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

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.

Comments:

Generally speaking, IFRS16 could provide transparency and consistency on accounting treatment across entities from all walks of life, by recognizing ROU assets and lease liabilities. The principles are clear, but some more guidance might be needed on “discount rate”.

According to IFRS16.26 and IFRS16.41, the standard mentioned “interest rate implicit in the lease” or “incremental borrowing rate”. The calculation of “incremental borrowing rate” could be costly. Also, these paragraphs will impose inconsistent judgements on what is “incremental borrowing rate”. Suggest IASB can allow portfolio return rates and other rates are easy to retrieve in the market. To be consistent, IASB can name and specify a rate that can be applied for all entities, e.g. US 30-year bond yield sourced from Bloomberg, or maintain a rate table in IASB website for entities to follow.

In addition, IFRS16.30 mentioned the ROU asset should be at cost less accumulated depreciation / impairment, and adjustment for remeasurement of lease liability. In fact, the remeasurement impact could be immaterial. IASB could consider whether to remove the remeasurement terms to simplify it due to insignificant financial impact.

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).**

Comments:

Please see response in Q1 in relation to comments on (i) discount rate and (ii) remeasurement.

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.

Comments:

The financial statements will now disclose interest expense on lease liability, repayment of lease liability, ROU asset roll-forward, lease liability roll-forward. The interest part lacks consistency under IAS 7 Statement of Cashflow, so does the section on "Capital element of lease liabilities paid" under IAS 7 financing activities. Given the inconsistent interest rate applied, the usefulness of peer comparison will be undermined.

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.**

Comments:

Due to its complexity and many varied scenarios in production environment, the implementation is mainly on Excel spreadsheet and formulas. No system cost is required, but extra manpower to support only.

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.**
Comments: IASB could upload excel illustrations on initial recognition & measurement accounting entries, disclosure, as well as transitional accounting entries, and reconciliation between pre-IFRS16 and post-IFRS16 amounts when first time releasing the standard back in 2016. There were 3 years from 2016 to 2019 (effective date) for companies to interpret the standards, perform impact assessment and system development. During the 3 years period, companies spent a lot of resource to engage consultants / extra internal resources to interpret the standards. If the aforesaid materials can be released earlier, this could avoid back-and-forth clarification. This approach could apply to all other new IFRSs.

Question 6 – Application under special scenario such as (i) rent concessions, (ii) sale and leaseback.
Comments: No specific comments as not quite applicable to us.

Remarks: The above comments are from a Member Company only.