been collected during previous PIRs (e.g., PIR of IFRS 10, 11 and 12, IFRS 9 and IFRS 15)?
 - (b) any application challenges arising from the application of IFRS 16 requirements for lessors?
- 26 Do EFRAG FR TEG members have any comments, additional suggestions or recommendations about the EFRAG Secretariat’s preparatory work plan, as detailed in Appendix A?

Next steps

- 27 The EFRAG Secretariat will start the research and literature review activity, launch the on-line survey on the effects of the application of IFRS 16 and begin conducting the proposed outreaches.
- 28 The EFRAG Secretariat will share the survey for users and request for EFRAG FR TEG members’ feedback at a future meeting.

Agenda Papers

- 29 In addition to this cover note, agenda paper 06-02 – *EFRAG On-line survey on the effects of IFRS 16* – has been provided for the session.

Appendix A – EFRAG Secretariat preparatory work plan

Activity/Meeting with	Objective	When	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
On-line survey (users and preparers) and feedback analysis	To collect input and develop a preliminary list of issues	Q1 2024 Q2 2024							
Audit firm publications and other studies	To develop a preliminary list of issues	Q1 2024							
Large audit firms	To collect input	Q2 2024					TBD		
EFRAG User Panel	To collect input	Q2 2024					14-May		
EFRAG FIWG	To collect input	Q2 2024					06-May		
EFRAG IAWG	To collect input	Q2 2024					28-May		
EFRAG Academic Panel	To collect input	TBD							
Preparers from the most impacted industries	To collect input	TBD				TBD	TBD	TBD	TBD
Other organisations (EFFAS, EPRA ...)	To collect input	TBD							
EFRAG CFSS	To collect input and provide an update	2H 2024							02-Jul
EFRAG FR TEG	To collect input and provide an update	2H 2024							02-Jul
	To provide a preliminary issues' overview	1H 2025							
EFRAG FRB	To collect input and provide an update	2H 2024							17-Jul
	To provide a preliminary issues' overview	1H 2025							