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Update on the IASB's tentative decisions regarding the date of the post-implementation review of IFRS 16 Leases

Objective

- 1 The objective of the paper is to provide an update on the IASB's tentative decisions regarding the date of the post-implementation review (PIR) of IFRS 16 *Leases*.

Background

- 2 Paragraph 6-48 of the IASB's Due Process Handbook stipulates that the IASB '*is required to conduct a post-implementation review of each new IFRS Standard or major amendment. A post-implementation review normally begins after the new requirements have been applied internationally for two years, which is generally about 30–36 months after the effective date*'.
- 3 IFRS 16 became effective for annual reporting periods beginning on or after 1 January 2019. Applying the guidelines on the timing of a PIR the earliest the PIR of IFRS 16 could have been between around July 2021–January 2022.
- 4 The IASB first discussed the timing of the PIR of IFRS 16 at its **November 2021** meeting but decided that it was too early to start the PIR. At the time, the IASB decided to postpone its decision about when to launch the PIR of IFRS 16 to the second half of 2022.
- 5 In **September 2022**, the IASB discussed again the matter but decided that it was still too early to start the PIR of IFRS 16. On both occasions (November 2021 and September 2022) the following reasons were considered: by the IASB for the postponement:
 - (a) **The implementation efforts of preparers to apply IFRS 16 had extended beyond 2019** given the extent of change introduced for lessee and the pervasiveness of the standard. Entities had continued to refine their systems and approaches to applying the requirements until 2020. Some entities had not completed their systems changes and, in some cases, relied on excel spreadsheets in preparing information required by the Standard and 2020 was the first year when the systems changes were really implemented.
 - (b) **The lack of trend information:** IFRS 16 provided transition requirements relief from restating comparative information when entities first applied IFRS 16 (that is in their 2019 financial statements). For many entities, annual period ending on or after 2020 were the first reporting period for which comparative information

applying IFRS 16 was available to the market meaning that by 2021 many entities had provided information applying IFRS 16 for only two annual reporting periods.

- (a) **The disruptive effect of the Covid-19 pandemic** on leasing activities in general and on trend information and the related May 2020 and March 2021 amendments to IFRS 16 on Covid-19-related rent concession). It was noted that the PIR would benefit from information about the effects of the pandemic on leasing activities—and how IFRS 16 has coped with those effects being further available. Annual reporting periods ending on or after 31 December 2022 will be the first reporting year including comparative information that has not been significantly affected by the pandemic for many entities,
 - (b) **The limited academic research on IFRS 16.** as researchers generally need to have several years of post-adoption data on a new Standard to be able to detect trends in reported amounts and information disclosed.
- 3 For these reasons, the IASB has decided to postpone until the **second half of 2023** the decision on when to begin the PIR of IFRS 16.

Effects on EFRAG's planned activities

- 4 Considering the IASB's decision to postpone to 2023 the decision on the launch of the PIR of IFRS 16, EFRAG envisage to start activities on that PIR in the second half of 2023. Experience with PIR IFRS 10, 11, 12, PIR IFRS 9 and PIR IFRS 15 has shown that early analysis is very helpful in providing the IASB with useful feedback on the issues. Issues should be properly analysed and their impact understood in order to set priorities. Given the importance of the standard, such an early analysis should ideally start at least 6 months before the IASB's RFI.
- 5 During 2023 and in anticipation of the future PIR launch later in the year, the EFRAG Secretariat could consider starting an early review of issues: topics raised to IFRIC, Large Firms manual, Academic research papers. EFRAG could also consider ways to foster academic research or conduct surveys on IFRS 16.
- 6 EFRAG could also envisage to reach out to providers of IT Solutions for lease management to understand whether and how tools have supported the implementation of IFRS 16.
- 7 A more detailed work plan will be presented to the EFRAG FR TEG at a future meeting.

Questions for EFRAG FR TEG members

- 8 Does EFRAG FR TEG have comments on the update on the IASB's tentative decisions regarding the post implementation review of IFRS 16 or the effects on EFRAG's planned activities?
- 9 Do EFRAG FR TEG have specific recommendations for the EFRAG Secretariat regarding the activities on the PIR of IFRS 16?