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International Accounting Standards Board
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Comments on the IASB Request for Information
Post-implementation Review of IFRS 16 Leases

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the continued efforts of the International Accounting Standards Board (IASB) to develop high quality accounting standards and welcomes the opportunity to comment on the Request for Information *Post-implementation Review of IFRS 16 Leases* (Request for Information) published by the IASB.

IFRS 16 has introduced a single accounting model in which a lessee accounts for all leases as providing finance. Under IFRS 16, a lessee is required to recognise in the statement of financial position right-of-use assets and lease liabilities and in the statement of profit or loss depreciation of lease assets and interest on lease liabilities over the lease term. We understand the objective of IFRS 16 is to ensure that relevant information on leases is provided in a manner that faithfully represents those transactions, which shall give a basis for users to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. From that perspective, we believe IFRS 16 has largely achieved its objective. However, we have identified certain IFRS 16

requirements that need improvement and/or clarification, including the accounting for sale and leaseback transactions. JICPA has responded to individual questions for the purpose of achieving high-quality accounting treatments and disclosures.

Please see our comments to the Request for Information in the following pages.

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.

Comment:

IFRS 16 has introduced a single lessee accounting model in which a lessee accounts for all leases as providing finance. Under IFRS 16, a lessee is required to recognise in the statement of financial position right-of-use assets and lease liabilities and in the statement of profit or loss depreciation of lease assets and interest on lease liabilities over the lease term. We understand the objective of IFRS 16 is to ensure that relevant information on leases is provided in a manner that faithfully represents those transactions, which shall give a basis for users to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. From that perspective, we believe IFRS 16 has basically achieved its objective and the overall improvements to the quality and comparability of financial information about leases are largely as the IASB expected. Also, JICPA is not aware of significant difficulties in auditing such information, although the use of judgement is required in many circumstances in the application of IFRS 16.

However, JICPA has identified certain requirements that need improvement and/or clarification in IFRS 16, including the accounting for sale and leaseback transactions. JICPA has responded to the individual questions below for the purpose of achieving high-quality accounting treatments and disclosures.

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.

Comment:

We agree the usefulness of financial information resulting from lessees’ application of judgement is largely as the IASB expected. That said, further clarification or improvement in IFRS 16 is needed in the following area of requirements:

- (1) Depreciation method of right-of-use assets for variable lease payments that do not depend on an index or a rate, whose payments become fixed only for a period corresponding to a certain period of the remainder of the lease term

According to paragraph B42(a)(ii) of IFRS 16, ‘payments that are initially structured as variable lease payments linked to the 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 lease term become in-substance fixed payments when the variability is resolved.’ However, the accounting treatment is not necessarily clear in IFRS 16 when variable lease payments are fixed only for a certain

period over the remainder of the lease term.

This is applicable when variable lease payments are regularly fixed for a certain period in multiple phases over the lease term. Let's say, for example, that at the end of every two years over a 10-year lease term, lease payments are determined and fixed for the next two years by linking the fixed amount to the use of the underlying asset during the immediate past two years. Under such circumstances, when fixed lease payments are determined as an amount corresponding to the consideration for the right of use during the fixed lease period, the depreciation charge for the right-of-use asset over the remainder of the lease term will become larger as the period subject to the determination of fixed lease payments moves toward the end of the lease term. This can be explained by using the same example. Initially, the right-of-use asset corresponding to the fixed lease payments for the initial two-year period (Y1 and Y2) will be depreciated over 10 years, which represent the remainder of the lease term. However, when entering into the next the two-year period (Y3 and Y4), the right-of-use asset corresponding to the fixed lease payments for the period will be depreciated over eight years, representing the remainder of the lease term. Likewise, in the third two-year period (Y5 and Y6), the asset amount will be depreciated over six years. Such depreciation charges will certainly not represent a depreciation method that 'reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity' (paragraph 60 of IAS 16 *Property, Plant and Equipment*). Rather, it seems to be appropriate to account for the portion of right-of-use asset corresponding to the fixed lease payments as a part of an item of property, plant and equipment that shall be depreciated separately over the fixed lease period (paragraph 43 of IAS 16), because it will provide more useful financial information. However, there is no clear accounting treatment for such cases at the moment, which may cause inconsistency in practice and diminish the usefulness of information.

We suggest the IASB highlight specific cases where variable lease payments become fixed only for a certain period over the remainder of the lease term, and explicitly state that it could be reasonable in such cases to account for the depreciation of the right-of-use asset over the fixed lease period instead of the remainder of the lease term. We further recommend clarification and/or improvement be made in IFRS 16 accordingly to appropriately account for such transactions in a consistent manner.

According to paragraph 31 of IFRS 16, the depreciation requirements in IAS 16 should be followed in depreciating right-of-use assets. Further, it is stipulated in paragraph 60 of IAS 16 that the depreciation method used shall 'reflect the pattern in which the asset's

future economic benefits are expected to be consumed by the entity.’ However, according to paragraph 32 of IFRS 16, right-of-use assets shall be ‘depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.’ Therefore, it is uncertain as to whether the concept of depreciating each item separately in paragraph 43 of IAS 16 can be technically applied as proposed by JICPA.

(2) Different accounting treatments are seen in variable lease payments that do not depend on an index or a rate, as they are excluded from normal lease transactions but included in sale and leaseback transactions. We recommend the IASB to consider whether or not to include such variable lease payments in the measurement of lease liabilities at the commencement date due to the following reasons:

- Applying consistency in the accounting for variable lease payments for normal lease transactions and sale and leaseback transactions would enhance the usefulness of financial information.
- According to the Conceptual Framework 2018 (Conceptual Framework), the first criterion for a liability is that the entity has an obligation. The definition of an obligation is also made clear that an obligation is a duty or responsibility that an entity has no practical ability to avoid (see paragraphs 4.28-4.29 and BC4.48 of the Conceptual Framework). Further, in November 2024, the IASB published the Exposure Draft *Provisions—Targeted Improvements (Proposed amendments to IAS 37)*, proposing an alignment with the Conceptual Framework, which is currently subject to the Board’s deliberation. Therefore, from the perspective of maintaining consistency with the Conceptual Framework and Proposed amendments to IAS 37, we can argue that variable lease payments should be included in the measurement of lease liabilities if an entity has no practical ability to avoid such lease payments and also meets other criteria for a liability, including when the payment is highly probable.
- We acknowledge that when IFRS 16 was published in January 2016, the IASB concluded to exclude variable lease payments from the measurement of lease liabilities based on some feedback received from stakeholders, insisting the requirement of making estimates on variable lease payments would put too much practical burden on preparers even when the present obligation definition of a liability is met (paragraph BC169 of IFRS 16). However, as mentioned above, it is clear that variable lease payments have an obligation under the Conceptual Framework, and therefore, it should be required as a general rule to estimate the

obligation amount. Given that IFRS 16 currently excludes variable lease payments from the measurement of lease liabilities—even when such amounts can be reasonably and reliably estimated—we are concerned that these payments may not be appropriately accounted for.

- In terms of the cost-benefit issue, where the costs of estimating variable lease payments seem to outweigh the benefits, we believe such issues can be sufficiently addressed while requiring entities, as a general rule, to include variable lease payments in measuring lease liabilities by offering a relief, such as alternatively requiring entities to provide explanation in the footnotes.

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

IFRS 16 requires lessees to capitalise lease liabilities, classify cash payments for the principal portion of the lease liability within financing activities, and classify cash payments for the interest portion of the lease liability applying the requirements for interest paid based on IAS 7 *Statement of Cash Flows*. JICPA believes the quality and comparability of financial information about lease-related cash flows that lessees present and disclose have largely improved as expected. That said, we suggest the following requirements need further clarification or improvement:

(1) When a lease transaction is similar to a transaction from the perspective of the economics, the way the lease transaction and the economic transaction presented on the statement of cash flows could be different, diminishing comparability.

As an example, if a bank purchases an asset based on a request from an entity and promises to lease the asset to the entity, the transaction can be similar to a transaction in which the entity obtains finance from the bank to directly acquire the asset. If IFRS 16 is applied to the lease transaction, lease payments to the bank will be presented in financing cash flows; however, if the asset is directly acquired, the acquisition of asset will be

presented as investing cash flows and borrowings and repayments from the bank as financing cash flows. Despite the similarity in the economics, the two transactions are presented differently on the statement of cash flows, which could lead to a comparability issue.

We may be able to achieve comparability to a certain extent by disclosing particular information required for the understanding of the economics of a lease transaction as non-cash transactions under IAS 7. However, disclosure requirements on non-cash transactions in the current IAS 7 are not necessarily clear. We may further argue that IAS 7 requirements need improvement in order to address this issue.

We acknowledge the IASB is currently working on a project for the statement of cash flows and related matters. We expect the project will clarify and improve requirements so that we can better understand the economic effects and substance of lease transactions through the presentation of cash flow statements and/or disclosures on non-cash transactions.

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

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| <p>(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.</p> <p>(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.</p> |
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Please refer to ‘Guidance for responding to questions’ on pages 7–8.

Comment:

No particular comment from JICPA.

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.

Comment:

IFRS 16 provides, as transitional arrangements, both a retrospective approach and a modified retrospective approach (which does not require retrospective adjustment of comparative information). The modified retrospective approach offers several practical alternatives, each with distinct requirements. Whilst we do not oppose this approach per se, we consider that the unclear cross-references between paragraphs, which are a requirement of the transitional provisions, meant that the relationship between the requirements was not always clear, leading to practical confusion. When multiple options are provided as transitional measures, we believe it is necessary to provide information that aids understanding for users of the accounting standards, such as illustrative examples regarding the application of the requirements.

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.

Comment:

Rent concession was widely observed especially during the covid-19 pandemic. To this date, it is not uncommon to observe rent concessions and rent reductions in practice, often arising when lessees are unable to pay the entire amount of rent or when the availability and usefulness of the underlying asset of the lease is compromised.

In the Annual Improvements to IFRS Accounting Standards issued in July 2024,

paragraph 2.1 of IFRS 9 *Financial Instruments* was amended to clarify that when it is determined lease liabilities are extinguished in accordance with IFRS 9, the amount of lease liabilities should be subject to the derecognition requirement in paragraph 3.3.3 of IFRS 9 and the gain or loss arising as a result of the extinguishment should be recognised in the income statement. At the same time, lease modifications are accounted for in accordance with IFRS 16, under which lease liabilities are remeasured and a corresponding adjustment to right-of-use assets is made. As no clarification or prioritisation is given in the Annual Improvements about the interaction between the accounting for lease modifications under IFRS 16 and the extinguishment of lease liabilities under IFRS 9, we are afraid it could cause diversity in accounting treatments and reduce the comparability of financial information.

We suggest the IASB should follow the IFRS Interpretations Committee's recommendation to add a narrow-scope project to provide guidance about the clarification and prioritisation on the interaction between the accounting for derecognition of lease liabilities per paragraph 2.1 in IFRS 9 and the accounting for lease modifications in IFRS 16.

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.

Comment:

- (1) Application of requirements related to sale and leaseback transactions under which revenue from the sale of an asset is recognised over time

A set of transactions are commonly seen in Japan, where an entity constructs a building (e.g. an apartment) on a piece of land owned by a third party, then leases back the property after selling it to the third party, and further subleases the property to another party. It should be further noted that revenue from the sale of asset to the third party is recognised over time in accordance with IFRS 15 *Revenue from Contracts with Customers*. Diversity in practice is arising for such sale and leaseback transactions under which revenue from the sale of an asset is recognised over time: some companies account for the transaction as a sale and leaseback transaction based on paragraph 100(a) of IFRS 16; and others account for the transfer of asset and the leaseback transaction separately. We highly recommend clarification be made in requirements and guidance be provided as necessary.

(2) Additional application guidance for the assessment of transfer of control associated with a transfer of an asset in a sale and leaseback transaction

According to paragraph BC264 of IFRS 16, the IASB concluded that additional application guidance in IFRS 15 is not needed in determining whether the transfer of an asset in a sale and leaseback transaction is a sale. Moreover, paragraph 38 of IFRS 15 stipulates that in order to determine the point in time for ‘performance obligations satisfied at a point in time,’ an entity shall consider the requirements for control in paragraphs 31–34 and also consider indicators of the transfer of control. Among the indicators illustrated in paragraph 38 of IFRS 15, the following do not seem to be decisive factors for sale and leaseback transactions: (a) a present right to receive payment for the asset, (b) legal title to the asset, (c) the transfer of physical possession of the asset, and (e) acceptance of the asset. The only indicator left for consideration would be (d), which is about the transfer of significant risks and rewards; however, limited guidance is provided in this area, causing application issues. Therefore, we recommend the IASB to provide additional application guidance in either IFRS 15 or IFRS 16 for the assessment of transfer of control associated with a transfer of an asset in a sale and leaseback transaction.

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?
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(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.

Comment:

When it is determined that a transfer of an asset in a sale and leaseback transaction is transferring control of the underlying asset to the buyer-lessor in accordance with IFRS 15, we believe the gain or loss on the transferred asset should reflect the entire amount incurred in the sale and leaseback transaction, not just the amount of gain or loss that relates to the rights transferred to the buyer- lessor due to the following reasons:

- The concept of recognising the entire amount of gain or loss related to the transfer of an asset upon the transfer of control is consistent with the accounting models in IFRS 10 *Consolidated Financial Statements* and IFRS 15. We also think the recognition of right-of-use assets is appropriately representing the seller-lessee’s ongoing involvement through leasebacks.
- Calculating the proportion of ‘the right of use retained by the seller-lessee’ can be quite subjective, and undue cost for the calculation is expected.
- In a sale and leaseback transaction, it is required that variable lease payments linked to future performance or use of an underlying asset should be included in the measurement of lease liabilities, which is an accounting treatment based on an understanding that only the amount of the gain or loss that relates to the rights transferred to the buyer-lessor should be recognised for the purpose of appropriately reflecting the economics of the transaction. However, such variable fees are excluded when measuring lease liabilities for normal lease transactions. In other words, different lease accounting treatments are applied for sale and leaseback transactions and normal lease transactions. We suggest the same measurement method should be applied for all lease transactions, including those conducted under sale and leaseback transactions, as long as the ability to earn future cash flows is the same under the lease transactions. Furthermore, applying different measurement methods between sale and leaseback transactions and normal lease transactions would not only cause

confusion in practice, but also add unnecessary complexity in subsequent measurement of leases under sale and leaseback transactions, especially when modifications arise.

We may suggest a solution, by highlighting the importance of maintaining consistency with IFRS 15, to shift to a new accounting model in which the entire amount of gain or loss should be recognised at once only when both conditions are met: control is transferred, and the lease is not classified as a finance lease.

According to paragraph BC262 of IFRS 16, the IASB concluded that the buyer-lessor obtains control of the underlying asset through the transfer of the asset in a sale and leaseback transaction, which shall not be precluded by the leaseback, because a different right is transferred to the seller-lessee, which is the right to use the underlying asset for a period of time. At the same time, the IASB shared its view in paragraph BC266 of IFRS 16, saying that recognising gain that relates to the rights transferred to the buyer-lessor appropriately reflects the economics of the transaction, because from an economic standpoint, the seller-lessee has sold only its interest in the value of the underlying asset at the end of the leaseback and it has retained its right to use the asset for the duration of the leaseback. To put it differently, when accounting for a transfer of an asset in a sale and leaseback transaction, the ability to obtain control of the underlying asset is highlighted in accordance with IFRS 15 in determining whether or not the transfer of an asset in a sale and leaseback transaction is a sale, whereas when accounting for the recognition of gain or loss in a sale and leaseback transaction, the economics of the transaction is highlighted by considering how much of the value of underlying asset is transferred. We are afraid the current requirements lack consistency and would need further improvement.

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 postimplementation 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.

Comment:

(1) Interpretation of the term ‘penalty’ in paragraph B34 of IFRS 16

One of the IFRS Interpretations Committee's tentative agenda decisions in November 2019 was an interpretation for the term ‘penalty’ in paragraph B34 of IFRS 16, in which

it was determined that an entity should consider the broader economics of the contract, and not only contractual termination payments. We highly recommend the decision should be stated in the main text of IFRS 16 for the purpose of achieving consistent application of the IFRS Standards. We also suggest adding the diagram illustrated in AP3 para.6 (IFRS Interpretations Committee, June 2019) into IFRS 16 as a useful information for stakeholders.

(2) Application of impairment accounting

Leases previously accounted for as operating leases off the balance sheet (i.e. only recognised as an operating expense in profit or loss) now have to be recognised on the balance sheet in the form of a right-of-use asset due to the application of IFRS 16. When impairment accounting is applied to right-of-use assets that are included in cash-generating units, practical issues arise as to whether or not to include the corresponding lease liabilities, or more specifically, how to apply paragraph 78 of IAS 36 *Impairment of Assets*. If the application of IFRS 16 results in changes to the recognition or measurement of assets subject to impairment accounting, we would recommend the IASB to develop additional application guidance that takes into account the impact of applying impairment accounting.

(3) When reconsidering sale and leaseback transactions through the Post-implementation Review of IFRS 16, we recommend the IASB to also look into the project of sale and leaseback of an asset in a single-asset entity at the same time for the reasons provided below. Also, the IASB's attention is appreciated on introducing a comprehensive accounting treatment for single-asset entity transactions, although we acknowledge the issue is not directly related to IFRS 16.

- After the project was initiated by the IFRS Interpretations Committee in September 2020, a tentative agenda decision was published in February 2021, and now it is included in one of the IASB's pipeline projects (i.e. maintenance project pipeline). Although the priority of the project was supposed to be deliberated in the IASB's Fourth Agenda Consultation either as a project on its own or as a topic lumped together with corporate wrappers, a tentative decision was made at the IASB meeting in July 2025 to postpone the issuance of request for information for the Fourth Agenda Consultation until 2027. Given that five years have already passed since the initiation of the project, we do not think we should wait any longer for the results of the Fourth Agenda Consultation. Instead, we recommend the IASB to review the

project together with sale and leaseback transactions included in the Request for Information.

- The accounting treatment for a single-asset entity is not clarified in the IFRS Standards. In other words, it is uncertain as to whether the accounting standards for individual assets, namely IAS 16, IAS 38 *Intangible Assets*, and IFRS 15, should be applied, or IFRS 10 should be applied to account for as a loss of control. JICPA officially commented on the Request for Information *Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities* as of April 15, 2021, requesting that the accounting for single-asset entity transactions should be clarified to make it more generalised through the post-implementation review of IFRS 10, although no response is received from the IASB yet.

Yours faithfully,

Takeshi Yoshida

Executive Board Member — Business Accounting Standards and Practice/Corporate Disclosure

The Japanese Institute of Certified Public Accountants