

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG-CFSS. 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 Leases ('PIR of IFRS 16')

Cover Note

Objective

- 1 The EFRAG Secretariat has not received the ASAF papers as of 6 June 2025. To have a basis for discussion at the 10 March 2025 EFRAG FR-TEG CFSS meeting we provide the preliminary list of identified IFRS 16 application challenges identified by the EFRAG Secretariat and discussed with the EFRAG FR TEG in December 2024. The objective of this session is to seek EFRAG CFSS members' views on identified issues and the proposed prioritisation.

Structure of the session and the related agenda papers

- 2 For background purposes only, the agenda paper 09-02 contains a more detailed description of all application issues identified so far.
- 3 Appendix 1 provides an overview of preliminary issues' proposed prioritisation, based on EFRAG Secretariat's preliminary assessment and EFRAG FR TEG members' views:
 - (a) Table A – High Priority;
 - (b) Table B – Medium Priority;
 - (c) Table C – Low Priority/No priority.

Background of the IASB project

- 4 In June 2024 the IASB began the Post-implementation Review ('PIR') of IFRS 16 *Leases* and is planning to conduct outreach with consultative groups and other stakeholders to inform a request for information, whose publication of the Request for Information ('RFI') is expected in the first half of 2025.
- 5 For further information about the project, please refer to the IASB's project page [here](#).

Overview of EFRAG's preparatory work

- 6 The EFRAG Secretariat began its preparatory work in February 2024 and is expected to continue until the issuance of the IASB's RFI (Q2 2025). It aims at developing a preliminary list of application challenges and proposed recommendations in preparation of EFRAG's comment letter in response to the IASB's RFI.

- 7 The EFRAG Secretariat has collected feedback for developing the list of application issues with IFRS 16 through:
- (a) various EFRAG meetings, including FR TEG, CFSS, working groups meetings;
 - (b) outreaches with stakeholders (please refer to Appendix 2 for the complete list of outreach activities);
 - (c) EFRAG's surveys addressed to users and preparers.
- 8 To prioritise the identified application issues, the EFRAG Secretariat requested EFRAG FR TEG and CFSS members to complete an online survey to provide their views on prevalence, priority and proposed solution for each identified issue (please refer to paper 09-02 for the full list of issues collected so far). With six responses received to the survey, the EFRAG Secretariat discussed further the proposed prioritisation with EFRAG FR TEG in its [December 2024](#) meeting.
- 9 The prioritisation of issues was mainly based on the following factors:
- (a) Their prevalence and pervasiveness across industries and jurisdictions (i.e., widespread diversity in practice exists, (e.g. it affects transactions that occur frequently across various industries);
 - (b) Their relevance for EU stakeholders (i.e., the issue materially affects users of financial statements' ability to analyse trends and compare entities); and
 - (c) Whether the matter relates to an issue that can be addressed by the IASB or the IFRS Interpretation Committee on a timely manner.
- 10 During its December meeting, EFRAG FR TEG members commented on the EFRAG Secretariat's preliminary prioritisation of application issues, as presented in Appendix 1 of agenda paper [03-01](#) of that meeting, and made the following suggestions:
- (a) Merging issues of the sale and leaseback transaction, due to duplication;
 - (b) One member emphasised that the focus of issue of the presentation requirements in the cash flow statement should be on the operating cash flow presentation;
 - (c) Some members considered that another top priority issue is the diversity in practice on how software arrangements (e.g., cloud services) are accounted for, and more specifically whether they fall within the definition of a lease;
 - (d) Members considered that the issue 'Distinction between lease and in-substance purchase of assets' should be classified as high priority;
 - (e) One member considered issue related to the application of the impairment test requirements in IAS 36 should be moved from 'Medium Priority' to 'High Priority';
 - (f) One member queried why the issue between the interaction of IFRS 16 and IAS 40 was not included in the list and proposed to reach out to the real estate industry;
 - (g) One member raised an issue on the practical expedient that enables an entity to account the non-lease component and the lease component of a contract together as a single lease component. She noted that while the Standard does not specify that the non-lease component must be a service, the basis for conclusion seem to imply

that the non-lease component should be a service, leading to diversity in practice. The issue was affecting some targeted industries like healthcare.

- (h) One member suggested raising the interaction between IFRS 16 and IFRS 11 from low to medium as this issue affected the joint operations in the Oil&Gas industry.
 - (i) Members suggested that determining the discount rate should not be a high priority issue for the PIR of IFRS 16, as practice has settled and there are generally challenges when applying interest rate in all IFRS Accounting Standards;
 - (j) One member considered that the issue related to determining the lease payment is more prevalent than determining the discount rate;
 - (k) One member considered that contract modification requirements should be made simpler.
- 11 In addition, members generally agreed to include only the high priority issues in the main text of EFRAG's comment letter in response to RFI, and to provide the remaining issues in the Appendix.
- 12 Based on the above suggestions, the EFRAG Secretariat has adjusted the prioritisation of issues and updated their classification in Tables A (high priority), B (medium priority) and C (low/no priority) in Appendix 1.

Questions for EFRAG FR TEG-CFSS

- 13 Do EFRAG CFSS members agree with the preliminary assessment of high priority issues listed in Table A of Appendix 1?
- 14 Are there other relevant application issues and interactions with other IFRS Accounting Standards besides those summarised in the agenda paper 09-02? If yes, please provide an explanation of the issue(s) and how the IASB should address it/(them).

Next steps

- 15 As suggested by EFRAG FR TEG, the EFRAG Secretariat will reach out to relevant stakeholders for obtaining more information regarding the:
- (a) Practical expedient of lease and non-lease component (mainly relevant for healthcare industry);
 - (b) Interaction between IFRS 16 and IAS 40 (mainly relevant for the real estate industry); and
 - (c) Interaction between IFRS 16 and IFRS 11 (focused on oil & gas industry).
- 16 The EFRAG Secretariat will continue to monitor the IASB project and to collect feedback from various stakeholders to assess to which extent the identified issues are widespread and relevant to the EU stakeholders.

Agenda Papers

- 17 In addition to this cover note we have included the following agenda papers:
- (a) Agenda Paper 09-02 – PIR IFRS 16 – Description of the application issues – (for background purposes)

- (b) Agenda Paper 09-03 – ASAF paper – (if received before the 10 March 2025 EFRAG FR TEG-CFSS meeting)/

Appendix 1 – Preliminary prioritisation of the application issues arising from the application of IFRS 16

Table A - Application Issues preliminary assessed as **HIGH PRIORITY**

#	Description of the issue	Type of issue	Industry affected	Prevalence & Priority for EU stakeholders	Preliminary view on priority for IASB action	Preliminary recommendation for IASB action
1	Sale and leaseback transaction	Lack of guidance leads to diversity in practice and difficulties in applying the requirements	Across industries	Prevalent	High	To explore whether standard-setter activity could reduce diversity in practice
2	Presentation requirements in the CF statement (main focus on operating cash flows)	Substance of transactions is not properly reflected in the FS	Across industries	Prevalent	High	To explore whether standard-setting activity is needed within the scope of the <i>Statement of Cash Flows and Related Matters</i> IASB project
3	IFRS 9 - Distinction between a lease modification (IFRS 16) and extinguishment of a lease liability (IFRS 9) arising from a rent concession	Lack of guidance in IFRS 16	Across industries	Prevalent	High	Additional application guidance and to explore standard setting activity
4	IFRS 10 - Sale and leaseback of a single asset entity through corporate wrapper	Lack of consistent application	Across industries	Prevalent	High	To explore standard setting activity
5	Distinction between lease and in-substance purchase of assets	Lack of guidance leads to diversity in practice	Retail industry	Prevalent	High	To explore whether additional guidance or simplifications might reduce existing diversity in practice and costs

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#	Description of the issue	Type of issue	Industry affected	Prevalence & Priority for EU stakeholders	Preliminary view on priority for IASB action	Preliminary recommendation for IASB action
6	Identifying lease transactions, and more specifically accounting for software arrangements	Lack of guidance about whether these arrangements fall within the definition of a lease	Across industries	Prevalent	High	Additional application guidance
7	IAS 36 - Application of the impairment test requirements	Lack of consistent application	Across industries	Prevalent	High	Additional guidance and/or educational material

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Table B - Application Issues preliminary assessed as *MEDIUM PRIORITY*

#	Description of the issue	Type of issue	Industry affected	Prevalence & Priority for EU stakeholders	Preliminary view on priority for IASB action	Preliminary recommendation for IASB action
1	Determining the lease term	Application difficulties and lack of consistent application	Across industries	Some prevalence	Medium	Additional guidance, including incorporation of IFRS IC Agenda decision within the standard
2	IFRS 15 - Identifying components in lease contracts and scope	Application difficulties and lack of consistent application; Lack of guidance in the standard	Across industries	Some prevalence	Medium	Additional guidance and/or educational material
3	IAS 16 - Different level of certainty in assessing optional periods to define the depreciation period	Inconsistency across standards	Across industries	Some prevalence	Medium	To obtain more information in next agenda consultation
4	Determining the lease payments	Lack of guidance is leading to diversity in practice	Across industries	Some prevalence	Medium	To obtain more information in next agenda consultation
5	Contract modification	Too complex and burdensome accounting requirements	Across industries	Some prevalence	Medium	To explore whether additional guidance or simplifications might reduce existing diversity in practice and costs
6	Low-value asset lease exemption	Too complex and burdensome accounting requirements	Retail and construction industry	Some prevalence	Medium	Additional guidance and to explore whether current accounting treatment for variable lease payments might be reconsidered
7	IFRS 11 - Accounting for leases in context of joint operations	Lack of consistent application	Oil&Gas	Limited prevalence	Low	To obtain more information in next agenda consultation

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Table C - Application Issues preliminary assessed as **LOW** or **NO PRIORITY**

#	Description of the issue	Type of issue	Industry affected	Prevalence & Priority for EU stakeholders	Preliminary view on priority for IASB action	Preliminary recommendation for IASB action
1	Determining the discount rate	Application difficulties and lack of consistent application	Retail industry	Some prevalence	Low	Additional guidance and to explore whether current accounting treatment for variable lease payments might be reconsidered
2	Non-monetary consideration	Lack of guidance is leading to diversity in practice	Real estate?	Limited prevalence	Low	To obtain more information in next agenda consultation
3	Accounting for expenditures incurred before the leased assets became operational	Lack of guidance is leading to diversity in practice	Across industries	Limited prevalence	Low	To obtain more information in next agenda consultation
4	Accounting for leases with non-consecutive lease periods	Lack of guidance is leading to diversity in practice	Retail industry	Limited prevalence	Low	To address any specific issue consulting IFRS IC
5	Determination of the appropriate ROU asset depreciation period	Substance of the transaction not properly reflected in the FS	Retail industry	Some prevalence	Low	To address any specific issue consulting IFRS IC
6	IAS 16 - Definition of initial direct costs	Inconsistency across standards	Across industries	Some prevalence	Low	To obtain more information in next agenda consultation (e.g. to discuss the capitalisation of non-deductible VAT to RoU).
7	IAS 37 - Accounting for onerous lease contracts	Lack of guidance in the standard	Across industries	Limited prevalence	Low	To obtain more information in next agenda consultation
8	Diversity in practice on the practical expedient to account the non-lease component and the lease component together	Lack of consistent application	Healthcare	To be assessed	To be assessed	To be assessed

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#	Description of the issue	Type of issue	Industry affected	Prevalence & Priority for EU stakeholders	Preliminary view on priority for IASB action	Preliminary recommendation for IASB action
9	Interaction between IFRS 16 and IAS 40	Lack of guidance in the standard	Real estate industry	To be assessed	To be assessed	To be assessed
10	Identifying lease contracts	Application difficulties and lack of consistent application	Across industries	Some prevalence	No further action	
11	Separating lease and non-lease components	Application difficulties and lack of consistent application	Across industries	Some prevalence	No further action	
12	IFRS 9 - Application of the ECLs model under IFRS 9 to lease liabilities from the lessor's perspective	Lack of guidance in the standard	Across industries	Limited prevalence	No further action	
12	IFRS 3 - Accounting for lease contracts in the context of a business combination	Lack of consistent application	Across industries	Some prevalence	No further action	

Appendix 2 – Detailed list of outreach activities

- 1 Since January 2024, the EFRAG Secretariat conducted several outreaches that can be summarised as follows:
 - (a) French preparers operating in the retail industry (January 2024)
 - (b) Meeting with EFRAG FR TEG-CFSS (March 2024)
 - (c) Italian preparers operating in the retail industry (July 2024)
 - (d) German preparers operating in the automotive industry (April and May 2024)
 - (e) Members of the International Valuation Standards Council (March 2024)
 - (f) Meeting with representatives of large audit firms (March-April 2024)
 - (g) Meeting with the European Public Real Estate Association (EPRA) (July 2024)
 - (h) Meeting with Leaseurope (April 2024)
 - (i) Meeting with National Standard Setters (NSS) (April-May 2024)
 - (j) Meeting with EFRAG FR TEG and User Panel (May 2024)
 - (k) Meeting with EFRAG FIWG, EFRAG Academic Panel and EFRAG IAWG (May 2024)
 - (l) Meeting with Italian National Standard Setter (OIC)' working groups (June – July 2024)
 - (m) Meeting with French National Standard Setter (ANC)' working groups (June – July 2024)
 - (n) Meeting with EFRAG RRAWG (July 2024)
- 2 Furthermore, EFRAG got input during the following external meetings:
 - (a) April 2024 International Forum of Standard-setters (IFASS) meeting (see meeting report [here](#) - Item 15 from page 61).
 - (b) Meeting with German CFO – (October 2024)