

RSM International Limited

50 Cannon Street
London
EC4N 6JJ
UK

T +44 (0)207 601 1080

rsm.global

14 October 2025

Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

By e-mail only - commentletters@ifrs.org

Re: Post-implementation Review IFRS 16 Leases

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to respond to the Request for Information on the IASB's Post-implementation Review IFRS 16 *Leases* ("PIR").

Our comments and detailed responses to the questions set out in the Request for Information are set out in the appendix to this letter.

In our view, IFRS 16 is broadly achieving its intended objective to provide relevant and reliable information on leases which faithfully represents those transactions. We believe that the standard's main principles are well understood by preparers, auditors and users, and the standard effectively addresses lease accounting complexities through detailed guidance.

We consider that the requirement for lessees to recognise most leases on the balance sheet has significantly enhanced both the quality and comparability of financial reporting relating to leases, particularly amongst entities that lease assets versus those that purchase them outright.

We would be pleased to respond to any questions the Board or its staff may have about any of our responses. If you have any questions or comments, please do not hesitate to contact Monique Cole (+1 6172411461; monique.cole@rsmus.com) or Diego Odorico (+44 (0) 203 750 5687; Diego.Odorico@rsm.global).

Yours faithfully,

RSM International

THE POWER OF BEING UNDERSTOOD
ASSURANCE | TAX | CONSULTING

Appendix

Question 1 – Overall assessment of IFRS 16

- (a) In your view, is IFRS 16 meeting its objective (see page 9) and are its core principles clear? If not, please explain why not.
- (b) In your view, are the overall improvements to the quality and comparability of financial information about leases largely as the IASB expected? If your view is that the overall improvements are significantly lower than expected, please explain why.
- (c) In your view, are the overall ongoing costs of applying the requirements and auditing and enforcing their application largely as the IASB expected? If your view is that the overall ongoing costs are significantly higher than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of IFRS 16.9

We believe that IFRS 16 is meeting its objective to ensure that lessees and lessors provide relevant information about their leases in a manner that faithfully represents those transactions. We believe that the standard's core principles are clear to financial statement preparers, auditors and users, noting the additional guidance addressing complex leasing issues.

We consider the recognition of the majority of leases on balance sheet has markedly enhanced both the quality and comparability of lease-related financial information. This is especially evident when comparing companies that purchase assets outright to those that lease similar assets. In our view, removing the distinction between finance and operating leases for lessees has reduced the opportunity for lessees to structure leases in a way to achieve financial reporting outcomes.

Regarding the ongoing cost of applying and auditing IFRS 16, we believe these to be largely in line with expectations, with additional costs arising relating to complex lease accounting, such as lease modifications and re-measurements.

Question 2 – Usefulness of information resulting from lessees' application of judgement

- (a) Do you agree that the usefulness of financial information resulting from lessees' application of judgement is largely as the IASB expected? If your view is that lessees' application of judgement has a significant negative effect on the usefulness of financial information, please explain why.
- (b) Do you agree that the requirements in IFRS 16 provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently? If not, please explain why not.
- (c) If your view is that the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, please explain:
 - (i) what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - (ii) what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

In practice, we believe the major leasing judgements are in respect of determination of the lease term, variable lease payments and discount rates.

In determining the lease term, we believe that IFRS 16 offers adequate guidance. There is some variation in how the same facts and circumstances are interpreted and applied. However, our view is that the standard provides a clear and robust framework for establishing the lease term.

In our view, the provisions related to variable lease payments in the standard are generally clear and well-structured. However, it is worth noting that distinguishing among in-substance fixed payments, variable payments tied to an index or rate, and those based on performance can present challenges for financial statement preparers and auditors due to their inherent complexity.

We do not believe that additional guidance on discount rate determination is necessary. In our opinion, IFRS 16 provides a well-defined structure for determining the appropriate discount rate. In practice, we rarely see the rate implicit in the lease used to determine the discount rate. We believe that application of the guidance and approaches to determining discount rate are now well established in practice, although we note that deriving an appropriate discount rate can be time-consuming and costly for entities.

The issue is particularly challenging in circumstances where the entity has no other borrowings, or where the entity's only source of finance is loans from related entities which may be at a substantially lower rate than any available third-party finance. The result is sometimes that a discount rate is used, at which the entity would never willingly borrow.

We would encourage the IASB to consider whether a practical expedient might be developed where an entity could use a readily available source of external information to determine a discount rate. This would be conceptually similar to the IAS 19 approach of using the discount rate on high quality corporate bonds to determine the discount rate on defined benefit liabilities, albeit we recognise the need to incorporate the entity's own credit risk into any methodology, perhaps through the use of credit ratings.

We are of the view that the disclosure requirements under IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies generally provide users with the necessary information to understand how leasing judgements and estimates are made. Nevertheless, should the IASB seek to address specific stakeholder concerns about the application of judgement, it may be beneficial to provide application guidance on the application of the existing disclosure requirements to judgements and estimates relating to leases, for example:

- Disclosing how an entity determines the lease term, such as sharing the average historical lease term and offering insights into how options to extend or terminate are exercised, may enhance transparency around judgement applied.
- Disclosing how the discount rate is derived, particularly when the interest rate implicit in the lease cannot be established, may offer users valuable insights into the quality and rationale behind the chosen rate.

Question 3 – Usefulness of information about lessees' lease-related cash flows

Do you agree that the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are largely as the IASB expected? If your view is that the improvements are significantly lower than expected, please explain why.

We believe that the disclosures relating to lease-related cash flows have successfully enhanced both the quality and comparability of financial information and are largely as the IASB expected.

Question 4 – Ongoing costs for lessees of applying the measurement requirements

- (a) Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected? If your view is that the ongoing costs are significantly higher than expected, please explain why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs.**
- (b) If your view is that the ongoing costs are significantly higher than expected, please explain how you propose the IASB reduce these costs without a significant negative effect on the usefulness of financial information about leases**

We cannot comment on the on-going costs of applying IFRS 16 for preparers of financial statements. We have observed that the shift to on-balance sheet lease accounting has resulted in stronger controls and improved oversight of leasing arrangements.

From an audit point of view, the ongoing costs associated with auditing IFRS 16 appear to be in line with expectations, with higher ongoing costs of auditing IFRS 16 for leases with frequent updates to variable lease payments based on an index or a rate and lease modifications.

Question 5 – Potential improvements to future transition requirements

Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- (a) users have enough information to allow them to understand the effect of any new requirements on entities' financial performance, financial position and cash flows; and**
- (b) preparers can appropriately reduce their transition costs when implementing new requirements for the first time.**

In our view, the transition requirements of IFRS 16 were both appropriate and adequate, given the nature of the changes in lessee accounting. Many of the unexpected transition costs generally stemmed from organisations not having robust lease management and reporting systems in place prior to implementing IFRS 16, as well as from the unavailability of systems in compliance with the requirements of IFRS 16, rather than from issues in applying the transition requirements or the new lessee accounting framework.

Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?**
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?**
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.**

Rent concessions of the type described in Spotlight 6.1 were commonly encountered during the Covid pandemic. We note that the majority of entities applied the lease modification requirements under IFRS 16 to account for such arrangements, rather than applying the requirements of IFRS 9. Post-pandemic, these types of rent concessions have become relatively rare. As a result, we believe that additional guidance in this area is unnecessary, and that the costs of providing further guidance would likely outweigh any potential benefits.

Question 6.2 – Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- (a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?**
- (b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?**
- (c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.**

We have not encountered significant difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale. In our experience, the IFRS 16 guidance is sufficiently clear and can be applied effectively in practice. We note that the volume of these transactions has also declined since the introduction of IFRS 16, likely because the right-of-use asset still appears on the balance sheet which reduces the reporting advantage of such arrangements. Historically, under IAS 17, sale and leaseback transactions were often used to alter the presentation of financial statements. Nowadays, sale and leaseback transactions are more commonly driven by companies' cash flow or financing needs rather than by financial reporting considerations.

Question 6.3 – Applying IFRS 16 with IFRS 15 to gain or loss on recognition in a sale and leaseback transaction

- (a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?**
- (b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?**
- (c) If your view is that the IASB should improve the cost–benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.**

We consider that limiting the amount of gain or loss recognised in sale and leaseback transactions provides meaningful information and helps ensure profits or losses are not overstated through the structure of these arrangements. However, we note that application of these requirements may be challenging in practice, particularly where there are variable lease payments.

Question 6.4 – Other matters relevant to the assessment of the effects of IFRS 16

Are there any further matters the IASB should examine as part of the post-implementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review.

We believe it would be helpful to provide further clarification in certain areas, including:

- (a) Leases with exceptionally long durations, for example 99 years or more.
- (b) Application of the requirements for leased assets under construction, which may be recognised in inventory if there are no upfront lease payments during the construction phase; and
- (c) application to licenses for trademarks.

END OF DOCUMENT