

15 October 2025

International Accounting Standards Board  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Board Members,

## **RESPONSE TO REQUEST FOR INFORMATION – POST-IMPLEMENTATION REVIEW IFRS 16 (“RFI”)**

ISCA welcomes and supports the IASB’s initiative in subjecting various IFRSs to Post-Implementation Reviews (“PIRs”) and subsequently improving the Standards in response to feedback gathered during the PIRs.

ISCA sought views from its members through a two-month public consultation and from the ISCA Financial Reporting Committee which comprises experienced technical professionals from audit firms, preparers of financial statements and other stakeholders.

### *Overall assessment of IFRS 16*

We understand from our outreach that the principles set out in IFRS 16 are fundamentally sound and IFRS 16 has enabled entities to provide more faithful representation of information about leases than its predecessor IAS 17.

However, the application of IFRS 16 involves significant estimates and use of judgement leading to challenges in areas such as determining variable lease payments and incremental borrowing rates. When addressing these application challenges, we urge the IASB to refrain from making any significant changes to IFRS 16 as the underlying principles are fundamentally sound and entities have already gone through significant efforts and costs in transitioning to IFRS 16.

### *Other matters for the IASB’s consideration*

- Lessor accounting – impact of collectability of lease payments on lease income recognition

As IFRS 16 is silent on whether collectability of lease payments should or should not affect the recognition of operating lease income in the profit or loss when the collection of lease payments is not probable, we are concerned that the financial statements of lessors do not provide relevant information about a lessor’s exposure to credit risk (arising from a lease) to the users of the financial statements. We suggest the IASB consider providing guidance in this area.

- Lessee accounting – no distinction between finance and operating lease

Under IFRS 16, the lessee does not disclose separately assets that are rented under operating leases and assets that are in substance owned under finance leases. Both are disclosed as right-of-use assets. We would suggest for IFRS 16 to require the lessee to disclose assets under these two types of leases separately so that users of financial statements would be given more relevant information to assess an entity’s flexibility in reducing or expanding its asset base in changing circumstances.

Our detailed comments to specific questions in the RFI are set out below.

## 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.<sup>13</sup>
- (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).

Although the requirements in IFRS 16 generally provide a clear and sufficient basis for entities to make appropriate judgements, we noted challenges in the following areas:

### 1. Determination of variable lease payments

Paragraph B42(a)(ii) states "Lease payments include any in-substance fixed lease payments... In-substance fixed payments exist, for example, if payments are structured as variable lease payments, but there is no genuine variability in those payments... Examples of those types of payments include: ...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. Those payments become in-substance fixed payments when the variability is resolved."

We understand that there is a complexity in determining the cut-off to distinguish between a variable lease payment and those payments that contain variability but are in-substance fixed payments and are unavoidable. This complexity could be due to the underlying interpretation issue of the meaning of the underlined words in the above paragraph of IFRS 16.

We have seen instances of this issue which have been particularly problematic in practice: where lease payments for the next year are fixed based on usage/agreed payments in the preceding year. Treating these as in-substance fixed payments would result in a right-of-use asset being gradually built up over time which in turn leads to a distorted depreciation profile in the profit or loss (that is, the depreciation in later periods would be larger than the depreciation in earlier periods).

For such cases of variable lease payments linked to use of an underlying asset or in-substance fixed lease payments, the intended purpose of IFRS 16 is to require lessee to include in-substance fixed lease payments in the measurement for the right-of-use asset and correspondingly of lease liability and to recognize variable lease payments in profit or loss when an event or condition triggers those payments. However, for these cases, IFRS 16 does not specify how to separate variable lease payments from those payments that initially contain variability but are in-substance fixed payments.

Due to the lack of guidance, there could be diversity in practice where:

- some entities include in-substance fixed payments in lease liability while some entities charge these off to profit or loss in the period of use; and
- some entities charge a variable lease payment that do not depend on an index or rate to profit or loss when an event or a condition triggering the payment has occurred while some entities might have included these in the right-of-use asset and lease liability.

In view of the above, we suggest the IASB to clarify how to separate variable lease payments from those payments that initially contain variability but are in-substance fixed payments.

## 2. Determining incremental borrowing rate

IFRS 16 defines a lessee's incremental borrowing rate as 'the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment'.

The IASB has provided some guidance to aid entities in determining the appropriate discount rate in paragraph BC162 of the Basis for Conclusions on IFRS 16 which states "The IASB noted that, depending on the nature of the underlying asset and the terms and conditions of the lease, a lessee may be able to refer to a rate that is readily observable as a starting point when determining its incremental borrowing rate for a lease (for example, the rate that a lessee has paid, or would pay, to borrow money to purchase the type of asset being leased, or the property yield when determining the discount rate to apply to property leases). Nonetheless, a lessee should adjust such observable rates as is needed to determine its incremental borrowing rate as defined in IFRS 16."

However, the determination of incremental borrowing rate still requires significant judgement, and we noted feedback from entities that they struggle to determine an appropriate discount rate especially in situations where they do not have other debt borrowing. Hence, we suggest the IASB consider providing more guidance for entities in this area.

Additionally, without further guidance from the IASB, entities may determine inappropriate incremental borrowing rate for similar contracts. As highlighted in Spotlight 2, inappropriate determination of incremental borrowing rates would lead to variations in discount rates used for similar contracts or result in rates that do not reflect the entity's borrowing rate, and ultimately undermining the comparability across entities.

### 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 in page 5.

## 1. Lessor accounting – impact of collectability of lease payments on lease income recognition

The IASB has substantially carried forward the lessor accounting model in IAS 17 into IFRS 16. We note that in the situation when the lessee is facing financial difficulties in making operating lease payments to lessors, and the collection of those lease payments is not probable, the financial statements of lessors do not adjust for the effects of leases especially on the recognition of operating lease income in profit or loss in accordance with paragraph 81 of IFRS 16. This issue is more prevalent in the real estate businesses in Singapore.

We also noted that there is no single definition of 'contract' for both IAS 32 and IFRS 15, this makes it difficult to apply judgement on the interaction of the collectability of operating lease payments that is not probable with the recognition of operating lease income in the profit or loss. Additionally, IFRS 16 is silent on whether the collectability affects the recognition of operating lease income in profit or loss when collection of the operating lease payments is not probable.

As a result, we are concerned that the financial statements of lessors do not provide relevant information about a lessor's exposure to credit risk (arising from a lease) to the users of the financial statements. We suggest the IASB consider providing guidance on this area.

## 2. Lessee accounting – no distinction between finance and operating lease

IFRS 16 requires the lessee to make no distinction between a finance lease and an operating lease. For both leases, the lessee will recognise lease liabilities and right-of-use assets.

Before IFRS 16, under IAS 17, the lessee would account for a borrowing and an asset (instead of a right-of-use asset) for a finance lease where the present value of lease payments is substantially the asset's current market value. This is to reflect the economic substance that the lessee owns the asset as opposed to renting the asset under an operating lease.

An entity that rents an asset is more agile than one that owns an asset. For example, we are currently experiencing a commercial property glut and a company that rents office space can downsize its office space more quickly than one that owns the office space. The same goes for a company that rents retail space or an airline that rents aircraft under operating leases.

Under IFRS 16, the lessee does not disclose separately assets that are rented under operating leases and assets that are in substance owned under finance leases. Both are disclosed as right-of-use assets. It would be good if IFRS 16 could require the lessee to disclose assets under these two types of leases separately so that users of financial statements would be given more relevant information to assess an entity's flexibility in reducing or expanding its asset base in changing circumstances.

It is practicable for the lessee to differentiate between an asset and a right-of-use asset because currently the lessor is able to differentiate them. The lessor presents assets under finance leases as finance lease receivable and includes assets under operating leases as property, plant and equipment, while disclosing the carrying amount of such assets under operating leases.

### **3. Inclusion of IFRIC agenda decisions relating to IFRS 16 into the standard/illustrative examples**

We found the guidance and explanatory material in IFRIC agenda decisions to be helpful, and we suggest for the IASB to consider including these into the standard or illustrative examples for ease of reference by users.

Should you require any further clarification, please feel free to contact Ms Felicia Tay at [felicia.tay@isca.org.sg](mailto:felicia.tay@isca.org.sg) or Ms Jezz Chew at [jezz.chew@isca.org.sg](mailto:jezz.chew@isca.org.sg).

Yours faithfully,



Mr Terence LAM  
Director, Advocacy & Professional Standards