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Post-Implementation Review of IFRS 16

EFRAG Online survey on the effects of IFRS 16

Objective

- 1 To receive input on the structure and content of the EFRAG online survey to be addressed to preparers and their auditors for collecting preliminary feedback on the effects of IFRS 16.
- 2 To receive input on the issues to be addressed in the EFRAG online survey for users for collecting preliminary feedback on the effects of IFRS 16.

EFRAG on-line survey on the effects of IFRS 16

Background

- 3 IFRS 16 *Leases* was issued by the IASB on 13 January 2016 and has a mandatory effective date of 1 January 2019. IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.
- 4 Among the others, the IASB has issued the following amendments to IFRS 16:
 - (a) *Covid-19-Related Rent Concessions (May 2020)*. The amendment permits lessees, as a practical expedient, not to assess whether rent concessions that occur as a direct consequence of the covid-19 pandemic and meet specified conditions are lease modifications. Instead, the lessee accounts for those rent concessions as if they were not lease modifications.
 - (b) *IBOR Reform and its Effects on Financial Reporting – Phase 2 (August 2020)*. The amendments complement those issued in 2019 and focus on the effects on financial statements when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform.
 - (c) *Lease Liability in a Sale and Leaseback (September 2023)*. The amendment adds requirements explaining how a company accounts for a sale and leaseback after the date of the transaction when the payments include variable lease payments.

- 5 In December 2023 the IASB decided to start the Post-implementation Review (PIR) of IFRS 16 in Q2 2024. During the PIR, the IASB will assess the effects of IFRS 16 for users, preparers, auditors and other stakeholders. The PIR has two phases where the IASB:
 - (a) Phase 1: identifies matters to be examined (Request for Information); and
 - (b) Phase 2: considers the information gathered from the public consultation and publishes a Report and Feedback Statement, including a summary of the findings and outlining the next steps.
- 6 EFRAG is undertaking preparatory work in anticipation of the IASB IFRS 16 PIR request for information (RFI). EFRAG's preparatory work involves researching and outreaching to its constituents to understand what, if any, action is needed relating to IFRS 16. EFRAG is in the process of conducting interviews with preparers and users in sectors that were likely to be highly impacted by IFRS 16 to identify possible PIR issues. Furthermore, EFRAG is supporting an academic survey that aims to gather preparer and user views on the costs and benefits of IFRS 15.

Approach for the Questionnaire

- 7 The EFRAG Secretariat intends to identify in the first phase of the project issues for the forthcoming PIR of IFRS 16, which means taking inventory of issues. The complete list will be further analysed in a second phase of the project.
- 8 The issues could be split into two categories:
 - (a) Interaction with other standards
 - (b) Application challenges arising from the application of IFRS 16 (covering recognition, measurement, presentation, modification and disclosure requirements).
- 9 As the PIR on IFRS 10, 11 and 12, IFRS 9 and IFRS 15 took place recently (after the effectiveness of IFRS 16) there are already comprehensive findings on the interaction of IFRS 16 with these standards. Therefore, the work will concentrate on completing this list of issues, and on identifying the issues of IFRS 16 itself. The main part of preparatory work for the identification of issues should consequently be related to the issues within IFRS 16.
- 10 To identify issues for the forthcoming PIR of IFRS 16 (taking inventory of issues), until mid-April 2024, EFRAG will collect issues via a survey to users and preparers.
- 11 Initial feedback received from the preparers indicates that several preparers have several issues with IFRS 16, they consider IFRS 16 as being "too sophisticated" and therefore costly. They expressed some doubt that the requirements in IFRS 16 support comparable information between peers. Therefore, the structure of the survey is crucial to receive the right feedback to be able to identify the most relevant issues and to identify the areas of potential improvement.
- 12 The EFRAG Secretariat is seeking input from EFRAG FR TEG on the content and structure of the survey to preparers and their auditors. Please be aware that we are in the early stage of the development of this survey. Please find a proposal for the survey to preparers in the next section of this paper.
- 13 The survey for the users is still under development. It is the EFRAG Secretariat's view that it needs to address the overall usefulness of information received after the implementation of IFRS 16 and the usefulness in specific areas that are challenged by the preparers. Those

specific areas would not only include information received through disclosures. It would also include measurement or modifications. In addition, the comparability needs to be challenged. The EFRAG Secretariat had a first meeting to gather input on issues for preparers. The EFRAG Secretariat is planning to develop the survey to the users within the next days and would appreciate to receive input about which areas should be specifically addressed to users. The survey to the users is expected to be published by the end of February and be open for comments until 15 April 2024.

Proposed On-line survey on the effects of IFRS 16 (for preparers and their auditors)

- 14 The following paragraphs include the EFRAG Secretariat proposal about the EFRAG Online survey to be addressed to preparers and their auditors to collect preliminary feedback on the effects of IFRS 16.

Questionnaire

- 15 Question 1 – Respondent’s profile
- (a) Name
 - (b) Respondent’s organisation - Name
 - (c) Respondent’s organisation – Type
 - (i) Preparer
 - (ii) Auditor
 - (iii) National Standard-setter
 - (iv) Regulator
 - (v) Other. Please specify
 - (d) Respondent's organisation – Industry
 - (e) Country

Section 1 - Overall assessment and experiences relating IFRS 16

- 16 Question 2 - What is the overall assessment of IFRS 16 in your experience?
- (a) IFRS 16 is working as intended (i.e., more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, greater transparency)
 - (b) IFRS 16 is generally working well but there is room for improvement as some aspects are challenging
 - (c) There are significant challenges with IFRS 16 that need to be solved
 - (d) IFRS 16 is not working as intended
 - (e) Unsure
- 17 Question 3 - Initial implementation - Which industries (if any) found it challenging to implement IFRS 16? [please select all that apply]
- (a) Airlines
 - (b) Chemical
 - (c) Construction

- (d) Extractive Companies
 - (e) Industrial
 - (f) Pharmaceutical
 - (g) Real Estate
 - (h) Retail
 - (i) Software
 - (j) Telecommunication
 - (k) Transport and Infrastructure
 - (l) Utilities
 - (m) Wholesale
 - (n) Other (please specify)
- 18 Question 4 - Ongoing application - Which industries (if any) still find it challenging to apply IFRS 16? [please select all that apply]
- (a) Airlines
 - (b) Chemical
 - (c) Construction
 - (d) Extractive Companies
 - (e) Industrial
 - (f) Pharmaceutical
 - (g) Real Estate
 - (h) Retail
 - (i) Software
 - (j) Telecommunication
 - (k) Transport and Infrastructure
 - (l) Utilities
 - (m) Wholesale
 - (n) Other (please specify)
- 19 Question 5 – Which have been the main one-off costs your entity faced in implementing IFRS 16? [please select all that apply]
- (a) Adopting/Updating IT system
 - (b) Implementing data collection system/process
 - (c) Reviewing or implementing the lease contract management process
 - (d) Staff training
 - (e) External consulting fees (e.g., auditing fees, external data provider etc.)

- (f) Other (please specify)
- 20 Question 6 – Which have been the main on-going costs your entity faced in implementing IFRS 16? [*please select all that apply*]
- (a) Adopting/Updating IT system
 - (b) Implementing data collection system/process
 - (c) Reviewing or implementing the lease contract management process
 - (d) Staff training
 - (e) External consulting fees (e.g., auditing fees, external data provider etc.)
 - (f) Other (please specify)
- 21 Question 7 – Did the implementation of IFRS 16 impact your internal control system?
- (a) Yes, it had overall positive impacts on the internal control system (please explain);
 - (b) Yes, it had overall negative impacts on the internal control system (please explain);
 - (c) No, it did not impact the internal control system.
- 22 Question 8 – Did the implementation of IFRS 16 impact your reporting to stakeholders related to the performance in the statements of financial position, profit or loss and cash flows (e.g., introduction of new Alternative Performance Measures)?
- (a) Yes, new or adjusted Alternative Performance Measures/ KPI are necessary to faithfully communicate to stakeholders the entity's performance (please explain).
 - (b) No, new Alternative Performance Measures/ KPI were not necessary.

Section 2 – Application challenges arising from the application of IFRS 16

- 23 Question 9 - What are the most prevalent application matters in your experience? [*please select all that apply*]
- (a) Identification of a lease
 - (b) Applying recognition exemptions (e.g., low value assets)
 - (c) Separating lease and non-lease components and allocating the consideration
 - (d) Determining the lease term
 - (e) Determining the discount rate
 - (f) Accounting for contract modifications
 - (g) Determining the lease payments
 - (h) Accounting for sub-lease transactions
 - (i) Accounting for sale and leaseback transactions
 - (j) Providing required disclosures
 - (k) There are no prevalent application matters

(l) Other¹ (please specify)

24 Question 10 - If you have identified application challenges in question 9, please provide more details useful in the context of the PIR (e.g., providing practical examples).

25 Question 11 - Can you please indicate, where relevant, how the IASB should address any application challenges identified in question 9 and explained in question 10?

Section 3 – Application challenges arising from the interaction with other IFRS Accounting Standards

26 Question 12 – If you have application challenges arising from the interaction with other IFRS Accounting Standards, for which standards is the interaction with IFRS 16 causing prevalent application matters? *[please select all that apply]*

(a) IFRS 9 *Financial Instruments*

(b) IFRS 10 *Consolidated Financial Statements*

(c) IFRS 11 *Joint arrangements*

(d) IFRS 15 *Revenue from Contracts with Customers*

(e) IAS 36 *Impairment of Assets*

(f) IFRIC 12 *Service Concession Arrangements*

(g) Other² (please specify)

27 Question 13 - Can you please provide more details, where relevant, on the prevalent application matters you have selected in question 12 (e.g., providing practical examples)?

28 Question 14 - Can you please indicate, where relevant, how the IASB should address the prevalent application matters that you have detailed in question 13?

Section 4 – Disclosure requirements in IFRS 16: cost and benefit analysis

29 Question 15 – Which of the following disclosure requirements result in entities providing useful information to users of financial statements? *[please select all that apply]*

(a) Disclosure about the right-of-use assets (additions, the carrying amount at the end and depreciation charge by class of underlying asset);

(b) interest expense on lease liabilities;

(c) the expense relating to short-term leases accounted for applying IFRS 16.6.

(d) the expense relating to leases of low-value assets accounted for applying IFRS 16.6.

(e) the expense relating to variable lease payments not included in the measurement of lease liabilities;

(f) income from subleasing right-of-use assets;

¹ EFRAG is aiming at identifying application issues where, for instance, there may be diversity in practice, or where the usefulness of information may be in question that EFRAG should raise during the PIR.

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- (g) total cash outflow for leases;
 - (h) gains or losses arising from sale and leaseback transactions;
 - (i) maturity analysis of lease liabilities applying paragraphs 39 and B11 of IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities;
 - (j) additional qualitative and quantitative information about lessee’s leasing activities as required by IFRS 16.59 (e.g., future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities)
 - (k) Other² (please specify)
- 30 Question 16 – Which of the following disclosure requirements give rise to significant ongoing costs? [*please select all that apply*]
- (a) Disclosure about the right-of-use assets (additions, the carrying amount at the end and depreciation charge by class of underlying asset);
 - (b) interest expense on lease liabilities;
 - (c) the expense relating to short-term leases accounted for applying IFRS 16.6.
 - (d) the expense relating to leases of low-value assets accounted for applying IFRS 16.6.
 - (e) the expense relating to variable lease payments not included in the measurement of lease liabilities;
 - (f) income from subleasing right-of-use assets;
 - (g) total cash outflow for leases;
 - (h) gains or losses arising from sale and leaseback transactions;
 - (i) maturity analysis of lease liabilities applying paragraphs 39 and B11 of IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities;
 - (j) additional qualitative and quantitative information about lessee’s leasing activities as required by IFRS 16.59 (e.g., future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities)
 - (k) Other³ (please specify)
- 31 Question 17 – Have you experienced any application challenges arising from the application of IFRS 16 requirements related to the lessor accounting compared to IAS 17?
- (a) Yes, I have (please explain)
 - (b) No, I have not.

Section 5 – Information on the transition requirements

³ EFRAG is aiming at identifying application issues where, for instance, there may be diversity in practice, or where the usefulness of information may be in question that EFRAG should raise during the PIR.

- 32 Question 18 - Did the transition requirements in IFRS 16 achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements?
- (a) Yes, they did (please explain)
 - (b) No, they did not (please explain)
- 33 Question 19 – In your experience, which of the following transition methods had been mostly applied by entities? Why?
- (a) the modified retrospective method, including practical expedients (please explain the main underlying reasons and any practical expedient when used)
 - (b) the full retrospective method (please explain the main underlying reasons).

Section 6 – Other information

- 34 Question 20 - Do you have any additional input about the impact of IFRS 16 that EFRAG should raise to the IASB during the PIR?
- (a) No, I have not.
 - (b) Yes, I have (please explain)
- 35 Question 21 - Would you be available for a follow-up discussion with the EFRAG project team? If yes, please provide your contact details.
- (a) Yes. Please provide your contact details.
 - (b) No.