

10 October 2025

Dr Andreas Barckow
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

(By online submission)

Dear Andreas

RESPONSE TO REQUEST FOR INFORMATION: POST-IMPLEMENTATION REVIEW OF IFRS 16 LEASES

The Singapore Accounting Standards Committee (ASC), under the Accounting and Corporate Regulatory Authority (ACRA), welcomes the opportunity to comment on the Request for Information on Post-Implementation Review of IFRS 16 Leases (the RFI) issued by the International Accounting Standards Board (the IASB) in June 2025.

We are supportive of the objective of a post-implementation review (PIR) of each new IFRS Accounting Standard or major amendment to a Standard. We view that the PIR can help to identify improvements to be made to the requirements in IFRS 16 and is a critical step in the goal of improving financial reporting.

Based on feedback received from our stakeholders, the requirements in IFRS 16 are generally working as intended and have broadly achieved its objective of providing relevant information that faithfully represents most lease arrangements. Nonetheless, our stakeholders have identified a number of areas that we would like to bring to the IASB's attention and they are elaborated in this letter.

The comments below on the specific questions in the RFI are formulated based on feedback received from our stakeholders that merits further consideration by the IASB.

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.

The [Effects Analysis on IFRS 16](#) describes the expected likely effects of the Standard, including benefits and implementation and ongoing costs.

Please refer to ‘**Guidance for responding to questions**’ on pages 7–8.

Our stakeholders provided the following broader perspectives, in addition to specific feedback on questions 2 and 4.

Meeting objectives and clarity of core principles

IFRS 16 has broadly achieved its objective of providing relevant information that faithfully represents most lease transactions. The single lessee accounting model has enhanced transparency by eliminating the previous operating or finance lease classification, and bringing all lease assets and liabilities onto the lessees’ balance sheets. This approach is more reflective of a lessee’s operations and provides users of financial statements (users) with a more complete understanding of its financial position and risks, particularly in lease-intensive industries such as retail, shipping and aviation, where leases of properties, vessels, aircraft and engines contribute substantially to those entities’ cost structures.

In addition, our stakeholders considered that while the core principles of IFRS 16 are generally clear, applying these principles to complex arrangements increases reliance on judgement and creates application challenges and diversity in practice that can reduce comparability. They believed that there are opportunities to further enhance the requirements and application guidance in IFRS 16 with targeted improvements where certain limitations were identified during the implementation of IFRS 16.

Quality and comparability of financial information

IFRS 16 has generally delivered the expected improvements in quality and comparability of financial information for straightforward lease arrangements. The Standard has enhanced entities’ systems, processes and controls while providing management with better information

for lease portfolio management. Users have also benefited significantly from these improvements. Prior to implementation, users relied on operating lease expense multiples or the present value of future minimum lease payments for comparative analysis. IFRS 16 has enhanced comparability by reducing non-GAAP adjustments previously required when evaluating entities with different asset financing approaches.

By requiring entities to report significant lease commitments on their balance sheets, IFRS 16 has improved transparency and provides users with better quality and more complete information. This has enabled users to better assess entities' leverage, liquidity, and capital allocation.

Overall ongoing costs

Our stakeholders provided mixed views on the ongoing costs of applying the requirements. Some considered that ongoing costs are largely as the IASB expected and have become manageable with the development of accounting practices, with many aspects required by IFRS 16 now integrated into entities' systems and processes.

However, other stakeholders observed that IFRS 16 is more complex than IAS 17 *Leases* and ongoing compliance costs are higher than initially expected. Key cost drivers include ongoing assessment of complex lease arrangements requiring significant judgement, frequent analysis of lease modifications and reassessment of lease liabilities, and increased need for specialist expertise. Further explanations of circumstances driving these costs and stakeholder proposals to reduce them are provided under Question 4.

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).

Please refer to '**Guidance for responding to questions**' on pages 7–8.

Lessees' judgement on information usefulness, and clear and sufficient basis of IFRS 16 requirements for appropriate judgements and consistent application

Stakeholders expressed mixed views on the usefulness of financial information resulting from lessees' application of judgement under IFRS 16. Some stakeholders agreed that the usefulness of financial information is largely as expected and viewed that applying judgement to different facts and circumstances is important for applying principles-based standards. This enables entities to better reflect the economic substance of lease arrangements and enhance relevance in a rapidly changing global environment.

However, other stakeholders expressed concerns that while IFRS 16 generally provides a clear and sufficient basis for appropriate judgements and supports consistent application for many straightforward lease arrangements, its principles-based nature can lead to differences in interpretation that reduce comparability when applied to complex lease arrangements. These stakeholders noted significantly increased reliance on critical judgements for the lease term, discount rate and variable lease payments—key inputs for the measurement of lease liabilities. The increase in judgement required for these inputs can produce materially different outcomes for similar leases, reducing comparability across entities. This is particularly evident in the retail and aviation industries where leases often contain complex structures, options and variable lease payments. Concerns on the following application challenges were noted:

(a) Lease term

Lack of a specific definition of 'penalty'

Paragraph B34 of IFRS 16 states that a lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease with no more than an insignificant penalty, but the Standard lacks a specific definition of 'penalty', increasing judgement requirements. To support a more consistent application, the IASB could provide application guidance on what constitutes a 'penalty', drawing reference from the IFRS Interpretations Committee (the IFRIC) agenda decision published in November 2019 which clarifies that 'penalty' includes broader economics beyond contractual payments, or incorporate examples from US GAAP guidance issued by the Financial Accounting Standards Board (FASB) ASC Topic 842 *Leases* (Topic 842) on non-contractual economic penalties.

Judgement variations affecting comparability

Judgement variations can impact comparability. Although paragraph B37 of IFRS 16 provides application guidance on a list of non-exhaustive factors for assessing a lessee's economic incentive to exercise purchase or renewal options (or not to exercise termination options), measurement differences can be caused by variations in management judgement regarding the 'reasonably certain' probability threshold,

combined with lessee-specific and contract-specific circumstances. This can lead to differences in lease terms and lease payments included in lease liability and lease asset measurements.

Outcomes inconsistent with customary practice and expectations

A further concern is that application of IFRS 16 requirements sometimes produced outcomes that are inconsistent with customary practice and expectations. For example, a school campus built on annually renewable leased land (subject to lessor approval) may have a building with an estimated useful life exceeding the lease term. Since an extension cannot be enforced without the lessor's agreement, the lease term determined under paragraph B34 of IFRS 16 is limited to the enforceable period.

(b) Discount rates

IFRS 16 defines the lessee's incremental borrowing rate as 'the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment'. The IASB explained in paragraph BC162 of IFRS 16 that, depending on the nature of the underlying asset and the terms and conditions of the lease, a lessee may be able to refer to a rate that is readily observable as a starting point (such as the rate for borrowing money to purchase the type of asset being leased or the property yield for a property lease) and determine whether adjustments are necessary to reflect lease-specific terms and conditions.

However, there are still practical challenges because the lessee's incremental borrowing rates are rarely directly observable and determining the appropriate discount rates involves significant judgements that may be applied differently, particularly when entities lack observable rates for loans with similar payment profiles, values or security as the leased asset. In such cases, determining an appropriate observable rate, whether adjustments are necessary and the level of adjustment required is highly subjective, making consistent application of the Standard difficult to achieve.

(c) Variable lease payments

IFRS 16 requires lease payments to include in-substance fixed lease payments, with paragraph B42 providing examples of payments that contain variability in form but are unavoidable in substance. However, determining whether variable lease payments are genuinely variable or in-substance fixed can be challenging, as each contract requires careful assessment of all relevant facts.

Some stakeholders noted that there are differences in the interpretation of the wording 'become fixed for the remainder of the lease term' in paragraph B42(a)(ii) that have resulted in some diversity in practice in instances whereby lease payments are initially variable, becoming fixed for a period of time, and subsequently reverting back to being variable. Some large accounting firms have published guidance with the view that the lease liability should be remeasured when any variability is resolved for future lease

payments, regardless of whether lease payments become fixed for only part of the remaining lease term.

An example is a 25-year lease of an item of machinery where payments for years 2–15 become fixed based on the units produced by the machine in the second half of year 1 and payments for years 16–25 being variable based on the actual units produced by the machine. The Standard is unclear whether an entity should remeasure the lease liability for in-substance fixed payments or account for them as variable payments when lease payments become fixed for only part of the remaining lease term and not the entire remaining lease term.

Similarly, co-location discounts in the telecommunications industry present challenges for cell tower leases. These arrangements provide discounts when multiple telecommunications operators lease slots on the same tower, reflecting an expectation that co-location will occur. The discount may apply when co-location begins and cease when other operators vacate, creating a cyclical pattern of variable-to-fixed-to-variable payments that presents the same uncertainty in interpretation regarding remeasurement requirements.

These scenarios create diversity in practice regarding when and how to remeasure lease liabilities. Entities must assess whether clauses are genuinely variable or protective in nature, evaluate the likelihood of triggering events, and determine appropriate remeasurement timing. The challenge intensifies when triggering events become realistic, requiring lessees to evaluate scenarios and remeasure lease liabilities accordingly.

If entities account for temporarily fixed payments as in-substance fixed payments and apply the remeasurement requirements, the right-of-use (ROU) asset would be adjusted for the remeasurement of the lease liability and depreciated over the remaining lease term despite only reflecting lease payments for the fixed period. This can distort financial information by creating an uneven depreciation profile in the statement of profit or loss where there is disproportionately larger depreciation expense towards the later periods as compared to earlier periods. It is unclear whether the IASB intended for remeasurement to occur upon resolution of the contingency for part of the lease term. The IASB should include illustrative examples or amend paragraph B42(a)(ii) to clarify its intention.

Challenges also arise in distinguishing variable lease payments that depend on an index or rate. IFRS 16 requires lease payments to include such variable lease payments, with paragraph 28 of IFRS 16 providing examples such as payments linked to a consumer price index or to a benchmark interest rate, or payments that vary to reflect changes in market rental rates. However, the absence of a clear definition of ‘an index or a rate’ creates additional judgement on the requirements when determining whether variable rent adjustments reset the lease payments to market rental rates.

Users also face challenges understanding the underlying economic substance of lease arrangements and entities' critical judgements when assessing the effect that leases have on those entities' financial position, performance and cash flows. These difficulties are compounded when disclosures are either aggregated or when the extent of information provided in financial statements is limited by the confidentiality of key contract terms.

Proposed improvements

To improve the usefulness of financial information resulting from lessees' application of judgement and reduce differences in interpretation to enhance comparability, our stakeholders suggested that the IASB provide enhanced application guidance and illustrative examples focused on critical judgement areas. These include determining discount rates, assessing genuine variability to distinguish between variable and in-substance fixed lease payments, and clarifying when lease liabilities should be remeasured for lease payments that reset during the lease term.

Additionally, while IFRS 16 and Topic 842 contain a number of differences in their requirements to lease accounting, the IASB and the FASB could work together to achieve closer alignment between their standards to improve comparability between entities reporting under different accounting frameworks. This will particularly benefit users who analyse entities across jurisdictions and reduce complexity for multinational entities preparing financial statements under both sets of accounting frameworks.

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.

Please refer to '**Guidance for responding to questions**' on pages 7–8.

Most of our stakeholders considered that improvements to the quality and comparability of financial information about lease-related cash flows are largely as the IASB expected. The single lease accounting model under IFRS 16 for all recognised leases has enhanced the comparability of lease-related cash flow information.

While our stakeholders considered that the disclosures related to lease payments provide users with enhanced understanding of the financial effects of leases on the entity's financial statements, some questioned the usefulness of the split presentation of lease-related cash flows across operating and financing activities, particularly when variable lease payments not included in the lease liability (i.e., those that are not based on an index or rate) represent material amounts. This concern is especially relevant in the retail industry, where such variable payments are common. Our stakeholders suggested that this could be better addressed by the IASB's research project on the *Statement of Cash Flows and Related Matters*.

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.

Please refer to ‘**Guidance for responding to questions**’ on pages 7–8.

The ongoing costs of compliance varied across entities and industries depending on the volume and complexity of the lease arrangements (see our comments under Question 1).

Some stakeholders observed ongoing costs exceeding expectations in lease-intensive industries. They noted that the requirements in IFRS 16 demand greater reliance on judgements and substantial ongoing costs when remeasuring lease liabilities and accounting for lease modifications, which require additional resources for data collection and monitoring. Remeasurement of lease liabilities can occur frequently due to changes in lease terms (using revised discount rates) or future lease payments from changes in an index or rate.

The higher ongoing costs are driven by the following factors: greater information technology system needs, particularly for entities with substantial volumes of leases; expanded manual efforts, often requiring expert involvement for appropriate judgements; and increased audit scrutiny. The burden is especially pronounced in lease-intensive industries, such as the aviation industry, which regularly review lease renewal and termination decisions or renegotiate contracts to optimise their fleet.

To address these broader challenges, our stakeholders suggested that the IASB provide more application guidance and illustrative examples focused on critical judgement areas.

Targeted simplifications could also provide cost relief in areas where stakeholders expressed concerns about the cost-benefit balance of requirements, particularly regarding subsequent remeasurement of lease liabilities.

Variable lease payments that depend on an index or a rate present specific concerns

A particular area of difficulty involves the requirements for subsequent reassessment of lease liability and consequential adjustment to the ROU asset arising from index or rate changes. Our stakeholders considered that these requirements entail significant administrative effort, system requirements and audit costs, particularly in the shipping, aviation and retail industries. The accounting for variable lease payments that depend on an index or rate was developed based on the expectation that lessees would report financial results more frequently than lease payment changes due to changes in the reference index or rate.

However, our stakeholders observed that in certain sectors, such as shipping, indices are becoming increasingly more volatile largely due to major geopolitical events and disruptions to global supply chains. Lease contracts may consequently incorporate more regular adjustments, leading to a higher frequency and magnitude of remeasurements that can reduce the usefulness of financial statement information while creating higher-than-expected ongoing costs.

Our stakeholders suggested that the IASB explore targeted standard setting amendments to reduce these ongoing costs. They recommended streamlining requirements to reduce the frequency of subsequent remeasurements or clarifying when remeasurement of the lease liability is required for variable lease payments based on highly volatile indices or rates. This would provide clearer guidance on avoiding frequent adjustments that are costly and may not enhance the usefulness of financial information.

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.

Please refer to '**Guidance for responding to questions**' on pages 7–8.

Our stakeholders generally welcomed the modified retrospective approach in IFRS 16 and found the transition requirements helpful in supporting entities through implementation. The transition options and practical expedients were particularly valuable in helping achieve an appropriate balance between reducing costs for preparers while providing useful information to users, especially given that each entity's circumstances and information availability are unique.

This flexibility allows entities to select methods that fit their situation, significantly reducing one-time transition costs for those with a high volume of lease contracts or complex lease arrangements. For example, practical expedients such as applying a single discount rate to a portfolio of leases with reasonably similar characteristics proved useful in avoiding high costs for contract-by-contract assessment while providing users with meaningful information.

Our stakeholders acknowledged that the usefulness of transition options and practical expedients depends on the specific requirements of each standard. Providing options tailored to entity size and complexity helps ensure transition costs remain proportionate to benefits to users. For narrow-scope amendments clarifying requirements in IFRS Accounting Standards,

the IASB could consider allowing prospective application where retrospective application might be impracticable, or where costs exceed benefits to users. This approach aligns with the IASB's recognition that while retrospective application is generally preferable for providing useful information to investors, it may not always be justified when implementation costs are disproportionate to expected benefits.

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.

Please refer to '**Guidance for responding to questions**' on pages 7–8.

The IASB's April 2020 non-authoritative educational document [*IFRS 16 and covid-19: Accounting for covid-19-related rent concessions applying IFRS 16 Leases*](#) provides helpful perspectives on rent concessions. While issued in response to the COVID-19 pandemic, it includes guidance that may be applicable to rent concessions arising in other circumstances.

After the COVID-19 pandemic, our stakeholders observed that material rent concessions involving only forgiveness of contractual lease payments were not frequent. However, as the issue about the conflict between the requirements of IFRS 16 and IFRS 9 *Financial Instruments* has been observed a number of times, they suggested that the IASB act proactively to improve clarity before future disruptions trigger more widespread rent concessions.

Our stakeholders expressed concerns about potential diversity in application exacerbated by the amendments to IFRS 9, as part of the *Annual Improvements to IFRS Accounting Standards—Volume 11* (Annual Improvements). The amendments clarify gain or loss recognition for a lease liability that has been extinguished under IFRS 9, but did not address the interaction between the two standards. This lack of clarity could result in diversity in practice: some entities applying modification accounting under IFRS 16, which generally would not result in recognising a gain or loss in the income statement, while others apply derecognition under IFRS 9, which may impact gain or loss recognition.

Our stakeholders suggested that the IASB improve clarity through narrow-scope standard setting, which was earlier included in our comment letter to the Annual Improvements exposure draft.

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.

Please refer to '**Guidance for responding to questions**' on pages 7–8.

Our stakeholders observed that application challenges are common in industries such as aviation, financial institutions and real estate that have material assets and require substantial future investments that are often financed by sale and leaseback structures. Diversity in the application of judgement in assessing whether control of an underlying asset passes to the buyer-lessor frequently has material accounting impacts, particularly in the following situations highlighted in Spotlight 6.2:

- (a) A seller-lessee's renewal options in the leaseback transaction would permit the seller-lessee to extend the lease for substantially all the remaining economic life of the underlying asset;
- (b) An entire building is sold, and only part of that building is leased back, requiring judgement in determining the unit-of-account; and
- (c) The seller-lessee leases back an asset that differs from the asset it sold (for example, the seller-lessee sells an unrenovated building and leases back a renovated building).

Furthermore, stakeholders observed diversity in practice regarding the reassessment of a failed sale when the seller-lessee's repurchase option that initially prevented the recognition of a sale expires unexercised subsequently. Some entities reassess the accounting treatment and apply paragraph B69 of IFRS 15 *Revenue from Contracts with Customers*, while others do not as the contract has not been modified.

Diversity in practice is also observed regarding whether the recognition exemptions in IFRS 16 for short-term leases and leases of low-value assets in paragraph 5 of IFRS 16 also apply to sale and leaseback transactions. Our stakeholders noted that paragraph 5 explicitly refers to the application of paragraphs 22–49 on lessee accounting, which do not include the sale and leaseback requirements in paragraphs 98–103.

Our stakeholders suggested that the IASB consider providing further guidance and illustrative examples or undertaking a narrow-scope amendment project to clarify interaction issues between IFRS 15 and IFRS 16. Our comment letter on *Request for Information: Post-implementation Review of IFRS 15 Revenue from Contracts with Customers* (PIR IFRS 15) also covered the above situations highlighted in the spotlight where our stakeholders identified that more guidance is required.

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.

Please refer to ‘**Guidance for responding to questions**’ on pages 7–8.

Our stakeholders considered that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction generally results in useful information. They support the core principle that where two or more transactions are linked, these should be considered together—a fundamental principle applied across many IFRS Accounting Standards. When a sale does not result in the full transfer of control over the asset, that sale is not considered substantive. Hence, an entity should recognise either no gain or only a partial gain in such instances.

From an economic perspective, this approach provides useful information by ensuring that only the portion relating to rights transferred to the buyer-lessor is recognised. This prevents an artificial inflation of profit or loss in circumstances where the seller-lessee retains the right to use the underlying asset under the leaseback. For users, this is more representative of the economic substance and the ongoing rights and obligations arising from such transactions.

However, our stakeholders have identified areas where costs and complexity have exceeded initial expectations:

- (a) The calculation of partial gain (or loss) is often challenging, particularly in the shipping and aviation industries where assets are of high-value, leases are complex, and initial carrying amounts of assets may be difficult to apportion between retained and transferred rights. Revisions in lease terms further complicate ongoing remeasurement.

- (b) Considerable professional judgement is required, and diversity in application is common, in the approach and the allocation of asset value between transferred and retained rights. This impacts comparability and increases audit and administrative costs.

While the narrow-scope amendments *Lease Liability in a Sale and Leaseback* issued in 2022 (the 2022 Amendments) are helpful, they do not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The IASB acknowledged that the amendments “could result in a seller-lessee determining ‘lease payments’ or ‘revised lease payments’ in a way that would be different from the definition of ‘lease payments’ in Appendix A.” The statement in paragraph BC267ZD that ‘the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are sufficient to require the seller-lessee to develop and apply an accounting policy that results in information that is relevant and reliable’ gives rise to the risk of inconsistent application in practice.

Additionally, the 2022 Amendments do not address confusion over whether entities should consider a change in future lease payments resulting from a change in an index or rate in the remeasurement of the lease liability. The illustrative examples accompanying IFRS 16 do not cover such situations.

- (c) Ambiguity remains when control transfers over time. For example, when a seller-lessee sells an asset under construction or an unrenovated building and leases back the completed or renovated asset, IFRS 15 and IFRS 16 requirements are unclear on determining control of the asset during construction or renovation and whether the transaction qualifies as a sale-and-leaseback arrangement. It is unclear whether paragraph 100(a) of IFRS 16 applies.

To improve the cost-benefit balance of applying the partial gain or loss recognition requirements, our stakeholders suggested that the IASB provide additional guidance to lower the cost of applying sale and leaseback accounting and mitigate diversity in practice.

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.

Please refer to ‘Guidance for responding to questions’ on pages 7–8.
--

In addition to the areas of significant judgement and lack of clarity highlighted in Questions 2, 4 and 6.1 – 6.3, our stakeholders identified the following areas relating to lease accounting that require clarification:

Interaction with IFRS 10 Consolidated Financial Statements

Our stakeholders observed diversity in how entities account for transactions where an entity sells its equity interest in a subsidiary that holds only a real estate asset (a single-asset entity) and then leases that real estate asset back. They acknowledged that this issue cuts across several IFRS Accounting Standards and believe the IASB should move the *Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)* project from its maintenance pipeline to its active standard-setting agenda.

Interaction with IFRS 15

Uncertainty remains in allocating a pool of consideration including variable lease payments when a revenue contract contains lease and non-lease components. In addition, when the contract contains an optional renewal period, it is unclear whether to allocate the consideration based on the lease term determined under IFRS 16 or the contract term determined under IFRS 15. These uncertainties affect the identification of promised goods or services to be recognised under IFRS 15 and the allocation of consideration between lease and non-lease components, potentially leading to inconsistent application across entities. Our comment letter on PIR IFRS 15 also identified this area where our stakeholders asked for more guidance.

Furthermore, an inconsistency exists when applying paragraph 71 of IFRS 16, which requires a manufacturer or dealer lessor to recognise revenue at the commencement date of the lease, while IFRS 15 may require revenue recognition over time if control transfers over time.

Accounting for supplier's cloud-based software in a Software as a Service (SaaS) arrangement

Questions have been raised on how the scope exclusion in paragraph 3(e) of IFRS 16 should be applied to licences, particularly whether software arrangements such as cloud services fall within the lease definition. Our stakeholders suggested that the IASB clarify the accounting for leases of software in cloud-based SaaS arrangements, possibly within the intangible assets project's work on cloud computing. Further clarification of the IFRIC agenda decision on [*Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud \(IAS 38 Intangible Assets\) \(March 2019\)*](#) through application guidance and illustrative examples would be helpful.

Lessor accounting

During the development of IFRS 16, the IASB substantially carried forward the lessor accounting model from IAS 17. However, our stakeholders believed that IFRS 16's enhanced guidance on lessee accounting has increased scrutiny of lessor accounting, revealing several gaps requiring attention, for example:

- (a) IFRS 16 does not specify whether lessors should analogise to lessee requirements and remeasure lease payments and net investment in leases after commencement for reassessments of variable lease payments that depend on an index or a rate, or lease

term changes. It also does not clarify whether to use the original discount rate by analogy to IFRS 9 or a revised discount rate by analogy to lessee accounting.

- (b) Income recognition by lessors can be extremely sensitive to the amount recognised as the asset's residual value as this directly affects the computation of finance income earned over the lease term. While paragraph 77 of IFRS 16 addresses reductions in estimated unguaranteed residual values, it does not address increases.
- (c) An inconsistency arises when applying IFRS 3 *Business Combinations* fair value accounting to finance lease receivables, resulting in accounting that is inconsistent with general lease model in IFRS 16, particularly regarding estimated future variable lease payments.
- (d) A misalignment exists between IFRS 15 and IFRS 16 on revenue recognition when collectability is in doubt. IFRS 15 requires an entity to evaluate the collectability of consideration when identifying the contract, potentially precluding revenue recognition if there are collectability issues. Conversely, IFRS 16 requires a lessor to first recognise revenue from a financially distressed lessee before impairing the recognised receivables. This diversity in practice is particularly prevalent for real estate lessors and was also covered in our comment letter on PIR IFRS 15.

We hope that our comments will contribute to the IASB's deliberation on the RFI. Should you require any further clarification, please contact our project managers Yun Leng Chua at Chua_Yun_Leng@acra.gov.sg and Yat Hwa Guan at Guan_Yat_Hwa@acra.gov.sg.

Yours sincerely

Wee Khim Tan (Ms)
Technical Director
For and on behalf of Accounting Standards Committee
Accounting and Corporate Regulatory Authority