Consultation on IASB Request for Information: Post-Implementation Review of IFRS 16 Leases

No.	Items	**Concerns / Recommendations / Your Comments** **(** *please provide detailed rationale and suggested alternatives where appropriate* **)**
1.	Question 1 – Overall assessment of IFRS 16	The banks acknowledge that IFRS 16 is generally meeting its objective for analysis and acknowledge that that the standard has enhanced transparency and comparability by requiring on-balance sheet recognition of leases and recognition of lease liabilities. From the perspective of some banks' property teams, the requirement to recognize Right-of-Use (ROU) assets and lease liabilities on the balance sheet does not mainly influence financial analysis for internal management reporting. The primary focus remains on Profit & Loss (P&L) metrics, which were crucial even before IFRS 16 was adopted, as rental expenses directly impact the P&L statement. Due to IFRS 16, lease expenses are front-loaded due to the interest expense on the lease liability, leading to higher expenses in the early years of a lease compared to the straight-line operating lease expense under the previous standard. One benefit some banks see for including ROU assets on their balance sheet is the ability to compare the costs and benefits of leasing versus buying assets, which aids their management decisions prior to entering a lease contract. There are still many technical areas that require judgment and implementation can be challenging. For example, complex accounting on the treatment of 1) lease modifications, 2) impairment assessment, 3) foreign currency leases, 4) determination of unit of account, 5) changes in lease term, 6) assumptions on restoration costs/ dilapidation costs. There can be various permutations of lease arrangements and it can be challenging to manage them, especially for entities with multiple lease agreements in multiple jurisdictions.
2.	Question 2 – Usefulness of information resulting from lessees' application of judgement	The banks acknowledge that there are sections on IFRS 16 that requires judgement. Some banks agree that the rules on lease term, discount rate, and variable lease payments are clear, but there is difficulty in its application whenever there are changes in the original assumptions as this is a manual exercise.

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		When it comes to determination of lease term, the banks have set an application guidance/approach but there can always be nuances or outliers to the norm. The lease contracts may include extension options and early termination options. Due to office space restructurings and adoption of new ways of working, it can be challenging to proactively update assumptions and account for those appropriately. Systems are difficult to be designed or enhanced in a way that easily revalue lease liability and ROU asset when assumptions change, and handle all types of changes. This also results in a manual process to achieve a proper accounting treatment. The requirement to discount cash flows would pose inaccuracies as this can be subject to input errors, though the banks have data for it. Below are high level observations on how the impact of these judgements are used for financial analysis. • Given that the banks primarily focus on P&L, certain modification accounting will impact the financial analysis, though this is usually immaterial. • Changes in the outstanding balance of ROU asset or lease liabilities due to changes in judgements/lease have no significant impact on the banks' financial analysis for either financial reporting or management reporting. • Changes on interest expense on lease liabilities due to change in lease terms does not have a material impact on the banks' financial analysis or management reporting.
3.	Question 3 – Usefulness of information about lessees' lease-related cash flows	Some banks primarily focus on P&L on lease contracts rather than distinguishing cash flows between operating and financing activities. One advantage of capitalizing lease payments is that it aids in assessing whether purchasing an asset is more advantageous compared to leasing it.
4.	Question 4 – Ongoing costs for lessees of applying the measurement requirements	In practice, some banks found that the ongoing application of remeasurement of lease liability and ROU asset can be complex, often resulting in manual processes and system upgrades pressures. The banks find situations where there

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		are lease renegotiations (extension of term, extension of floor space, reduction of floor space, or reduction of term) to be significantly complex and this can become more frequent due to organizational changes, remote working practices or even business usual extension of leases. Lease contracts are subject to changes through negotiations, this will involve the banks' property team, legal, project management teams which are not necessarily familiar with IFRS 16 requirements. Finance team of the banks need to ensure interpretations of the contracts are accurate to properly account for the lease renegotiations. Some banks find that lease modification accounting is not straight forward to implement and systems does not necessarily cater to these adjustments to the ROU asset and lease liability balance. Manual adjustments and calculation for each lease are therefore required if the system does not support. From an operational standpoint, applying modification accounting presents several challenges. Secondly, managing foreign exchange (FX) exposure is complex because the Right-of-Use (ROU) asset is recorded in the local currency, while the liability is in the contract currency (foreign currency), leading to significant FX exposure. Additionally, the dependency on discount rates increases the risk of input errors or inconsistencies across entities.
5.	Question 5 – Potential improvements to future transition requirements	The banks are satisfied with transition requirements where it allowed them to apply a modified retrospective approach. They support that for future changes, a modified retrospective or prospective approach should be allowed.
6.	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	Some banks seldom enter into sale and lease back arrangements. The sale and lease back transactions that some banks have reviewed have been relatively straightforward.
7.	Question 6.4 – Other matters relevant to the assessment of the effects of IFRS 16	The banks have raised some other areas to address: **1) Assessment of the Unit of account of ROU assets** More guidance is needed in assessment of the unit of account of leasing office space specially when leasing multi-floor premises. It can be

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		unclear on how to determine the appropriate unit of account of the asset as there can always be judgement in assessing if a space can be used on its own or dependent on the other floors given the banks can always renovate the floors as they deem fit on its use. **2) Suggest to simplify modification rules on leasing** To allow practical expedients or more less complex accounting treatment **3) Impairment assessment** • Provide more examples on how impairment is assessed if a section of a property is not used, but comes from a CGU that is not impaired. • Provide examples for computing a recoverable amount • Link to modification accounting when an asset is not in use and lessor agrees to shorten the lease term. **4) More examples of Leases that is not too evident** Carpark, Signage leases, Data centers, shared spaces (e.g. WeWork) **5) Reinstatement cost challenges in lease rearrangement** In cases where lease contracts are rearranged, such as combining four separate leases for four floors into a single lease, the handling of reinstatement cost can also be complex, especially when system capabilities are limited.