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## Post-Implementation Review of IFRS 16

### Issues paper

#### Objective

- 1 The objectives of the session are:
  - (a) to provide EFRAG FR TEG-CFSS with an update of the EFRAG preparatory work;
  - (b) to seek EFRAG FR TEG-CFSS input about the best way to collect feedback from different stakeholders on the effects of IFRS 16; and
  - (c) to receive help in collecting feedback from EFRAG CFSS members.

#### EFRAG Secretariat preparatory work for the PIR of IFRS 16

- 2 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. Beside priorities, 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.
- 3 In Q1 2024 the EFRAG Secretariat started its preparatory work in anticipation of the IASB IFRS 16 PIR Request for Information (RFI). The EFRAG Secretariat works in 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.

- 4 To receive the inventory of issues and further information as a basis for the analysis the workstream 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.

*Activities performed so far*

- 5 To identify issues for the forthcoming PIR of IFRS 16 (taking inventory of issues), the EFRAG Secretariat:
  - (a) Reviewed IFRS IC's previous discussions and tentative decisions;
  - (b) Reviewed ESMA enforcement reports;
  - (c) Held a preliminary meeting with French preparers operating in the retail industry (January 2024)
  - (d) Launched two separate online surveys, one addressed to preparers, auditor, NSS and regulators ([here](#)) and one to users of financial statements ([here](#)). These surveys will be open for comments **until 15 April 2024**.
- 6 The objective of the surveys is to determine whether IFRS 16 works overall as intended. It intends to specify issues for industries. This feedback will be useful to mirror preparers' views of the costs and challenges associated with the implementation of IFRS 16 and the benefits and challenges identified by users. EFRAG requests reports of application issues arising from the application of IFRS 16, including its interaction with other IFRS Accounting Standards, whether they are common and widespread, and how the IASB should address them in the context of a PIR. Although we already have evidence of challenges of the interaction with other accounting standards (e.g. from PIR IFRS 9, PIR IFRS 15, PIR IFRS 10, 11 and 12), we have decided not to exclude this. In doing so, we would like to ensure completeness and also ensure a relative classification of the application issues. It may also be interesting to understand the perspective of an entity accounting for a lease.
- 7 EFRAG is also interested in understanding whether there is new evidence suggesting the need for a change in the standard. In this regard EFRAG addressed e.g. the treatment of variable lease payments. EFRAG is well aware and made it clear in the introduction of the survey, that a PIR is not a standard-setting project and does not automatically lead to standard-setting. However, EFRAG tries to understand challenges and whether the economic situation has changed.
- 8 Although we expect only a few points for the lessor's accounting, we have included this in the survey. Experience from the transition could be of interest to the IASB and is therefore also included in the survey.

*Activities to be performed over the next months*

- 9 The EFRAG Secretariat is:
  - (a) Reviewing existing literature based on the input received/to be received by the Academic Panel and the Academic Network; and

- (b) interacting closely with some European national standard setters (France, Italy, Denmark) to organise meeting with their dedicated working groups in order to identify issues in the implementation of IFRS 16 relevant in their jurisdictions.
- 10 Furthermore, the EFRAG Secretariat is planning meetings with different constituents as follows:
- (a) Meeting with EFRAG FIWG - 6 May
  - (b) Meeting with UP - 14 May (joint meeting with EFRAG FR TEG)
  - (c) Meeting with EFRAG IAWG - 28 May
  - (d) Meeting with EFRAG RRAWG - May/June (to be defined)
  - (e) Ad-hoc meetings with preparers from the most impacted industries - May/June (to be defined); industries to be contacted will be defined due to the survey result and input from other outreach
  - (f) Meeting with large audit firms (to be defined)
  - (g) Meeting with EFRAG Academic Panel (to be defined)
- 11 At these meetings, the EFRAG Secretariat will also share the preliminary feedback arising from the aforementioned on-line surveys to further investigate the relevance and the magnitude of the identified application issues.

### **Initial feedback collected by the EFRAG Secretariat**

#### *Preliminary review of IFRS IC decisions and ESMA enforcement report*

- 12 To date, the IFRS IC issued nine agenda decisions on IFRS 16 ([here](#)) and discussed several topics, including the following:
- (a) Several submissions about the identification of a lease (e.g., whether the customer has the right to direct the use of a subsurface, how to assess the right to obtain all the economic benefits from the use of a windfarm or the supplier's substitution rights);
  - (b) A submission about the determination of the lease term in the context of a tacit renewable contract; and
  - (c) A submission about the lessee's accounting for rent concessions (lessor's forgiveness of lease payment). This submission highlighted the need to further clarify the interaction between IFRS 9 and IFRS 16 in the accounting for contract modifications.
- 13 The main application issues noted by ESMA<sup>1</sup> to date include the following:
- (a) Adequacy of provided disclosures on leases (e.g., level of aggregation of required disclosures);
  - (b) Identification of lease and non-lease component in a lease contract of a building (lessors' perspective - interaction with IFRS 15);

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<sup>1</sup> ESMA's enforcement reports analysed include the following: [24th Extract from the EECS's Database of Enforcement \(April 2020\)](#), [25th Extract from the EECS's Database of Enforcement \(July 2021\)](#), [26th Extract from the EECS's Database of Enforcement \(May 2022\)](#), [27th Extract from the EECS's Database of Enforcement \(March 2023\)](#), [28th Extract from the FRWG \(EECS's Database of Enforcement \(October 2023\)\)](#),

- (c) Lessee’s assessment of the right to obtain all the economic benefit of a portion of an identified asset (e.g., lease of the plots of land where the wind farms are located); and
- (d) Determining the depreciation period of the dismantling costs of telecommunication equipment capitalised as part of the right of use of a land rather than of the related asset under IAS 16.

*Initial (limited) feedback from preparers*

- 14 Initial feedback received from French preparers operating in the retail industry indicates that several preparers have several issues with IFRS 16, which is considered “too sophisticated” and therefore costly. They expressed some concerns that current requirements in IFRS 16 would support comparable information between peers. Therefore, the structure of the surveys tried to allow the right feedback to be able to identify the most relevant issues and to identify the areas of potential improvement. During interviews, the EFRAG Secretariat will pay attention and carefully scrutinise the relevance and frequency of issues.

**Questions for EFRAG FR TEG-CFSS**

- 15 Do EFRAG FR TEG-CFSS members have any comments, additional suggestions or recommendations about the EFRAG Secretariat envisaged workplan summarised from paragraph 4 to 11?
- 16 Based on the information included from paragraphs 6 to 8 above, have the right topics been addressed in the surveys to identify issues? Is there anything missing? Would you be able to advertise the participation in our online surveys in your jurisdiction?
- 17 Are EFRAG FR TEG-CFSS members:
- (a) able to give us feedback about any application issue arising from the application of IFRS 16 in their jurisdiction (via survey or separately with an interview)?
  - (b) Planning to establish a working group in their jurisdiction to prepare for the response on the IASBs RFI or are you planning to have early discussions on the topic within your technical bodies?
  - (c) interested in organising outreach with stakeholders in their jurisdictions to collect input about application issues arising from the implementation of IFRS 16?
- 18 Are EFRAG FR TEG-CFSS members aware of:
- (a) any relevant area where the EFRAG Secretariat should focus on in the context of this PIR?
  - (b) any helpful study or paper regarding the impact of IFRS 16 that we should integrate in our literature review?

**Next steps**

- 19 The EFRAG Secretariat will continue the research and literature review activity and begin conducting the proposed outreaches.