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15 October 2025

Dear Sir

**Request for Information - Post-implementation Review IFRS 16 Leases**

We are pleased to comment on the above Request for Information (the RFI). Following consultation with the BDO network<sup>1</sup>, this letter summarises views of member firms that provided comments on the RFI.

We have responded to the questions which covered the most significant aspects of IFRS 16 for the purposes of the Post-implementation Review. Our responses to those questions in the RFI are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at [abuchanan@bdoifra.com](mailto:abuchanan@bdoifra.com).

Yours faithfully

Andrew Buchanan

*Global Head of IFRS and Corporate Reporting*

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## Appendix

### Question 1—Overall assessment of IFRS 16

*Question 1(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.*

In our view, IFRS 16 has achieved its objective and its core principles are clear. However, we believe certain requirements could be clarified by the IASB. We refer to the recommendations provided below.

*Question 1(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.*

In our view, the overall improvements to the quality and comparability of financial information about leases are largely as the IASB expected in the published IFRS 16 *Effects Analysis*. We have observed that financial information related to leases that require complex judgement (such as if a lease is in the scope of IFRS 16, lease terms for 'evergreen' contracts and assessing the incremental borrowing rate for assets without an alternative use) are less comparable between different entities since entities disclose limited information about the judgements made. In some cases, this is a consequence of entities entering into a large number of diverse leases, making it difficult to aggregate the significant judgements made by the entity in an understandable format.

*Question 1(c) - In your view, are the overall ongoing costs of applying the requirements and auditing and enforcing their application largely as the IASB expected? If your view is that the overall ongoing costs are significantly higher than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of IFRS 16.9*

In our view, the overall ongoing costs of applying and auditing IFRS 16 are largely as the IASB expected. We have observed high ongoing costs relating to the accounting of indexation, lease modifications and determining judgemental matters (see our response to question 2(c)(i)).

In many cases, this is because the mechanical requirements of IFRS 16 being applied to a large population of leases has required complex IT solutions. This is complicated by the fact that many entities must maintain parallel records – one set where 'on balance sheet' leases are recognised for the purposes of complying with IFRS Accounting Standards, and another where leases are generally not recognised 'on balance sheet' because of tax or local reporting requirements.

This is further complicated for groups where entities must comply with IFRS Accounting Standards for group reporting, as well as US GAAP for local reporting, as IFRS 16 and ASC Topic 842 are similar, but are not converged.

### Question 2—Usefulness of information resulting from lessees' application of judgement

*Question 2(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.*

In our view, IFRS 16 provides useful financial information relating to a lessees' application of judgement as expected by the IASB. We believe that financial information would be more useful when entities disclose how they concluded on certain judgemental matters as noted in our response to question 2(c)(i).

*Question 2(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.*

Although IFRS 16 provides clear guidance on how to make appropriate judgements in general, we believe that additional guidance should be provided on how to assess if a contract is in the scope of IFRS 16, how to determine the lease term, how to account for variable lease payments and how to determine the incremental borrowing rate. See our response to question 2(c)(i).

*Question 2(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*

We propose that additional guidance or illustrative examples should be provided to clarify how to apply judgements relating to:

- Determining if a contract is in the scope of IFRS 16 - we believe that it would be useful to provide illustrative examples for the identification of leases for contracts where judgement is required to assess if the contract is in the scope of IFRS 16 (such as software contracts). We observe that the IFRS Interpretations Committee has responded to a number of questions relating to assessing the 'definition of a lease' requirements of IFRS 16 since the standard was published. This, in and of itself, does not mean that IFRS 16 is not working as intended, however, it indicates that users may be challenged in interpreting how the requirements should be applied to novel fact patterns, such as those in the green energy sector (e.g. windmills, battery storage technology, etc.).
- Lease term – we have observed that determining the lease term for contracts that can be renewed indefinitely with a short-term cancellation period by both the lessee and the lessor (commonly referred to as 'evergreen' contracts), as well as contracts where the lease term is primarily based on management's intention, can be complex and challenging to assess. In practice, entities rely heavily on the November 2019 IFRS Interpretation Committee agenda decision *Lease Term and Useful Life of Leasehold Improvements* to interpret how key requirements in IFRS 16 should be applied, including IFRS 16.B34. Many leases require entities to assess: (i) the non-cancellable period; (ii) the enforceable period; and (iii) the lease term. The relationship between these three periods and the assessment of the lease term being a period of time between the non-cancellable period and the enforceable period could have been more clearly articulated in the original drafting of IFRS 16.
- Variable lease payments – we have observed uncertainty and diversity in practice regarding the accounting for variable lease payments. This includes payments that are initially variable but subsequently become in-substance fixed once the variability is resolved, as well as variable lease payments linked to an index that is not initially available but is applied retrospectively once it becomes available.

This uncertainty relates to the interpretation of IFRS 16.B42(a)(ii) and the wording **(emphasis added)** ‘payments that are **initially structured** as variable lease payments linked to use of the underlying asset but for which the variability will be resolved at some point after the commencement date so that the payments **become fixed for the remainder of the term**’.

We have encountered leases that have payments initially structured as truly variable (e.g. a percentage of sales generated from a retail location), which then become fixed lease payments in the future. For example, an entity has a lease with a lease term of 5 years. During year 1 the lease, payments are based on 5% of sales and are truly variable. Subsequently, the lease payments are based on 5% of the lessee's actual sales for the previous year (thus fixed for year 2 and 3 at 5% of year 1's sales).

There is uncertainty as to whether lease payments should be remeasured as in-substance fixed because in this scenario, if the lease extends beyond year 3, then the lease payments have not become fixed ‘for the remainder of the term’, which is the precise wording in IFRS 16.B42(ii). Some are of the view that B42 is a set of examples, not prescriptive requirements, however, we continue to encounter challenges in interpreting how the mechanics of initially variable but subsequently fixed lease payments should be applied.

- Incremental borrowing rate – We have observed uncertainty and diversity in practice regarding the determination of the incremental borrowing rate, particularly in assessing the asset factor adjustment and identifying which facts and circumstances should be considered when a subsidiary receives financial support from another group entity or a central treasury function, but does not receive a written guarantee from that entity or function. This diversity can result in significant differences in the incremental borrowing rate for entities with similar facts and circumstances.

#### Question 4—Ongoing costs for lessees of applying the measurement requirements

*Question 4(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.*

In our view, the ongoing costs relating to applying the measurement requirements of IFRS 16 are largely as the IASB expected. We have observed high costs relating to the accounting of indexation and lease modifications and determining judgemental matters (see our response to question 1(c)(i)).

#### 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

*Question 6.1(a) How often have you observed the type of rent concession described in Spotlight 6.1?*

In our experience, these rent concessions are quite common, specifically in the retail industry. Furthermore, rent concessions have become more common since the COVID-19 pandemic as landlords have become more open to ‘risk sharing’ with tenants during periods of economic downturn or disruption to normal operations.

*Question 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?*

We have observed diversity in practice in how entities account for rent concessions. This diversity relates to how entities assess whether the requirements of IFRS 9 relating to the derecognition of financial liabilities or the requirements of IFRS 16 relating to lease modifications should be applied in these fact patterns. We observe that the IASB amended IFRS 9 in 2024 as part of *Annual Improvements to IFRS Accounting Standards – Volume 11*. As noted in our [comment letter](#) in response to the related exposure draft, we do not believe that the amendments have clarified the scoping uncertainty.

*Question 6.1(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.*

We propose that the IASB should clarify the interaction between IFRS 9 (extinguishment of a liability) and IFRS 16 (modification accounting) in a narrow-scope standard-setting project as described in our comment letter in response to the *Annual Improvements to IFRS Accounting Standards – Volume 11* exposure draft.