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DES NORMES COMPTABLES

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IASB Chair
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RO n°26

Paris, 3 October 2025

Post-implementation Review - IFRS 16 Leases

Dear Chair,

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The Autorité des Normes Comptables (ANC) welcomes the opportunity offered by the IASB to comment on its Request for Information published on 17 June 2025 on the Post-implementation Review of IFRS 16 Leases.

For all ANC stakeholders, IFRS 16 represented a major change in accounting requirements, from which three main highlights emerge:

- Although mixed views were expressed when it was introduced, the principle that a lease is a debt-like transaction has gained ground since the standard became applicable (paragraph 3);
- Preparers adapted rapidly the administrative management of their leases, moving from a heterogeneous level of maturity from one entity to another to more standardised methods ensuring greater exhaustiveness (paragraph 5), and most of the exemptions or reliefs provided for by the standard have facilitated this administrative management, both in the normal course of operations (paragraph 34-37) and at the transition date (paragraphs 42-45); and
- The information obtained by users on the lease liability is more reliable and more comparable than that previously derived from their own estimates, in particular using multiples, and is subject to the independent review of auditors (paragraph 6).

Beyond these overall observations, difficulties persist, which the ANC recommends addressing along three main axes.

Reconsider the classification of lease payments in the statement of cash flows

Among all the requirements of IFRS 16, the classification of cash flows associated with lease liabilities as "financing" transactions in the statement of cash flows is the conceptual choice most widely challenged by preparers and users. These object that by addressing leases as financing transactions, this requirement fails to adequately portray the operational nature they associate with these arrangements (paragraphs 14-18).

In examining the causes of these criticisms, the ANC observed that there are many reasons why an entity may enter into a lease and that the boundaries of certain arrangements are all the more difficult to define as some may qualify as in-substance purchases of the underlying asset rather than a mere transfer of the right to use it for a period of time. The ANC further observed that, when in-substance purchases involve a third-party – i.e., a party other than the entity and the seller of the asset, generally a financing institution – which takes legal title to the underlying asset and enters into a transaction taking the legal form of a lease with the entity, such transaction would not meet the IFRS 16 definition of a lease unless the third party takes control of the underlying asset. The ANC therefore encourages the IASB to first clarify the criteria for distinguishing between leases and in-substance purchases, as well as the situations in which an in-substance purchase embeds in-substance financing (paragraphs 19-22).

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These clarifications would then enable the classification of payments associated with all of these contracts to be reconsidered as part of the *Statement of Cash Flows and Related Matters* project, while leaving all other features of the single lessee model unchanged. In an in-substance purchase, where the third-party acts as the entity's paying agent, the cash flows that pass through that third-party would qualify as in-substance financing that the entity would present as a "financing" cash inflow and an "investing" cash outflow in its statement of cash flows. Where an in-substance purchase does not embed in-substance financing, the entity's payments would be presented in the "investing" section of the statement of cash flows. Finally, where a contract does not fall into either of these two categories, which is the case in most instances, its cash flows would be classified by default as "operating", in line with the view of a large number of users and preparers (paragraphs 23-25).

Simplify to reduce preparer costs without reducing the quality of information

IFRS 16 is a standard with relatively high ongoing costs (paragraphs 26-37), due in particular to the sophistication of some of its requirements. Among these, some are now embedded in information systems, for example to account for a lease modification, a lease reassessment or a change in discount rate. Recommending to change the definitions of such requirements today, even in the interest of simplification, would generate more costs than benefits.

The ANC therefore recommends focusing the simplification effort on those requirements whose modification would have a limited impact on information systems, or whose cost benefit ratio would be insufficient. This approach would be applicable to two main matters:

- **Determination of the discount rate**, by considering the possibility to apply a single weighted average to all contracts, for example on the basis of the parent entity's incremental borrowing rate (paragraphs 10-11); and
- **Improvement of the efficiency of cost reliefs measures**, by referring to broad categories of assets instead of the US\$5,000 amount stated on the standard's Basis for Conclusions to define those assets that may or may not qualify for the low-value assets exemption (paragraphs 34-35), and by improving the drafting of the "portfolio application" practical expedient in order to better regulate the circumstances limiting the application of that cost relief measure (paragraphs 36-37).

Target a limited number of narrow-scope amendments to reduce diversity of practice

In the years following the implementation of IFRS 16, a diversity of practice detrimental to the quality of information emerged on several matters, either because of the realm of possibilities in the exercise of judgement, or because of conflicts with other accounting standards. To reduce this diversity of practice, the ANC recommends that two main issues be targeted in priority:

- **Rent concessions**, by clarifying the interaction between IFRS 16 and IFRS 9 as part of the *Amortised Cost Measurement* project, for example by requiring that stand-alone rent concessions be accounted for under IFRS 9, while rent concessions combined with other contractual modifications be accounted for under IFRS 16 (paragraphs 46-51); and
- **Sale-and-leaseback transactions**, by clarifying the assessment of control in a transaction involving an asset transferred to a buyer-lessor, particularly for contracts with extension options covering the transferred asset's residual useful life (paragraphs 52-59).

Should you wish to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,



Robert Ophèle
ANC Chair

Post-implementation Review - IFRS 16 Leases
ANC Comment Letter - Appendix

This Appendix is structured as follows:

- . Question 1 - Overall assessment of IFRS 16 (paragraphs 1-7);
- . Question 2 - Usefulness of information resulting from lessees' application of judgement (paragraphs 8-13);
- . Question 3 - Usefulness of information about lessees' lease-related cash flows (paragraphs 14-25);
- . Question 4 - Ongoing costs for lessees of applying the measurement requirements (paragraphs 26-37);
- . Question 5 - Potential improvements to future transition requirements (paragraphs 38-45);
- . Question 6 - Other matters relevant to the assessment of the effects of IFRS 16 (paragraphs 46-68).

Question 1 - Overall assessment of IFRS 16

(a) In your view, is IFRS 16 meeting its objective 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.

1. In the present Comment Letter, some observations refer to the *Effects Analysis on IFRS 16 Leases* of the likely benefits and the initial and ongoing costs arising from the new requirements of IFRS 16 Leases that the IASB published in January 2016. This survey is hereafter referred to as "the Effects Analysis".

Meeting the objective and clarity of core principles

2. When considering the core principles that were retained to underpin its elaboration, it seems difficult to assert that IFRS 16 could produce effects other than those currently observable after a few years of application. To that extent, a possible answer to this first question could be that, overall, IFRS 16 would indeed be meeting its objective on the basis of the core principles that governed its drafting. However, when considering whether the information produced faithfully represents leases, the reservations expressed by many stakeholders, mainly among preparers and users, lead to a more qualified judgement.
3. The core principles of IFRS 16 are indeed very clear, in particular the fact that leases are considered as debt-like transactions accounted for under a single lessee model. This view originally promoted by users has become an element of generally accepted accounting principles and requests to reconsider are now in the minority.
4. Also, the core principles retained to classify lease cash flows are clear, but their relevance is challenged by a strong basis of preparers and users who disagree on the standard's conceptual choices to classify lease payments in the statement of cash flows. Their disagreement applies in particular to the systematic classification of cash outflows on lease liabilities as "financing", and to the difference in the classification between variable lease payments as "operating" and fixed lease payments as "financing". These stakeholders therefore call for a fundamental overhaul of the classification of lease cash flows (paragraphs 19-20).

Overall improvements to the quality and comparability of financial information

5. The IASB's expectation that the quality of financial information about leases would improve was met on the side of preparers, particularly with regard to the process of the administration of leases. Starting from a level of maturity that varied from one entity to another, the implementation of the standard has improved the administrative management of leases for many entities, particularly in terms of exhaustive identification of contracts, accurate documentation of contractual terms and correct classification of transactions in their charts of accounts.
6. The benefits obtained by users depend on the nature of the information, reflecting the divide between credit analysts who mostly focus on the quality of debt-related information, while equity analysts place a greater emphasis on the relevance of information on cash flows. Thus, to a certain extent, users did benefit from better and more comparable information on the lease liability, whose measurement by the entity and review by auditors reduced their need to perform adjustments on the entity's financial statements, on the basis of multiples. However, the need for adjustments continues to be present among users, mostly in relation to classification of lease payments in the statement of cash flows, which lacks overall readability in their view. As a consequence, the IASB's expectation in section 4.1 of the Effects Analysis, that entities would no longer "need to present lease-adjusted non-GAAP information after IFRS 16 is effective" was met partially. In practice, non-GAAP information increased, in particular for cash flow measures intended to compensate for the perceived lack of relevance of the standard's requirements in terms of cash flow presentation (paragraphs 17-18).

Overall ongoing costs

7. IFRS 16 is a standard with overall high ongoing costs. The reasons justifying this observation and proposed solutions are further discussed in paragraphs 26-37.

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).

Lease term

8. The determination of the lease term is highlighted as a recurring matter of concern by many ANC stakeholders, particularly among preparers, auditors and users. The issue of options to extend a lease is considered problematic, in particular where a contract includes one or more options to extend a lease over periods that cover most or all of the useful life of the underlying asset. Moreover, where multiple options are exercisable over time, the appropriate exercise of judgment to identify the events and circumstances triggering the reassessment of the lease term is perceived as technically complex and highly sensitive, in particular with respect to its material impacts on the statement of financial position and potential sources of disparity among entities. The ANC therefore recommends that the IASB provides more robust guidance on this matter to ensure better comparability.
9. Another argument highlighting the importance of addressing the lease term issue is its connection with other matters reported in this Comment Letter, in particular the distinction between an in-substance purchase and a lease (paragraphs 21-25), and the recognition of a sale-and-leaseback transaction (paragraphs 52-59).

Discount rates

10. The lessee's incremental borrowing rate represents the most widely applied reference to discount lease liabilities, above the interest rate implicit in the lease. The determination of the lessee's incremental borrowing rate has given rise to numerous comments from ANC stakeholders. Some practitioners highlighted the difficulty in identifying appropriate rate references, for example for entities experiencing financing difficulties, or entities whose credit rating is not readily observable. More fundamentally, many preparers deplored the methodological complexity of the requirements, as well as the ongoing costs of obtaining rate references by subscribing to specialised databases and performing periodic updates. Feedback collected from stakeholders also indicates that the requirement to determine a theoretical borrowing rate is perceived more as a way to satisfy conceptual considerations than a pragmatic answer to meet user expectations. These stakeholders therefore recommend exploring alternative requirements that might be conceptually less pure, but whose level of approximation would remain acceptable to users.
11. The ANC considers that simplifying the standard's requirements would provide appreciable relief for preparers, without causing a significant loss of relevance for users. A possible way forward would be to apply a single weighted average discount rate to all contracts, either the parent entity's incremental borrowing rate, or a risk-free rate. Although some preparers and users found merits in a risk-free rate approach, mainly for comparability reasons, the majority of ANC stakeholders expressed a marked preference for the parent entity's incremental borrowing rate, underlining the importance attached to a measurement basis that is both simple to determine and reflects the entity's credit rating.

Variable lease payments

12. ANC stakeholders agreed with the IASB's decision to require variable lease payments to be recognised as expenses in profit or loss, rather than being included in the measurement of the lease liability on the basis of an estimate of future variable payments. The validity of this decision was confirmed by the first years of application of IFRS 16, particularly in the periods of high economic uncertainty caused by the Covid-19 pandemic. ANC stakeholders explained that including an estimate of future variable payments in the measurement of the lease liability would have compromised the reliability of the financial information produced, while triggering negative feedback on the relevance of the single lessee model. However, the reliability and usefulness of disclosing future variable lease payments remains a contentious issue further discussed in paragraph 31.

13. Despite the relevance of the decision to exclude variable lease payments from the single lessee model, the articulation between variable and fixed lease payments should be improved in two respects:

Leases with variable payments followed by fixed payments. Where a lease provides for an initial period with variable lease payments, followed by a second period with fixed lease payments, the right-of-use asset is depreciated as soon as the asset is made available for use to the lessee, i.e., at the beginning of the first period, regardless of whether the right-of-use asset is measured on the basis of the fixed payments that will be paid in the second period. For this type of contract, which is common in the retail sector, the performance of the first period is impacted by the variable lease expense, as well as by the depreciation expense of the right-of-use asset. This recognition pattern does not consider that the variable lease payments expensed in the first period already represent the consumption of the benefits obtained through the asset and therefore results in a form of double counting. The ANC therefore invites the IASB to reconsider the relationship between variable and fixed lease payments to improve the faithful representation of the consumption of the benefits obtained through the asset.

Classification of variable and fixed lease payments. In the statement of cash flows, the classification of variable lease payments as "operating" cash flows is considered relevant, but the interaction of this classification with that of fixed lease payments contributes to the reservations expressed about the validity of the principles adopted by the IASB for classifying lease cash flows. This matter is discussed further in paragraph 16.

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.

Principles for classifying lease cash flows

14. The conceptual choices made by the IASB on the classification of lease payments in the statement of cash flows represent the most contentious issue raised by ANC stakeholders. Concerns on this matter are mostly expressed by users and those preparers most affected by leases in their business models, particularly in the luxury goods, retail, real estate, communication, media, advertising, IT services, marketing services, optics, pharmaceuticals and telecommunications sectors, while less impacted sectors tend to put up with the standard's principles. The criticisms on the classification of lease payments focus on two main issues (paragraphs 15-16).
15. Firstly, in sectors where leases are an integral part of the business model, leases are considered to be operational in nature, as they are entered into with the primary objective of using the production capacity of an asset flexibly. Consequently, their lease payments should be classified as "operating" in the statement of cash flows. By contrast, paragraph 50(a) of IFRS 16, classifies all cash payments made by a lessee in respect of the principal of the lease liability within the "financing" section of the statement of cash flows. This classification requirement, whose primary objective is to restore comparability between entities that purchase their assets and those that lease them is widely challenged, particularly in the retail sector, where the acquisition of certain assets such as flagship stores, is rare, if not non-existent. For such contracts, improving comparability between entities that purchase their assets and those that lease them turns out to be an objective that generally finds no application in reality.
16. Secondly, the cash outflows related to leases that do not give rise to the recognition of a lease liability are recognised in the "operating" section of the statement of cash flows. This classification applies in particular to variable lease payments, as well as payments for short-term lease contracts and contracts for leases of low-value assets. Stakeholders challenging the classification principles of IFRS 16 point out that, depending on whether a contract provides for fixed or variable payments, or a lease term of more or less than 12 months, or relates to a high- or low-value asset, lease payments are scattered across the "financing" and "operating" sections of the statement of cash flows, blurring the readability of entities' cash flow performance. While acknowledging that contracts based on fixed or variable payments may reflect different levels of risk, stakeholders challenging the classification principles of IFRS 16 object that the distinction between fixed and variable payments often relates to jurisdictional, geographical or sectoral considerations. These stakeholders also observe that the lack of relevance of cash flows classification principles is even more striking for certain common contracts in the retail sector, combining fixed and variable lease payments respectively classified as "financing" and "operating" for the same asset.

Alternative cash flows measures

17. To remedy what they perceive as shortcomings in terms of relevance and comparability, a substantial proportion of the entities most concerned by leases in their business models have developed non-GAAP cash flow measures for their users in order to achieve classification that reflects their perception of the operational nature of leases, as well as comparability between fixed and variable lease payments. As of 31 December 2023, a survey carried out by the Autorité des Marchés Financiers, the French market regulator, measured that 12 of the 40 groups included in the CAC 40, the main index on the Paris Stock Exchange, published alternative cash flow measures similar to free cash flow integrating lease cash outflows in principal and interest. The fact that this classification choice deteriorates the non-GAAP measure instead of improving it provides a useful indication of the entities' motivations in this approach, both in terms of the absence of opportunism and the pursuit of faithful representation. Although the survey was not updated in 2024, the proportion is expected to have remained stable. The 12 groups publishing such non-GAAP measures all belong to the business sectors listed in paragraph 14 that make extensive use of leases in their business models, while most of the others run businesses in rather capital-intensive sectors or in the financial sector.
18. The development of non-GAAP cash flow indicators illustrates their perception that the conceptual choice made by the IASB in classifying lease cash flows fails to provide a faithful representation of an entity's cash flows. This practice marginalises the primary financial statements as a financial communication basis. It is also of limited relevance in terms of comparability, since the definitions of alternative cash flow measures vary from one entity to another.

Clarify the distinction between in-substance purchases and leases

19. In examining the causes of these criticisms, the ANC observed that there are many reasons why an entity may enter into a lease agreement and that the boundaries of certain arrangements are all the more difficult to define as some may qualify as in-substance purchases. The distinction between in-substance purchases and leases, i.e., between control of an asset and control of a right to use it for a period of time, is closely related to the classification of lease payments in the statement of cash flows. The importance of the matter is also justified by its increasing prevalence, especially in the context of nature-dependent electricity contracts to determine who, the customer or the supplier, controls the source of production.
20. Currently, this matter is not sufficiently developed in IFRS 16. Paragraphs BC138 and BC139 of the Basis for Conclusions on the standard explain that providing criteria to differentiate an asset purchase or an asset sale from a lease had been considered when the standard was being drafted. However, while the observation in paragraph BC139(a) that the “accounting for leases (...) would be similar to that for sales and purchases applying the respective requirements of IFRS 15 and IAS 16 respectively” is valid for revenue recognition and the recognition of a long-term asset together with a liability for its acquisition cost, respectively, does not hold true for the presentation of cash flows and their classification as investing or financing.
21. The situations described hereafter illustrate, however, that the practical difficulties encountered since the standard was first applied largely justify reconsidering the lack of stakeholder interest noted when the standard was drafted:

. **Contractual term and asset's useful life.** The distinction between a purchase and a lease may be difficult when the contractual term tends to be close to the asset's useful life, e.g., when the contract contains successive options to extend the lease, or includes a transfer of ownership clause linked to a term condition.

. **Contractual rights and obligations associated with the asset.** Certain contractual provisions defining the rights and obligations associated with the underlying asset influence the classification of the transaction. At the beginning of the contract, who, the customer or the supplier, controls the underlying asset when the construction period is likely to be long? At the end of the contract, does the underlying asset have a residual value? If so, does it revert to the customer or supplier? Is there an obligation to dismantle the underlying asset at that date? If so, is it assumed by the customer or supplier?

. **Measurement of initial cost.** Even if it has been possible to decide whether to recognise an asset or a right-of-use, existing accounting requirements unevenly address the measurement of the initial cost of an asset. For example, when the contract includes variable payments, the impact on the initial cost of the asset is described by IFRS 16 if the contract is analysed as a lease, but is not addressed by either IAS 16 or IAS 38 if the contract is analysed as an in-substance purchase.

22. The ANC considers that most of these application difficulties could be resolved by setting out in the standard the principle that the difference between an in-substance purchase and a lease is based on an assessment of the continuous period over which the economic benefits derived from the underlying asset are received, either over a limited period or over the useful life of the asset. This principle, complemented by application guidance, would be useful to address the distinction between in-substance purchases and leases. Moreover, as the IASB noted in paragraph BC138 of the Basis for Conclusions on IFRS 16, the requirements “to distinguish a lease from a sale or purchase of an asset” are related. Clarifying the principle underlying the distinction between an in-substance purchase and a lease would simultaneously help address the accounting for sale-and-leaseback transactions, as discussed further in paragraphs 52-59.

Reconsider the classification of lease payments

23. Beyond clarifying the criteria for distinguishing between an in-substance purchase and a lease, the ANC recommends that the IASB further examines the classification of cash flows from contracts that qualify as in-substance purchases. For such transactions, where the third-party acts as the entity's paying agent, the cash flows that pass through that third-party would qualify as in-substance financing that the entity would present as a “financing” cash inflow and an “investing” cash outflow in its statement of cash flows. Where an in-substance purchase does not embed any in-substance financing, the entity's payments would be presented within the “investing” section of the statement of cash flows. Finally, where a contract does not fall into either of the two categories mentioned above, i.e., in most cases, its cash flows would be classified by default as “operating”, in line with the analysis of a large number of users and preparers.

24. The ANC therefore recommends that the classification of lease payments in the statement of cash flows be reconsidered. This proposal would entail no changes in the overarching principles of the single lessee model in terms of recognition and measurement of the right-of-use asset and lease liability, but would make it possible to achieve a more relevant classification of lease payments. As the feedback from the IFRS 16 Post-implementation Review will be available as the *Statement of Cash Flows and Related Matters* project will be in progress, this project provides a particularly timely opportunity to reconsider the classification of lease payments.
25. For the sake of consistency, a change in the statement of cash flows classification should be accompanied by a change in the presentation of the lease liability in the statement of financial position. Thus, if lease payments are classified as "operating" in the statement of cash flows, the lease liability should be classified within operating liabilities in the statement of financial position. The ANC observes that its classification proposals would also improve comparability with US GAAP in the statement of financial position and in the statement of cash flows. However, differences with US GAAP would persist in the statement of profit or loss.

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.

Change from a dual to a single lessee model

26. In Section 5.2 of its Effects Analysis, the IASB expected that the replacement of the IAS 17 dual model differentiating between operating and finance leases by the IFRS 16 single lessee model would “reduce costs compared to IAS 17, particularly for those contracts for which lease classification was complicated and required the application of judgement”. This expectation of a cost reduction was overstated, since leases formerly analysed as operating leases were transferred from a low-cost model based on lease expenses recognised in profit or loss to a higher-cost debt-like model.

IT solutions

27. The Effects Analysis tended to perceive costs related to IT solutions as one-offs as evidenced by the IASB’s expectation in section 5.2 that “once a company has updated its systems to provide the information required by IFRS 16, the IASB expects costs to be only marginally higher compared to those incurred when applying IAS 17”. In practice, the application of IFRS 16 proved to generate higher than expected IT costs on an ongoing basis for several reasons.
28. Although the IASB was “aware that at least some of [the software vendors offering lease management solutions were] adapting systems to take account of the lessee accounting requirements in IFRS 16”, the extent of the technological gap between the former solutions capable of managing IAS 17 and the new solutions required to apply IFRS 16 was insufficiently informed. This understatement is partly rooted in the focus of the Effects Analysis on the change from a dual to a single model, as reflected in section 5.1 with the IASB’s expectation “that companies with on balance sheet leases will use their existing systems for those leases as the starting point when accounting for all leases in accordance with IFRS 16”. This bias appears to have been increased by the IASB’s overconfidence in the capacity of existing IT systems to handle the new standard, as evidenced by the expectation expressed in the same section that “some companies could use (a) existing fixed asset information systems to account for lease assets; and (b) existing debt systems to account for lease liabilities (although the existing debt systems of some companies may be unable to cope with the volume of leases)”. While this statement makes it clear that the volume issue had been identified, the technology gap issue was underestimated, as outlined hereafter.
29. Some requirements of IFRS 16 are particularly complex to model in an IT solution, for example those relating to the differentiated treatment of increases and decreases in the scope of a lease, or changes in discount rates triggered by a change in the lease term. The frequency of such events, inherent to the flexibility provided by leases, was underestimated in section 5.2 of the Effects Analysis, where the IASB expected that “changes to the lease term – and thereby a reassessment of the discount rate and lease payments – are expected only in a small number of cases”. While some IT solutions succeeded in complying with the standard, others only partially did or failed, exposing preparers to ongoing manual adjustments to compensate for these limitations. In addition to the cost of acquiring IT solutions complying with the sophistication of the standard’s requirements, it should be stressed that IFRS 16 applications, like any other IT solutions, periodically expose preparers to audit costs necessary to assess their technical reliability and the security of their operating environment.
30. Furthermore, many IFRS 16 applications are particularly costly in terms of storage space to archive past and present contracts, but also to manage certain disclosures such as those related to the variability of future cash outflows. Paragraph 59 of IFRS 16 requires a lessee to disclose “additional qualitative and quantitative information about its leasing activities” to meet the standard’s overall disclosure objective. As part of such additional information, paragraph 59(b) mentions “future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities” in particular from exposures to variable lease payments, extension and termination options, residual value guarantees and leases not yet commenced to which the lessee is committed. To carry out sensitivity analyses on extension and termination options, a preparer needs to acquire additional storage space to replicate the contractual data from its production database and simulate the exercise of options – the prerequisite being that the IT solution is technically capable of running such a simulation. If this is not the case, the preparer needs to perform the simulation manually outside the system, which is also costly.

31. Beyond the cost and complexity issues raised in the previous paragraph in relation to IT solutions, the quantitative disclosures required by paragraph 59 are complex to implement and document. More fundamentally, the ANC considers that these limitations are a source of concern in terms of reliability and benefit for users. These limitations, illustrated above through paragraph 59(b)(ii) on extension and termination options, become even more acute for the sensitivity provided by paragraph 59(b)(i) on variable lease payments. The estimate of such payments can prove difficult, especially in the retail sector where contracts commonly provide for variable lease payments indexed on revenue combined with a guaranteed minimum derived from the amount paid in the previous period, or on business indicators based on a number of potential or actual customers. The ANC also acknowledges the validity of many preparers' concern about the commercially sensitive nature of such disclosure requirement.
32. After having observed that some of the disclosure requirements in paragraph 59 of IFRS 16 fail to provide reliable information at a reasonable cost and may raise proprietary cost issues, the ANC recommends replacing the requirements of paragraph 59(b) on the variability of future cash outflows with more granular qualitative and quantitative information on actual cash flows, allowing users to better understand how an entity uses leases with variable payments, extension options and termination options in its operations.

Education

33. The IASB's expectations expressed in section 5.1 of the Effects Analysis about education were mostly justified, despite an overall tendency to minimise the complexity gap between IAS 17 and IFRS 16. Moreover, the question of education as a source of costs, not only for the transition, but also as an ongoing cost has been underestimated. Indeed, the widespread nature of leases within preparers' organisations requires a permanent effort to retrain members of staff such as contract managers, lawyers and accountants to face employee turnover. This cost is all the greater if the entity has a decentralised structure to manage, formalise and account for contractual information.

Cost reliefs

Short-term and low-value assets exemptions

34. Most exemptions and simplifications provided by IFRS 16 are appreciated by preparers. In particular, the exemptions from applying the single lessee model to short-term leases and low-value assets are useful, as they allow lower preparation costs by expensing lease payments in profit or loss. However, although the ANC understands that the order of magnitude of US\$5,000 provided in paragraph BC100 of the Basis for Conclusions on IFRS 16 was provided by the IASB with the aim of facilitating the implementation of the low-value asset cost relief, the feedback expressed mostly by preparers on the first years of application indicate that the amount was often considered as an absolute threshold, which reduced its usefulness.
35. The ANC therefore recommends that the US\$5,000 amount be removed from this paragraph of the Basis for Conclusions and replaced by a reference to broad categories of assets that may or may not qualify as low-value assets.

Portfolio application

36. Similarly, the principle of the "portfolio application" was welcomed by preparers, but its practical application appears to have been limited. This practical expedient provided for in paragraph B1 of the standard's Application Guidance allows for several leases with similar characteristics to be accounted for as a single contract, provided applying the standard to the portfolio does not materially differ from its application to individual leases. The "portfolio application" usefully complements the other cost reliefs provided by the standard, particularly for leases of a large number of similar assets that are not eligible to the low-value assets exemption, potentially the lease of a fleet of vehicles, or the lease by a professional service provider of all the apartments in a holiday residence under contracts with individual owner-investors that are periodically renewed on the same date. The objective to apply the "portfolio application" to such contracts may encounter objections mostly focussed on the question of whether and how to reflect one-off events.
37. From a standard-setting perspective, the ANC observes that the practical expedient provided by paragraph B1 of the Application Guidance of IFRS 16 is relevant in its objective and well-designed in its principle. However, in order to enhance the effectiveness of its application, the ANC recommends improving its drafting in order to better regulate the circumstances where one-off events should be considered as obstacles to the application of the practical expedient. For example, the drafting could be complemented by specifying that when assessing whether to apply the practical expedient, an entity shall take into account, among other considerations, the fact that reassessments or modifications may occur, their frequency, as well as the materiality of their impacts for the users of the financial statements.

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.

38. The answers provided below are intended to draw on the experience of the transition to IFRS 16 to identify potential improvements for future standard-setting projects. Although these paragraphs refer to issues specific to IFRS 16, their objective is to identify recommendations applicable to future projects.

Contracts identification

39. In section 5.1 of the Effects Analysis, the IASB expected an entity to incur "no additional costs" for the inventory of leases because an entity was "expected to incur costs in identifying a lease for existing contracts only when it perceives the benefits of this reassessment to be greater than the related costs". Also, the Effects Analysis anticipated "no additional cost" for the documentation of the "terms and conditions of each lease".
40. Although the relief proposed by the transition provisions of IFRS 16 was appreciated, the expectation about the costs to identify leases should be mitigated retrospectively. Indeed, the level of granularity needed to comply with IAS 17 disclosures requirements was much less than that necessary to document contracts to comply with IFRS 16 recognition and measurement requirements. In practice, leases identification was a major and costly phase of the transition project for preparers.
41. The ANC recommends paying particular attention to the time and costs associated with the transition work requiring contractual documentation, especially for a large population of items. In particular, the transition from one set of rules to another may require a more exhaustive inventory, for example because new rules generate material impacts on populations with little or no impact under former rules, or a different identification of contractual features, either in nature or in level of granularity.

Cost relief measures

42. Most of the transition measures provided by the IASB with the aim of mitigating costs were appreciated by preparers, in particular the possibility for an entity: (a) not to reassess whether existing contracts contain a lease; (b) not being required to restate comparative information; (c) to measure lease assets as if IFRS 16 had always been applied or at an amount based on the lease liability. These cost relief measures were widely applied and proved to be efficient in cost benefit terms.
43. The ANC considers that cost relief measures consisting in grandfathering analyses performed under a former standard to the extent these remain compatible with a new standard, or accepting to depart from a principle in terms of recognition, measurement or disclosure, when the cost is likely to exceed the benefit, all represent acceptable approaches to which the IASB could usefully refer to in future standard-setting projects.
44. By contrast, some other transition measures proved to be of limited effect. This observation applies in particular to the IASB's expectation expressed in section 5.3 of the Effects Analysis, "that some companies may measure lease assets and lease liabilities at the amount of future lease payments (rather than at the present value of those payments) if the effect of discounting is not material to the company's IFRS financial statements".
45. The exemption from discounting where the effect of discounting is not material appears to be a theoretical cost relief. Indeed, to determine whether the effect of discounting is immaterial, it is necessary to calculate that discounting effect. Furthermore, leases management requires systematic processes that makes it difficult to manage measurement exceptions on a case-by-case basis, even for simplification purposes. In practice, the discounting exemption seems to have been rarely applied. The ANC therefore recommends avoiding a cost relief measure if the possibility of exercising it requires incurring the cost that the measure seeks to avoid.

Question 6 - Other matters relevant to the assessment of the effects of IFRS 16

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.

Prevalence

46. Feedback obtained from ANC stakeholders, both preparers and auditors, suggests that stand-alone rent concessions are not frequent outside periods of severe economic difficulty, such as the one that prevailed during the Covid 19 pandemic. In the normal course of business, rent concessions do exist, but generally in association with other contractual modifications to a lease. The ANC therefore suggests that the solution proposed to resolve this issue considers whether a rent concession is granted on a stand-alone basis or in combination with other contractual modifications.

Diversity in practice

47. The ANC confirms that diversity currently prevails in how lessees recognise rent concessions. Application difficulties on this matter were raised on several occasions since IFRS 16 was first applied, but the issue remained without a complete solution in the *Annual Improvements - Volume 11* issued in July 2024.
48. Rent concessions currently qualify as an accounting policy choice outlining when the reduction in the lease liability is credited as a decrease in the carrying amount of the right-of-use asset in accordance with IFRS 16, i.e., as a modification of the lease, or as income to profit or loss in accordance with IFRS 9, i.e., as a derecognition of a financial liability.
49. Where the rent concession is accounted for in accordance with IFRS 9, the period over which the income is credited to profit or loss is also a source of diversity in practice. Facts and circumstances in which a rent concession is granted vary from one transaction to another and give rise to judgement justifying either immediate recognition, or amortisation over several periods.

Proposed improvement

50. The ANC recommends that when a rent concession is granted in combination with other contractual lease modifications, it would be neither relevant nor practicable to attempt to split the effect of the amendment between the derecognition of a financial liability and other modifications to the lease. For this reason, the ANC invites the IASB to consider that the entire transaction should be accounted for as a lease modification, in accordance with IFRS 16.
51. The ANC also recommends that the limited situations corresponding to stand-alone rent concessions should be accounted for as a derecognition of a financial liability in accordance with IFRS 9, and invites the IASB to consider the period over which this income effect should be recognised. These improvements could be considered as part of the *Amortised Cost Measurement* project.

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.

Prevalence

52. If a seller-lessee transfers an asset to a buyer-lessor to lease it back from the latter, paragraph 99 of IFRS 16 provides that IFRS 15 is applied to determine whether a performance obligation is satisfied upon transfer of the asset and whether the transaction qualifies as a sale.
53. To conclude on this matter, the seller-lessee needs to assess whether it exercises continuous control over the asset throughout the transaction, or whether control has been interrupted at some point. The reference made by IFRS 16 to IFRS 15 may conflict with other requirements on the assessment of control. This may be the case where the asset is transferred through one of the seller-lessee's subsidiaries, generally referred to as a "corporate wrapper", whose sole element is the asset and this asset does not qualify as a business. In such a case, the seller-lessee may conclude that control is maintained or lost, depending on whether it respectively considers the requirements of paragraph 99 of IFRS 16, or paragraph B98 of IFRS 10, particularly where the seller-lessee holds an option to purchase the asset, or an option to extend the lease term for a period close to the asset's useful life.
54. But the conflict between IFRS 10 and IFRS 15 does not only impact the assessment of whether control is maintained or lost. It further influences the amount of the disposal gain or loss, which would be recognised in its entirety if accounted for in accordance with paragraph 25 of IFRS 10, or limited to the rights transferred to the buyer-lessor if accounted for in accordance with paragraph 100(a) of IFRS 16. Such uncertainty about the amount of the gain or loss exists for the transactions carried out through corporate wrappers, but may occur more extensively for transactions that do qualify as a sale of a business, involving a set of assets such as buildings, transferred with service contracts. The ESMA Enforcement Decision EECS/0123-01 *Sale and Leaseback of an Asset in a Single-Asset Entity* provides a relevant illustration of the type of fact pattern and underlying issues at stake.
55. The issue underpinning the seller-lessee's assessment is that of the continuous period over which the economic benefits derived from an underlying asset are received. Application issues relating to this question are therefore frequent, particularly under the fact pattern described in paragraph 53, where a contract provides for extension options covering substantially all of the transferred asset's residual useful life. In addition, the question of applying continuous assessment also arises when determining whether a transaction qualifies as a purchase or a lease, as discussed in paragraphs 21-25.

Diversity

56. In a sale-and-leaseback transaction, diversity arises in seller-lessees' assessments from the presence of successive options to extend the lease potentially covering the useful life of the asset, or of ownership transfer clauses, the exercise of which may not be reasonably certain. Such difficulties are shared with those highlighted for in-substance purchases.

Proposed improvement

57. The ANC recommends clarifying the assessment of control in a transaction involving an asset transferred to a buyer-lessor, in priority for contracts with extension options covering the transferred asset's residual useful life. The underlying principle would be shared by sale-and-leaseback transactions and in-substance purchases, based on an assessment of the continuous period over which the economic benefits derived from the underlying asset are received, either over a limited period or over the useful life of the asset.
58. That principle could be supplemented by application guidance to help addressing certain specific features of sale-and-leaseback transactions. For example, when a sale-and-leaseback transaction takes place before a business combination, should the assets and liabilities arising from the transaction be recognised and measured in accordance with IFRS 3, as if the sale-and-leaseback transaction had not taken place, or in accordance with paragraphs 100-103 of IFRS 16?

Question 6.3 - Applying IFRS 16 with IFRS 15 to gain or loss 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.

59. The ANC agrees that where a seller-lessee maintains continuous control over an asset subject to a sale-and-leaseback transaction, restricting the result of the transaction within the statement of financial position in accordance with IFRS 9 results in useful information. The ANC is not aware of new evidence or arguments that the cost benefit balance of the partial gain or loss recognition requirements are significantly different from those expected.

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 as set out on page 5.

Interaction between IFRS 16 and IAS 29

60. Under the single lessee model, the right-of-use asset and the lease liability are adjusted differently depending on trigger events. The symmetry or asymmetry of these adjustments arise from the different natures of the right-of-use asset and lease liability, as the former is a non-monetary asset, while the latter is a monetary liability. Some stakeholders, particularly among preparers and users, are particularly sensitive to the arguments underlying these requirements, especially when they generate asymmetrical adjustments.
61. For example, when an entity is the lessee in a lease agreement stated in foreign currency, the lease liability is remeasured at the closing rate against profit or loss in accordance with IAS 21, without a symmetrical adjustment of the right-of-use asset. When drafting IFRS 16, the IASB had considered the asymmetry induced by this treatment and had concluded in paragraphs BC196-BC199 of the Basis for Conclusions on the standard that the proposed solution was consistent with the requirements for foreign exchange differences and provided a faithful representation of the economic effect of the transaction.
62. While deploring the asymmetry of this requirement as well as the disconnection it induces between the flows in profit or loss and those of the statement of cash flows, these preparers and users acknowledge that it would be difficult to develop another standard-setting solution. However, when this requirement is applied in a hyperinflationary context, these stakeholders note that this asymmetry is further increased by IAS 29 requirements, in which the non-monetary right-of-use asset is subject to revaluation.
63. These stakeholders therefore suggest addressing the asymmetry created by IAS 21 in IFRS 16 within a project to revise IAS 29 requirements. In this broader context, these preparers and users observe that it would be relevant to clarify whether the right-of-use asset and the lease liability both qualify as "assets and liabilities linked by agreement to changes in prices" in accordance with paragraph 13 of IAS 29, which could be a possible way forward to increase the relevance of financial statements restated in a hyperinflationary context.
64. The ANC is aware of the particular interest regularly expressed by its stakeholders in technical matters related to hyperinflation, to which French groups are exposed through their consolidated financial statements. The ANC therefore recommends that the issue of the asymmetry of adjustment of the right-of-use asset and lease liability be examined as part of a comprehensive overhaul of IAS 29, whose addition to the IASB Agenda is supported by the ANC.

Interaction between IFRS 16 and IFRS 3

65. Paragraph 28B of IFRS 3 requires an acquirer to "measure the lease liability at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired lease were a new lease at the acquisition date." The same paragraph further requires the right-of-use asset to be measured "at the same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms".
66. Among ANC stakeholders, some preparers noted that the requirements of paragraph 28B of IFRS 3, while welcome in their simplicity, resulted in an inappropriate post-acquisition expense recognition pattern in profit or loss. Indeed, the right-of-use model apportions lease payments into a depreciation expense on the right-of-use asset and an interest expense on the lease liability. As noted in the Executive Summary of the Effects Analysis, "although the depreciation charge is typically even, the interest expense reduces over the life of the lease as lease payments are made. This results in a reducing total expense as an individual lease matures".
67. By requiring that leases acquired through a business combination be accounted for as new contracts, those stakeholders observe that paragraph 28B fails to address the uneven recognition pattern over the term of the contract. These stakeholders therefore suggest that the requirements of paragraph 28B be amended to require that an acquirer assess the carrying amount of the right-of-use asset retrospectively, so that post-acquisition performance be measured more accurately.

68. The ANC considers that this concern is relevant for contracts that are close to their end, but notes that other preparers appreciate the simplicity of application of paragraph 28B. The ANC therefore recommends that the retrospective measurement of the carrying amount of the right-of-use asset be added to paragraph 28B of IFRS 3 on an optional basis and that an entity applying this option discloses this fact, together with the method used to measure the carrying amount of the right-of-use asset.