Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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Berlin, xx October 2025

Dear Andreas,

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

On behalf of the Accounting Standards Committee of Germany, I am writing to comment on the IASBs *Request for Information* regarding the Post-implementation Review of IFRS 16 *Leases*, issued by the IASB on 17 June 2025 (herein referred to as 'RfI'). We appreciate the opportunity to comment on the questions.

Our overall assessment of the standard is positive. We think that IFRS 16 is meeting its objective, its core principles are well understood and that lessees and lessors provide relevant information about their leases in a manner that faithfully represents those transactions. Therefore, we think that the standard is working as intended and that the overall improvements to the quality and comparability of financial information about leases are largely as the IASB expected.

However, we do not agree with the IASB´s assessment that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as expected. We think that the ongoing costs are significantly higher than expected, which results particularly from the necessary data management for the leases and the maintenance of the utilised leasing tool. Unfortunately, this is an inevitable consequence of the appropriate implementation and application of the requirements in IFRS 16 and, thus, can not be changed or reduced.

As it is unclear in retrospect whether these high costs justify the benefits from the perspective of the preparers, the IASB should use the expectation of higher ongoing costs as a basis for future standard-setting activities.

Our biggest point of criticism, however, relates to the ongoing costs incurred for issues that involve a lot of time and effort but where the resulting (added) information might be immaterial. As for proposals to reduce these costs without a significant negative effect on the usefulness of financial information about leases, we suggest the IASB to raise the threshold for leases of low-value assets and to change the wording of IFRS 16.26 to permit the use of the incremental borrowing rate as standard practice for discounting the lease payments (see our answer to Question 4).

In summary, we want to highlight that, after initial challenges, preparers have developed accounting policies and processes for the key issues that are working well in practice. As we did not identify a need for significant changes to IFRS 16, we are convinced that fundamental changes to the standard should be avoided by the IASB, as these would be likely to cause further disruption and outweigh the benefits of the changes and the improvements achieved.

For more details on our findings on the specific proposals in the RfI, we refer to our responses to the questions which are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Peter Zimniok (zimniok@drsc.de) or me.

Yours sincerely,

Sven Morich
Vice President

Appendix – Answers to the questions in the RfI

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.

Our overall assessment of the standard is **positive**. We think that the standard is meeting its objective, its core principles are well understood and that lessees and lessors provide relevant information about their leases in a manner that faithfully represents those transactions (Question 1(a)). Therefore, we think that the standard is working as intended by the IASB.

We **agree** that the overall improvements to the quality and comparability of financial information about leases are largely as the IASB expected (Question 1(b)). We have the impression that the requirements of IFRS 16 are clearer and therefore better understood than those of the preceding standard IAS 17. Additionally, we are convinced that the single lessee accounting model, in which a lessee accounts for all leases as providing finance, represents an improvement, compared to the classification of leases as either operating leases or finance leases as required by IAS 17. Due to the single lessee accounting model, a lessee recognises almost all of its leases on the balance sheet, which in our view increases transparency, comparability and reliability of financial information as it provides a more faithful representation of lease transactions. Further, we were told that the obligatory inventory of all rental and lease agreements when transitioning to IFRS 16 contributed to a better overview of the existing portfolio of contractual agreements and lease transactions within a group.

Having said that, we have to note that the cost of implementing IFRS 16 - as expected - was high, partly because, at that time, sophisticated IT solutions were not available for all issues and manual workarounds were necessary.

The **most relevant point of criticism**, however, relates to the ongoing costs of applying the standard (Question 1(c)), which the IASB in our view underestimated. These costs are significantly higher for preparers than initially expected, for example due to the necessary maintenance of the utilised leasing tool and continuous adjustments for large leasing portfolios, such as vehicle leasing, without any discernible material benefit. Therefore, it is unclear in retrospect whether these high costs justify the benefits from the perspective of the preparers. Consequentially, the IASB should use the expectation of higher ongoing costs as a basis for future standard-setting activities. As for proposals to reduce the ongoing costs, we refer to our answer to Question 4.

Drawing from our assessment, we want to highlight that, after initial challenges, preparers have developed accounting policies and processes for the key issues that are working well in practice. As we did not identify a need for significant changes to IFRS 16, we are convinced that fundamental changes to the standard should be avoided by the IASB, as these would be likely to cause further disruption and outweigh the benefits of the changes and the improvements achieved.

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).

We **agree** that the usefulness of financial information resulting from lessees' application of judgement is largely as the IASB expected (Question 2(a)).

We also generally **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 (Question 2(b)).

We are of the view that decisions that involve judgement and their impact on the comparability of financial information are a regular and probably unavoidable issue in standard-setting activities. We acknowledge that some requirements of IFRS 16 involve complex judgements and that there are some areas of vagueness, for example with regard to variable lease payments and in-substance fixed payments, but we think that a more clear-cut requirement may not be appropriate in all circumstances. In summary, we are convinced that judgement is and will remain a necessity due to the different facts and circumstances of companies and their lease agreements. Further, we were told by auditors and users that judgement and its effect on the comparability of financial information is a familiar issue throughout various accounting standards that can be dealt with appropriately.

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

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

We **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.

The first remark we have pertains to the requirement to disclose the total cash outflow for leases. We want to point out that such a disclosure is not required for credit-financed purchases, even though the IASB intended to improve comparability between entities that lease assets and entities that borrow funds to buy assets. For this reason, and because the depreciation charge and interest expenses could serve as a proxy for cash outflows from leases, we encourage the IASB to deliberate whether this disclosure requirement could be removed.

Our second remark is aimed at the disclosure of future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities, particularly exposure arising from extension options and termination options (IFRS 16.59 (b)(ii)). Feedback we received in our outreach is critical of this disclosure requirement, as the gathering of this information is complex and costly, but the benefit of the disclosure is unclear as this requirement leads to the disclosure of an inconclusive total figure. We think it would be more useful, if this disclosure requirement would be focused on the exposure arising from extension options and termination options within a certain timeframe, e.g. the next 12 months, instead.

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

(a) Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are *largely* as the IASB expected? If your view is that the ongoing costs are *significantly higher* than expected, please explain why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs.

(b) If your view is that the ongoing costs are *significantly higher* than expected, please explain how you propose the IASB reduce these costs without a *significant* negative effect on the usefulness of financial information about leases.

We **do not agree** with the IASB´s assessment that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected (Question 4(a)). We think that the ongoing costs are significantly higher than expected, which results particularly from the necessary data management for the leases and the maintenance of the utilised leasing tool (e.g., in relation to interfaces and applications). This is an inevitable consequence of the appropriate implementation and application of the requirements in IFRS 16 and, thus, can not be changed or reduced.

Our **criticism** is therefore levelled in particular at the ongoing costs incurred for issues that involve a lot of time and effort but where the resulting (added) information might be immaterial, e.g. in relation to the lease of carpools and vehicle fleets and its frequently necessary adjustments or modifications. We think that the costs incurred by this are significantly higher than the initial expectations of the preparers and probably also of the IASB as well as disproportionate to the benefits achieved. As stated in our answer to Question 1, the IASB should therefore use the expectation of higher ongoing costs as a basis for future standard-setting activities.

As for **proposals to reduce these costs** without a significant negative effect on the usefulness of financial information about leases (Question 4 (b)), we suggest the IASB to raise the threshold for leases of low-value assets. We deem the USD 5.000 threshold, specified in the Basis for Conclusions to the standard, to be too low by now. This is due, on the one hand, to general inflation and, on the other hand, to the observable price increase for certain assets that we think should fall within the scope of this exemption, such as e-bikes.

In addition, consideration could be given by the IASB to extending the permissible time horizon for the recognition option for short-term leases from the current maximum of 12 months or combining both recognition options (leases of low-value assets and short-term leases) with newly defined thresholds.

Another proposal to reduce ongoing costs for preparers relates to the requirement of IFRS 16.26 that “the lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee’s incremental borrowing rate.” We were informed that preparers regularly use their incremental borrowing rate, but only after extensive discussions with their auditors whether the interest rate implicit in the lease can be readily determined. A change in the wording of IFRS 16.26 to permit the use of the incremental borrowing rate as standard practice would be deemed as very helpful to preparers.

Lastly, we discussed the issue of cost reductions that could potentially be achieved in the future through the increased use of artificial intelligence, e.g., in relation to data collection costs. As a consequence, we think that standard setters should ensure that requirements in accounting standards do not impede automated information gathering and analysis.

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.

We think that the options and simplifications incorporated in the IFRS 16 transition requirements achieved an **appropriate balance** between providing users enough information to allow them to understand the effect of the new requirements on entities' financial performance, financial position and cash flows and reducing the transition costs for preparers when implementing the new requirements for the first time.

When talking to preparers the importance of the availability of essential software solutions was emphasized. For this reason, we suggest the IASB to provide a **longer transition period** in the future for implementation issues that are IT-intensive.

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.

When speaking to preparers and auditors we were told that the type of rent concession described in Spotlight 6.1 have **rarely been observed** since the end of the COVID-19 pandemic and in the current economic environment.

As the IASB has acknowledged in the RfI, a lack of clarity and potential diversity in practice can arise because a lessee may account for the rent concession either by:

(a) applying paragraphs 3.3.1 and 3.3.3 of IFRS 9 to the extinguished part of the lease liability recognising in profit or loss the effect of the forgiveness of lease payments; or

(b) account for the forgiveness of lease payments by applying the lease modification requirements in paragraph 46(b) of IFRS 16 recognising the effect of the forgiveness of lease payments as a decrease in the carrying amount of the right-of-use asset.

Even though this application issue does not seem to be prevalent at the moment, we encourage the IASB to clarify this known issue to **create a forward-looking solution** for any potential future use cases.

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.

Difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale have regularly been observed in case of renewal options, as IFRS 16 does not provide specific guidance to account for this application issue.

We were told that reporting entities tend to apply IFRS 15 for determining when a performance obligation is satisfied (i.e. when the control of an asset is transferred to the customer and therefore the sale is made), as there is a lack of specific or additional guidance within IFRS 16 about how to make this assessment. Thus, reporting entities may develop differing approaches to account for such cases which may result in similar transactions being accounted for differently and reducing the usefulness of the information received by users.

Therefore, we would find it helpful if the IASB could **add lease-specific application guidance** for assessing whether the transfer of an asset in a sale and leaseback transaction is a sale in order to reduce uncertainty and diversity in practice.

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.

We **agree** with restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction and think that this requirement results in useful information.

We have not identified any new evidence or arguments 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 by the IASB.

Having said that, we want to note that when issuing IFRS 16, the IASB expected that restricting the amount of the gain recognised would reduce the incentive to perform such transactions to achieve a preferred accounting outcome. We were informed that many such transactions continue to be observed, as they are still utilised to generate cash for the seller/lessee in the short term.

Further we note, that in practice application issues arise, regarding the revenue recognition for real estate if the seller-lessee was also the developer/builder, as well as in cases of rent-to-buy/hire-purchases.

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.

We think that the IASB should examine the feasibility for more guidance on the identification of a lease transaction, as we were made aware that this is one of the main application issues as there are transactional structures where identifying a lease can be challenging. In particular, in the case of a so-called ‘corporate wrapper’, i.e. the sale of a subsidiary and the leaseback of the assets contained therein, it is often questionable whether a lease exists.