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Post-implementation review of IFRS 16 Leases ('PIR of IFRS 16')

Cover Note

Objective

- 1 The objective of this session is to
 - (a) provide an overview of EFRAG's preparatory work and the technical aspects including prioritisation of issues discussed with the EFRAG FR TEG; and
 - (b) to seek EFRAG FRB views on the approach to be followed to approve EFRAG's draft comment letter (DCL).

Background of the IASB project

- 2 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 last days of June 2025.
- 3 The IASB tentatively decided at its March 2025 meeting on the structure and questions to be included in the RFI. The EFRAG Secretariat's [agenda paper](#) discussed at the 16 April 2025 EFRAG FR TEG meeting provides an overview of the tentative decisions.
- 4 For further information about the project, please refer to the IASB's project page [here](#).

EFRAG's preparatory work and identified issues

- 5 The EFRAG Secretariat began its preparatory work in December 2023 and is expected to continue until the issuance of the IASB's RFI.
- 6 The EFRAG Secretariat has collected feedback for developing the list of IFRS 16 application issues through comprehensive outreach activities that include:
 - (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 one to users and one to preparers.
- 7 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. With six responses received to the

survey, the EFRAG Secretariat discussed further the proposed prioritisation with EFRAG FR TEG in its [December 2024](#) meeting.

- 8 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.
- 9 Appendix 1 provides an overview of the 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.
- 10 In addition, EFRAG FR TEG 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 as an appendix.
- 11 The proposed prioritisation of preliminary issues was also discussed at the 10 March 2025 EFRAG FR TEG-CFSS meeting. [Agenda paper 09-02](#) discussed on that meeting contains a more detailed description of all application issues identified.
- 12 In addition to carrying out extensive outreach activities to identify IFRS 16 issues from different industries and to prioritise them, it is worth noting that EFRAG FR TEG and FR TEG-CFSS members generally agreed on the prioritisation of issues and no controversial matters arose.
- 13 During the preparatory work comments were raised related to the PIR process and its outcome. It was noted that it is necessary to manage expectation from stakeholders and to have a more forward-looking approach that takes into consideration the evolving environment. Further, the role and interaction with the IFRS IC and the workplan decisions should be clarified. Such comments were also shared by other European and non-European National Standard Setters during the ASAF meeting in March 2025. These comments were addressed to the IASB as part of EFRAG's Comment Letter on the IASB's Due Process Handbook consultation.

IASB's status of the project

- 14 The IASB started in the second half of 2024 its outreach activities in preparation of the RFI. The outreach result was presented to the IASB in its March 2025 meeting. The IASB decided to group questions by topics rather than having several separate questions and to delegate some of the issues related to the interaction with other standards – which had broader implications and were discussed during previous PIR (i.e. "corporate wrappers") – to the agenda consultation project.

Next steps – approach to be followed to approve and consult on EFRAG's DCL

- 15 Given that the EFRAG FRB decided in its last meeting not to delegate the approval of EFRAG's comment letter as done in previous PIR (like PIR of IFRS 15) to EFRAG FR TEG, an approval process that ensures sufficient consultation of the DCL should be prepared.
- 16 As indicated above, the EFRAG Secretariat expects that the IASB publishes the RFI in the last days of June. Based on previous PIR projects, we also expect that the IASB holds a 120-day consultation period. Therefore, we assume the consultation might end around 20 October. Taking into consideration the time required for the EFRAG Secretariat to draft the comment letter, the time required for members to assess the EFRAG Secretariat's proposal and that EFRAG FR TEG should recommend the letter first, the EFRAG FRB discussion may take place at a holiday period for some of the members (August) resulting in difficulties in reaching a quorum. Further, publishing the DCL of a non-high-priority project in the middle of the holiday season may reduce the visibility of our DCL impacting the rate of response from EFRAG's constituents. To publish beginning of September would shorten EFRAG's consultation period to 30 days only. Please be informed, that currently there are no EFRAG FR TEG or EFRAG FRB meetings scheduled in July that fit into the usual approval process. Taking this into consideration, the EFRAG Secretariat has identified the following alternatives to avoid discussing the DCL during the holiday season in August:
 - (a) The EFRAG Secretariat to arrange a joint EFRAG FR TEG and EFRAG FRB meeting to discuss the DCL. The EFRAG Secretariat would send a doodle with several options for 16 to 25 of July.
 - (b) The EFRAG FRB to delegate the approval of the DCL to EFRAG FR TEG (i.e. EFRAG's final comment letter will still be discussed by the EFRAG FRB)
 - (c) The EFRAG FRB to approve the DCL by written procedures. The EFRAG Secretariat would send the letter to the EFRAG FRB in the last week of July after obtaining the recommendation for approval from EFRAG FR TEG.
 - (d) The EFRAG FRB to discuss the approval of the DCL after receiving recommendation from EFRAG FR TEG following usual procedures. If this option is chosen, the EFRAG Secretariat will seek to hold the EFRAG FRB discussion early September after the holidays season. The EFRAG Secretariat would send a doodle to arrange a meeting for the first week of September.
- 17 The EFRAG Secretariat would propose to choose alternatives (a) or (b) as they would result in earlier publication of the DCL having more time to influence other IASB's stakeholders or to give constituents as much time as possible to consider and discuss EFRAG's DCL. If the EFRAG FRB supports alternative (c), comments from FRB members should be limited to fundamental aspects to the extent possible to avoid overlapping comments and lack of transparency. Alternative (d) is the least preferred option as the DCL would only be published in the first half of September with a very short consultation period.

Questions for EFRAG FRB

- 18 Paragraphs 16(a) to 16(d) highlight a few alternatives to discuss EFRAG's DCL. Which alternative do EFRAG FRB members support? Do you support any other alternative not included above?
- 19 Do EFRAG FRB members have any comments on the result of the preparatory work carried out by the EFRAG Secretariat and on the issues identified and prioritised?

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
IFRS 16 issues						
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	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
4	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

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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
Issues related to interactions between IFRS 16 and other IFRS Accounting Standards						
5	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
6	IFRS 10 - Sale and leaseback of a single asset entity through corporate wrapper ¹	Lack of consistent application	Across industries	Prevalent	High	To explore standard setting activity
7	IAS 36 - Application of the impairment test requirements	Lack of consistent application	Across industries	Prevalent	High	Additional guidance and/or educational material

¹ The IASB decided not to include this issue as part of the PIR IFRS 16 RFI. The reason was that this issue has broader implications and will be considered as part of the agenda consultation PIR.

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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, lack of clarity for users	Across industries	Some prevalence	Medium	Additional guidance / disclosures, 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 (including variable lease payments)	Application difficulties and lack of consistent application	Across industries	Some prevalence	Medium	Additional guidance and to explore whether current accounting treatment for variable lease payments might be reconsidered
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	To explore whether additional guidance or simplifications might reduce existing diversity in practice and costs
7	Determining the discount rate	Application difficulties and lack of consistent application, lack of clarity for users	Across industries	Some prevalence	Medium	To explore whether additional guidance or simplifications might reduce existing diversity in practice and costs

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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	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
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, lack of clarity for users	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)