

Feedback on EFRAG's Draft Comment Letter – Post-Implementation Review of IFRS 16 Leases

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Leaseurope welcomes the IASB's review of the costs and benefits of IFRS 16 and EFRAG's thorough participation in this. We consider this work is important not only to inform any actions by the IASB, but also in Europe to inform any consideration of extending similar reporting requirements to non-IFRS users. It is important that bodies setting national accounting standards in Europe are provided with robust evidence on the costs and benefits of implementing and operating IFRS 16, noting that for Small and Medium-Sized Enterprises and their stakeholders the costs are likely to be higher, and the benefits lower, than for typical IFRS users.

As we expected, for most large European firms, non-property ROU assets (i.e. mainly equipment and vehicles) have turned out to be very small as a percentage of total ROU assets and, of course, total firm assets. However, the implementation costs have been heavily weighted towards these assets, as they are typically high in quantity and diverse in type (so the portfolio expedient is often unavailable). The exceptions are in just a few industries including transportation and equipment rental. Therefore we consider for many lessees, the implementation costs as they relate specifically to non-property assets are likely to have been disproportionate to the benefits to users.

The small asset exemption, added at the last minute of the standard setting process, does little to balance the costs and benefits (and, of course, becomes even less relevant over time being linked to a fixed monetary guidance value).

We further note that both EFRAG's research including the Preparers' Survey (e.g. the Summary of Responses on Page 3 that noted a range of concerns including that 'data collection and continuous monitoring is burdensome, time consuming and costly') and the Users' Survey (e.g. that IFRS 16 'slightly increased the relevance of information' in Paragraph 10), together with the IASB's Request for Information that in 'Spotlight 1 - Perspectives on IFRS 16 as a whole' summarises very mixed views from stakeholders, and notes 'Many preparers said it is unclear whether the Standard has achieved its objective because they incur high ongoing costs to apply IFRS 16 but see limited or no benefits' while for investors 'Although a few users said the expectation [of a reduced need to adjust accounts] was met, some other users said they continue to adjust amounts reported in accordance'.

We suggest it is important that the PIR process clearly distinguishes between property, 'mainstream' non-property equipment and vehicle leases, and large (mainly aircraft and shipping) equipment leases, as the costs for preparers and benefits to users are likely to vary significantly between them. This should also inform any review of the low value and portfolio expedients are working.

We also believe attention is needed to how the substitutability rules apply to the important area of circular economy leasing, which is becoming a priority for many European lessors. A key enabler of the circular economy is 'as a service' leasing, which is a flexible arrangement that typically extends the life of assets and reduces the environmental impacts per unit of usage, as the assets may be used by several businesses over their lifetime, having been expertly maintained and upgraded between users. However the difficulties in applying the complex substitutability criterion, that appear designed to make their use limited to highly unusual situations that are of doubtful commerciality, carry the risk that 'as-a-service assets' fall under IFRS 16 even though they do not belong there. This risks making circular economy arrangements unnecessarily cumbersome and therefore acting as a barrier to their use.

We consider attention is needed also to the presentation of leases in a lessor's accounts under IFRS 18, as it is unclear how operating lease income and related finance costs will be reported.

Finally, we consider it is vital that the PIR records that there is no evidence whatsoever to suggest that the use of leasing has changed in Europe because of the implementation of IFRS 16, contrary to the unfounded suggestions during the standard setting process that firms used operating leases to somehow misrepresent their financial affairs.

Leaseurope, the European Federation of Leasing Company Associations, is an umbrella body bringing together 46 national associations throughout Europe representing bank-owned, captives and independent lessors as well as long and short-term automotive rental companies.

Leaseurope is entered into the European Transparency Register of Interest Representatives with ID n° 430010622057-05. More information at www.leaseurope.org

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