

15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

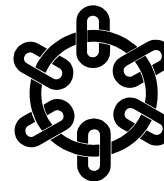
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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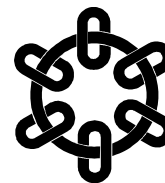
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
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APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

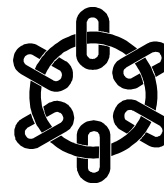
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

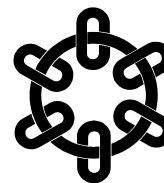
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

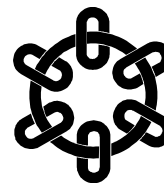
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.”*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

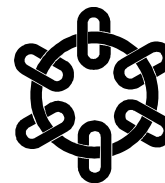
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

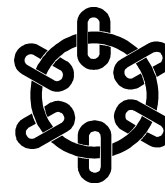
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

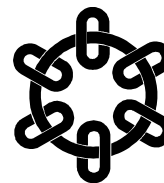
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

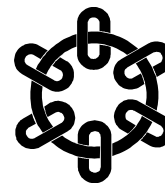
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

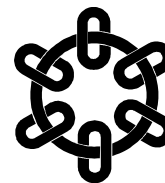
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

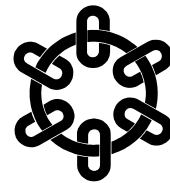
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

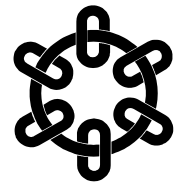
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees, IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

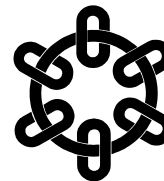
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

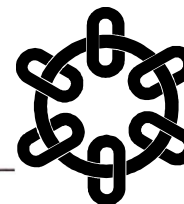
In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.



15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

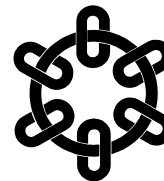
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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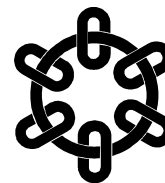
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
alvar.strandvold@no.ey.com



APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

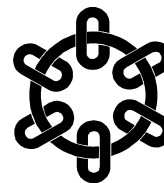
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

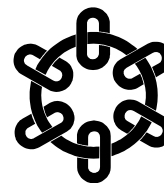
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

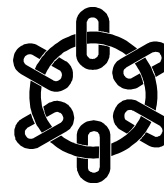
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.”*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

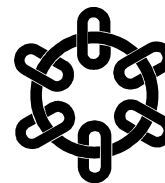
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

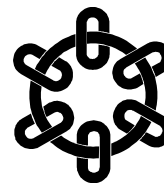
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

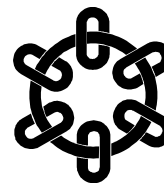
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

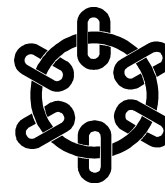
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

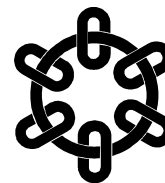
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

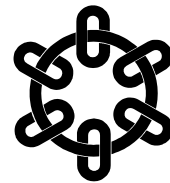
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

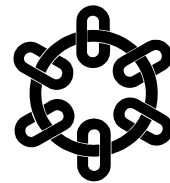
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees: IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

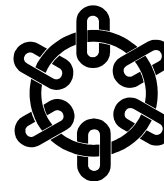
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

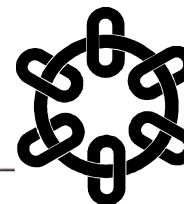
In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.



15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

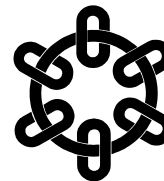
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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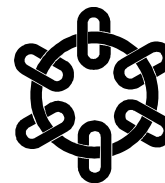
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
alvar.strandvold@no.ey.com



APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

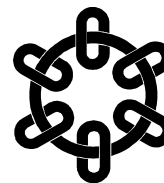
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

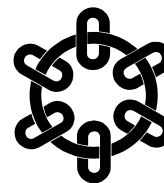
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

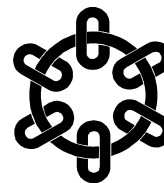
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.”*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

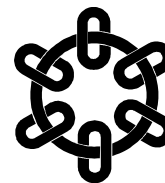
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

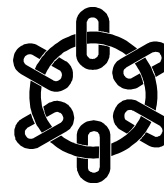
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

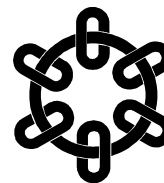
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

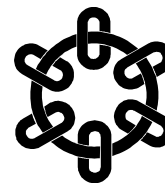
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

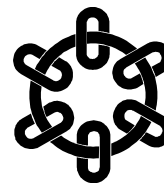
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

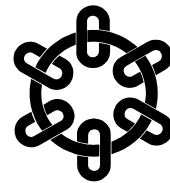
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

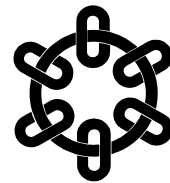
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees, IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

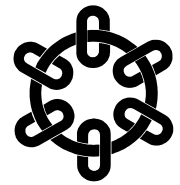
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

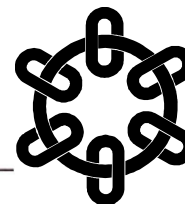
In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.



15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

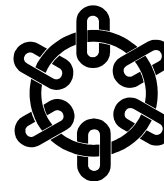
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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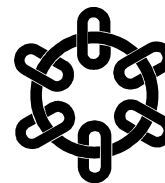
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
alvar.strandvold@no.ey.com



APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

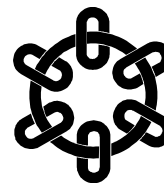
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

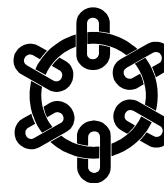
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

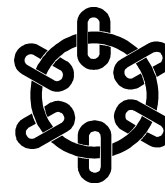
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.”*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

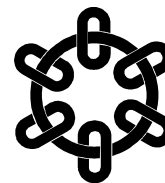
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

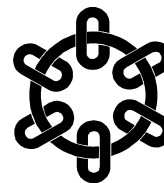
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

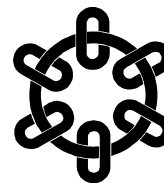
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

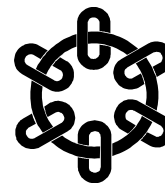
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

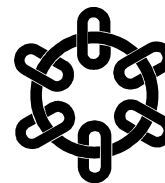
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

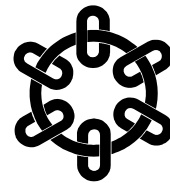
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

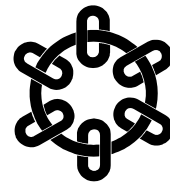
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees: IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

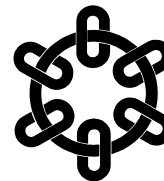
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

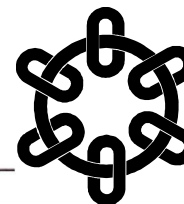
In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.



15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

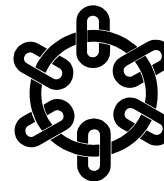
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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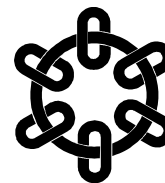
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
alvar.strandvold@no.ey.com



APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

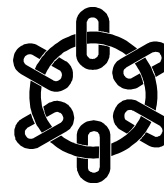
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

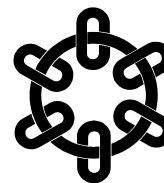
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

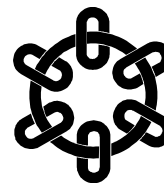
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.”*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

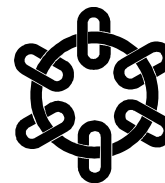
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

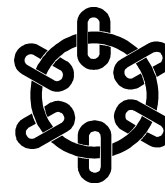
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

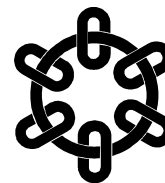
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

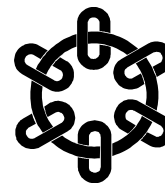
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

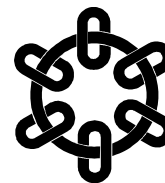
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

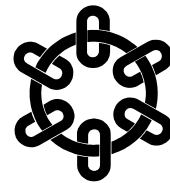
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

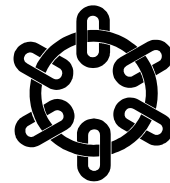
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees: IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

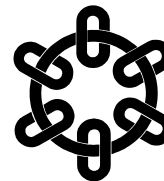
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

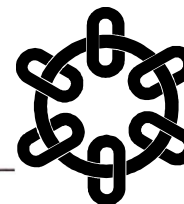
In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.



15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

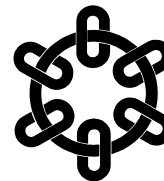
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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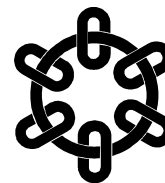
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
alvar.strandvold@no.ey.com



APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

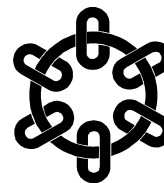
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

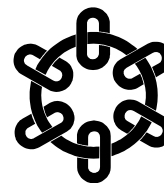
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

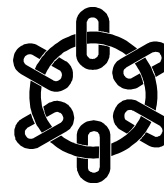
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.”*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

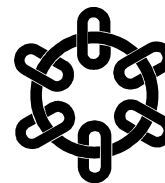
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

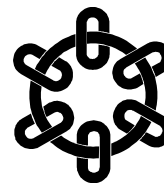
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

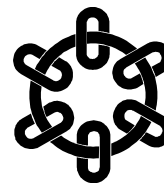
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

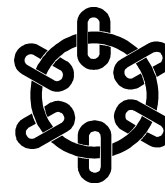
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

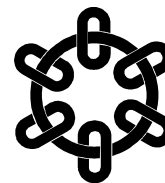
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

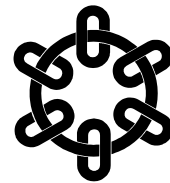
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

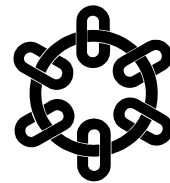
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees, IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

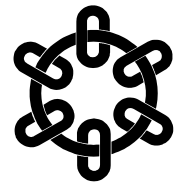
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

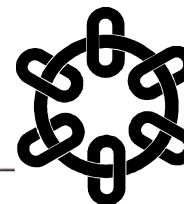
In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.



15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

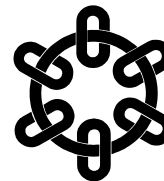
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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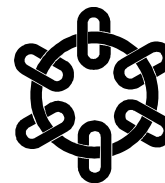
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
alvar.strandvold@no.ey.com



APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

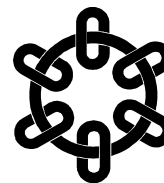
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

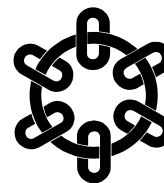
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

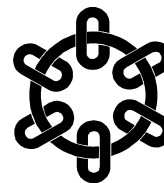
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

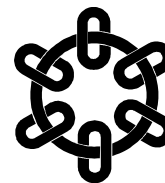
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

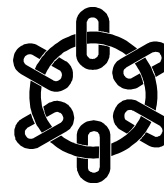
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

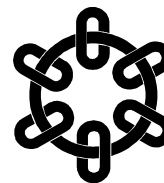
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

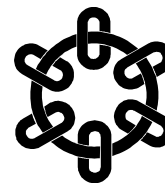
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

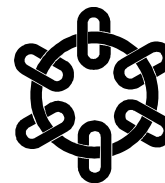
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

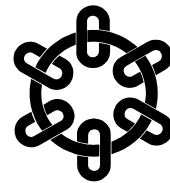
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

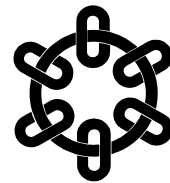
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees, IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

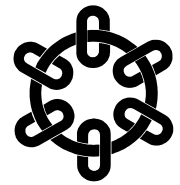
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

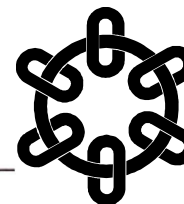
In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.



15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

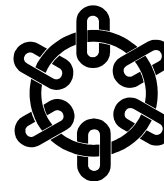
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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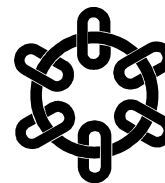
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
alvar.strandvold@no.ey.com



APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

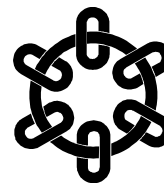
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

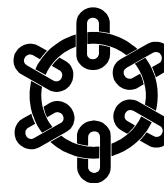
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

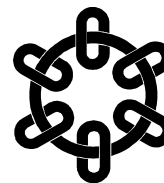
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.”*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

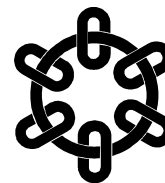
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

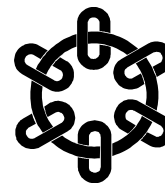
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

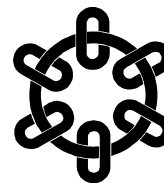
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

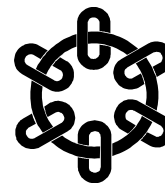
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

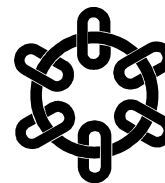
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

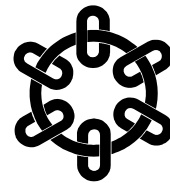
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

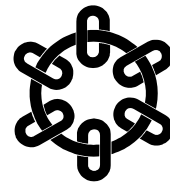
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees: IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

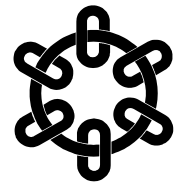
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

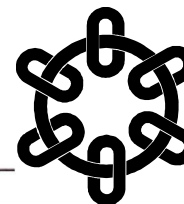
In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.



15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

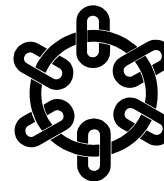
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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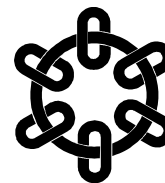
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
alvar.strandvold@no.ey.com



APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

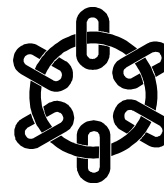
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

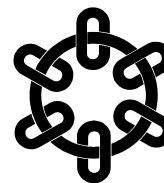
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

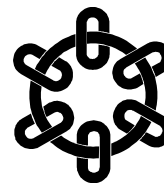
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.”*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

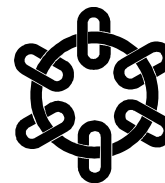
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

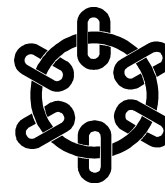
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

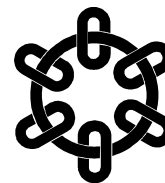
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

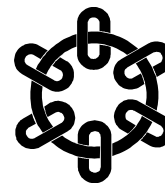
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

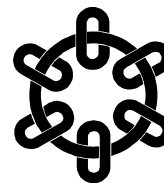
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

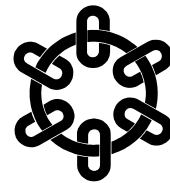
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

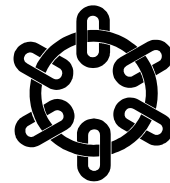
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees, IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

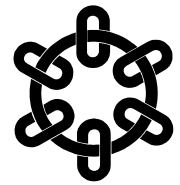
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

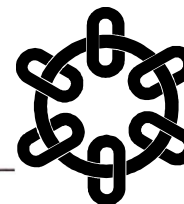
In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.



15 October 2025

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 16 - Leases

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 16 Leases*. Overall, we believe that IFRS 16 *Leases* has achieved its objective, and that the core principle and the lease model provide a clear and suitable basis for lease accounting. There are, however, a few areas where clarifications, narrow-scope amendments or educational material would be beneficial.

From our point of view, the following issues have the highest priority:

- High level of judgement. Several areas within IFRS 16 require entities to exercise significant judgement that can result in material differences between the amounts recognised as right-of-use (ROU) assets and lease liabilities. This includes considerations such as lease term, genuine variability and profit-sharing arrangements (Section 2).
- Corporate wrappers. We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 *Consolidated Financial Statements* when a sale and leaseback transaction involves the disposal of a single asset through a corporate wrapper. We believe that such transactions should generally be in the scope of IFRS 16 (6.4.1).
- Sale and leaseback. We have observed that assessing whether the transfer of an asset in a sale- and leaseback transaction is a sale is an area of difficulty that frequently occurs in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements (6.3).

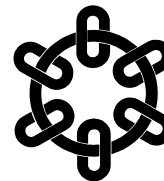
In addition, we have comments regarding the following:

- Cash-flow disclosures (see section 3)
- Interaction between IFRS 16 and IFRS 9 *Financial Instruments* on rent concessions (6.1)
- Interaction between IFRS 16 and IFRS 15 *Revenue from Contracts with Customers* on timing mismatch in revenue recognition: over time versus point in time (6.4.2)
- Interaction between IFRS 16 and IAS 16 *Property, Plant and Equipment* on initial direct cost (6.4.3)
- Distinguishing between a lease and an in-substance purchase (6.4.4)
- Lessee involvement in the design or construction of an asset (6.4.5)

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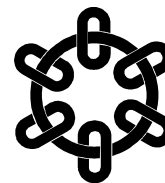
- Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* (6.4.6)

Our comments are enclosed in an appendix to this letter. NASB has focused on frequent issues arising in typical Norwegian industries and Norwegian companies when assessing IFRS 16. For matters for which we have not had the capacity to comment, we offer no opinion, and trust these are addressed by other respondents.

Should you wish to further discuss our comments, please do not hesitate to contact Alvar Strandvold.

Yours faithfully,

Alvar Strandvold
Chair of the Technical Committee on IFRS
alvar.strandvold@no.ey.com



APPENDIX

Question 1—Overall assessment of IFRS 16

- a) In your view, is IFRS 16 meeting its objective 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 16.9.

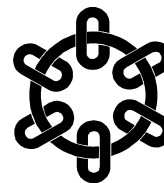
Response to question 1

In general, we believe that IFRS 16 works well. The lease model provides a structured approach to assess lease contracts. Based on our experience with the use of the standard in Norway, we have not identified any fatal flaws.

In our view, the objectives and expectations, as described in page 9-10 in the Request for Information, are to a great extent fulfilled as the financial reports provide a more comparable and richer set of information. However, we have some concerns regarding judgements required by the standard, as noted in our response to Question 2 below. We also note some users still prefer an operating lease approach, and they adjust the income statement and balance sheet by removing the right-of-use (ROU) asset and lease liabilities and including the lease expense as an operating expense in EBITDA. They argue that this better reflects the long-term cash flow needs of the companies and improves comparability since ratios are less dependent on remaining lease period (as the EBITDA denominator is more comparable).

We also note that many companies have not only incurred significant implementation costs but continue to have significant costs associated with the ongoing accounting for leases. For comments about ongoing costs, please refer to question 4.

In summary, we have not identified any fatal flaws, but we see mixed opinions similar to those described in Spotlight 1 in your Request for information.



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:
 - a. what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - b. what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

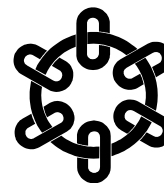
Response to question 2

Overall, we agree that the usefulness of the financial information resulting from lessees' application is largely as IASB expected. However, we would like to bring your attention to three areas where the use of judgement can result in quite significant differences. We recommend that more guidance is provided on these topics to ensure consistency and comparability between entities.

Lease term

We note that the determination of the lease term may be judgemental, and this may lead to reduced comparability. This concerns the assessment of the 'reasonably certain' threshold for extension and termination options. Lease contracts with indefinite lives where the non-cancellable period might be as short as the termination notice, have been particularly challenging in practice. For example, leases of infrastructure such as towers in the telecom industry, may be structured as perpetual leases with less than 12 months' notice period. Determining the lease term for these leases is highly judgemental and may have a significant impact on the lease liability and ROU asset.

Also, we believe that what is meant by "no more than an insignificant penalty" in B34 is still unclear. The IFRS Interpretation Committee issued an agenda decision in November 2019 stating that an entity considers "the broader economics of the contract and not only contractual termination payments". The IFRS IC illustrated this by stating that "for example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination...". However, it is still unclear what is meant by the terms "broader economics" and "economic incentive", which leads to inconsistent application of IFRS 16 in practice.



We encourage the IASB to elaborate further on this and incorporate the agenda decision with more guidance directly into the application guidance to the standard.

Use of the term “genuine variability” for variable lease payments

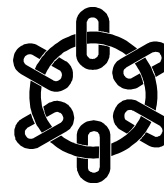
IFRS 16.B42 provides guidance on in-substance fixed lease payments. Such payments include payments that contain variability that are, in substance, unavoidable. Examples are payments that are structured as variable lease payments, but there is no genuine variability.

While the requirements are considered clear enough to understand and apply, the effect is that lease payments that in all material aspects are fixed, but contain some genuine variability, are accounted for as variable lease payments. For example, a lease of a renewable power plant or battery (BESS) for which the fixed lease payments are adjusted for technical availability. The contractually agreed technical availability is 98%, with an additional payment by the lessee if availability exceeds 98%, and a deduction in the lease payment if availability does not meet the 98% requirement. The economic effect of this adjustment may be insignificant (in practice, availability is typically between 97% and 99%, and payment adjustments are minor). However, this clause is genuine as it has real economic substance. Paragraph B42 of IFRS 16 suggests that such an arrangement contains fully variable lease payments, since there are no set minimum payments, and accordingly no lease liability and right-of-use asset would be recognised. This makes comparing two arrangements with very similar cash flows, but where one has minor variations in cash flows, while the other has fixed cash flows, challenging. We believe that a materiality threshold, e.g. ‘substantially all’, ‘not insignificant’ etc., may have the potential to provide more relevant information about such leases than the “non-genuine criterion” in IFRS 16.B42. Under such an approach, if there is genuine variability, but the variability is expected to be insignificant (or another given criteria) at lease inception, the lease payments would be considered fixed.

Variable lease payments that are based on profit sharing

Variable lease payments may be based on more complex calculations than as a simple percentage of revenue. It is not always clear how to distinguish between arrangements with payments that are variable lease payments in terms of IFRS 16 and would give rise to a lease, and arrangements with variable payments that are not lease payments and would be scoped out of IFRS 16. A specific example are profit-sharing arrangements. Under such an arrangement, the payment made by the party using the asset is based on the achieved net profit (or some other net amount or margin) generated from managing the asset. In such an arrangement, the owner of the asset is much more exposed to the upside and downside of how the asset is managed, compared to a fixed payment or a variable payment based on revenue which could never be negative. IFRS 16 does not contain specific guidance on such payment arrangements. To our knowledge, only one accounting firm has published their view on this:

KPMG (*Insights into IFRS 21st Edition 2024/25*, at 5.1.190.80) state in the context of economic benefits that *“Profit sharing arrangements generally do not prevent an entity from obtaining all of the economic benefits from use of an identified asset throughout the period of its use. However, when the entity that operates the asset obtains a fixed rate of return and the asset owner receives or absorbs all of the variability in net operating profits, it is not clear whether a contract contains a lease.”*



For example, an asset owner may receive most of the cash flows from the use of an asset in a business such as a casino or hotel, and the operator may receive a fixed return. In this situation, careful consideration needs to be given to the substance of the contract, including the nature of the arrangement between the parties, when determining which party receives the economic benefits from use of the identified asset.”

Another view is that if the owner absorbs all, or close to all, variability, this may not qualify as a lease in the scope of IFRS 16 but would be in the scope of a different IFRS accounting standard.

The accounting for profit sharing arrangements may become more important with new emerging business models, e.g. in battery offtake arrangements in the energy sector (refer to IFRS IC meeting on 16 September 2025). While this IFRS-IC submission does not address profit-sharing, this can in practice be an alternative to the offtake and tolling arrangement described in the submission.

It may therefore be unclear whether an arrangement that splits the net profit generated by an asset between the operator and the owner (e.g. 10% allocated to the operator and 90% allocated to the owner) would contain variable lease payments for the operator and hence bring the arrangement in the scope of IFRS 16. The same arrangement could alternatively be considered as e.g. a customer contract, in which the operator receives payments based on the operator's and asset's performance. The distinction between leases with variable lease payments and arrangements in the scope of other IFRS Accounting Standards, is not always clear, and further guidance or examples may be helpful.

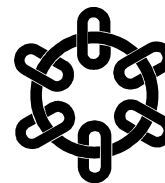
Question 3 — Usefulness of information about lessees' lease-related cash flows

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.

Response to question 3

We agree that the requirements in IFRS 16 have contributed to improvements in the quality, comparability, and more consistent application of financial information regarding lease-related cash flows presented and disclosed by lessees.

We would also like to highlight that IAS 7 *Statement of Cash Flows* includes specific disclosure requirements. However, the IASB's introduction of additional disclosure requirements related to cash flows in IFRS 16 suggests there is potential to further enhance the clarity or interpretation of the IAS 7 disclosure provisions. For example, IFRS 16.53(g) requires disclosure of the total cash outflow for leases. However, the scope of the cash flows to be included in “total cash outflow” is unclear. Our understanding is that the requirement is meant to encompass all cash outflows related to leases, irrespective of whether the lease is recognised in the statement of financial position or not.



Nonetheless, we are aware that there is a diversity in views on whether this requirement also includes cash outflows related to leases of low-value assets and short-term leases. Spotlight 3 in the Request for Information for the IFRS 16 PIR also illustrates this lack of clarity by stating that stakeholders have encouraged the IASB to require entities “to provide information about the total cash outflow for leases disaggregated into principal and interest portions.” By referring to principal and interest portions as the only two components of the disclosure requirement, this contributes to the lack of clarity on what the requirement is meant to encompass.

As part of our outreach in connection with the Request for Information, users have emphasised the importance of information about periodic cash outflows for leases. This aligns well with the IASB’s observations in paragraph BC217(d) in the Basis for Conclusions for IFRS 16, which states that “This disclosure was identified by users of financial statements as providing the most useful information about lease cash flows and is expected to help in forecasting future lease payments.” We therefore believe it is important that the IASB clarifies which cash flows are in the scope of the disclosure requirement, and preferably that all cash outflows are in scope.

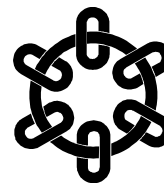
Question 4 — Perspectives on ongoing costs for lessees of applying the measurement requirement

- 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

Response to question 4

In our experience, the ongoing costs of applying IFRS 16 significantly exceed the ongoing cost of applying IAS 17 *Leases* and are clearly higher than the expectations indicated in the IFRS 16 Effects Analysis. The ongoing costs are primarily related to the following:

- a. Determining the discount rate is complex. In our experience, the implicit interest rate is not readily determined in the majority of leases. Further, a company’s incremental borrowing rate is challenging to determine for companies who do not have debt with observable rates, such as traded bonds, at any other points in time than when the borrowings are negotiated.
- b. Frequent triggering events for reassessments or lease modifications, in particular for companies with large, complex contract portfolios, but also for companies with smaller and less complex contracts portfolios
- c. More complex judgement related to lease term and other terms, changes, whether related to changes in price indices or rates, changes to contract duration, or other factors, compared to IAS 17.



- d. Frequent remeasurements do often not enhance transparency related to significant changes to future cash flows and/or risk in lease contracts
- e. IT solutions for efficient management of lease contracts for lessees are still not readily available as part of commonly used ERP systems, at a reasonable cost.
- f. The recognition of lease liabilities and ROU assets has increased the need for internal controls and controlling activities every reporting period.

IFRS 16 is now generally well understood and implemented in practice, and with that in mind we do not believe additional reliefs for the application of the standard are necessary. We propose that IASB assess whether the outreach activities to the preparers should be changed to get a more realistic estimate of costs in future projects.

Question 5 — Potential improvements to future transition requirements

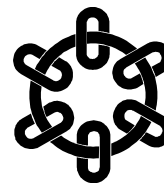
Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

- 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.

Response to question 5

We have received feedback from users that the income statement and statement of financial position was difficult to use in the implementation year (2019), as the modified retrospective method commonly used by companies resulted in two completely different approaches for 2019 and the previous year (2018). At the same time, it was very challenging for companies to use the full retrospective approach as this required companies to go back to the first year of the very first lease arrangement. For future projects, we recommend an implementation method where changes are applied to the beginning of the previous year, in order to increase comparability and understanding of underlying impacts of the new IFRS accounting standard, with implementation effects described in the notes. We are of the opinion that the additional benefits for users as a result of such an approach, outweighs the additional cost for preparers of the limited restatement.

Overall, we believe the practical expedients in the IFRS 16 transition requirements appropriately balanced the desire to minimise transition costs for preparers of financial statements and providing useful information to the users.



Question 6.1 – Applying IFRS 16 with IFRS 9 to rent concessions

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

Response to question 6.1

We have not observed many discussions related to rent concessions in Norway. However, as noted in our comment letter to the exposure draft for *Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities*, we disagreed with the amendment to IFRS 9 as they do not resolve the question of whether to apply IFRS 16 or IFRS 9 to rent concessions, and believe this is an area that still warrants further clarifications.

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.

- a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?
- b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?
- c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

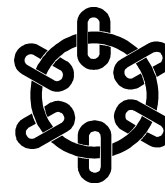
Response to question 6.2

Questions 6.2 a) and b)

We have observed that the assessment of whether the transfer of an asset in a sale- and leaseback transaction is a sale, is an area of difficulty that occurs frequently in practice. We have observed that the related requirements of IFRS 16 do not always provide a clear and sufficient basis for entities to make judgements. Consequently, we have observed significant diversity in this area and have highlighted such instances below.

Purchase options in a sale and leaseback transaction

When the seller-lessee has an option to re-purchase the underlying asset, IFRS 15 precludes accounting for the transaction as a sale of the asset. Instead, the consideration received is accounted for as a financial liability in accordance with IFRS 9. When it is not probable that the option will be exercised, the accounting for the liability at amortised cost could be challenging in practice as the cash flows included in the effective interest rate calculation would not be the expected cash flows. We also question if it is reasonable to not account for



the transaction as a sale. We believe it would be more consistent with the requirements in IFRS 16 to account for the transaction as a sale- and leaseback transaction in situations where exercising the purchase option is not considered reasonably certain or, at least, when it is not considered probable.

Renewal options in a sale and leaseback transaction

When a renewal option in a sale and leaseback transaction permits the seller-lessee to extend the lease for all or substantially all of the remaining economic life of the underlying asset, it is not clear how to assess whether the seller-lessee is, economically, in a position similar to a lessee that has an option to purchase the underlying asset. Consequently, it is unclear if the transaction should be accounted for as a sale or not.

Unit of account

There is no guidance on how to assess the unit of account in a sale and leaseback transaction against the control criteria in paragraph 33 of IFRS 15. For example, a building together with the land on which it stands, might be sold to a third party, and some, but not all, floors within that building leased back. It is unclear whether the unit of account is the entire building including the land, when assessing the control criteria in paragraph 33 of IFRS 15. Paragraph 98 of IFRS 16 explains that the sale and leaseback requirements in IFRS 16 are applied “[i]f an entity (...) transfers **an asset** to another entity (...) and leases **that asset** back (...)” (emphasis added). A literal reading suggests that if the assets sold and leased back are not identical, the requirements would not apply. Our understanding is that there are mixed views on this issue in practice.

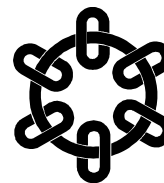
In our view, it is reasonable to assess each component of the transaction that meets the definition of a lease component in paragraphs B32 and B33 in IFRS 16 as an asset transferred to the buyer-lessor and apply the sale and leaseback requirements at that level. In the example referred to above, this would entail determining whether the individual floors constitute separate lease components, to determine whether the sale and leaseback requirements should be applied to the individual floors or to the building as a whole.

Question 6.2 c)

We recommend that the IASB explores standard setting activities to help address the sale- and leaseback transaction application challenges identified in a) and b) above, in order to reduce diversity in practice.

Question 6.3 —Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale.

- a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?
- b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?
- c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.



Response to question 6.3

We agree that restricting the amount of gain or loss in a sale and leaseback transaction results in useful information as supported by paragraph BC 266 of the Basis of Conclusions on IFRS 16. However, it is in our view not clear whether the restriction in paragraph 100(a) of IFRS 16 applies in situations where control over the asset transfers ‘over time’ in accordance with IFRS 15. For example, when a seller-lessee constructs the underlying asset for the buyer-lessor and control transfers over time.

We suggest the IASB considers clarifying whether paragraph 100(a) of IFRS 16 applies in this case to avoid further diversity in practice.

We are also aware that by using a "corporate wrapper" one can potentially circumvent the requirements on partial income recognition, and we are critical of this. Please refer to point 6.4.1.

Question 6.4 —Other matters

Are there any further matters the IASB should examine as part of the postimplementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5

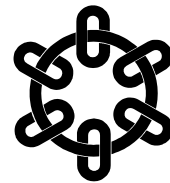
Response to question 6.4

1. Sale- and leaseback transactions involving corporate wrappers

We believe there are application challenges regarding the interaction between IFRS 16 and IFRS 10 when a sale- and leaseback transaction involves the disposal of a single asset through a corporate wrapper.

In Norway, the vast majority of real estate transactions are structured through a corporate wrapper due to stamp duty regulations. Sales of vessels, oil rigs and solar parks are typically also structured through a corporate wrapper. The consequence of applying the requirements for loss of control in IFRS 10 is that a gain is recognised in full when the parent company loses control of the subsidiary. This conflicts with the requirements for recognising partial gains and losses in sale- and leaseback transactions. This issue has previously been discussed by the IFRS Interpretation Committee and referred to the IASB, but it has not yet been included in the work plan.

While we recognise that this is a broader issue, and we have already raised this general issue in our response to the Post-Implementation Review of IFRS 15, we believe it is urgent to clarify which IFRS accounting standard should be applied in these transactions. In our view, sale and leaseback transactions of assets using corporate wrappers should be in the scope of IFRS 16.



In addition to the different requirements for recognising a gain or loss, the control concepts in IFRS 10 and IFRS 15 differ. As a result, when applying IFRS 10 one might conclude that control of a subsidiary has been lost, while control might not have been transferred applying the requirements in IFRS 15. This could be the case if an entity sells and leases back an asset contained in a corporate wrapper and retains a repurchase option. Hence, by changing the legal structure of a transaction, different accounting outcomes might be achieved.

2. Interaction between IFRS 16 and IFRS 15 – timing mismatch in revenue recognition: over time versus point in time

As EFRAG has commented on in its draft letter, the interaction between IFRS 16 and IFRS 15 presents a notable concern regarding the timing of revenue recognition, specifically a mismatch between ‘over time’ and ‘point in time’ approaches for lessors.

In accordance with paragraph 35 of IFRS 15, revenue is recognised over time when certain criteria are met. However, for lessors, IFRS 16 appears to require income recognition at a point in time for certain transactions, even when an asset takes time to construct. This specifically applies to dealer-lessors or manufacturers contracting for a specified asset with no alternative use and a right to payment for performance to date.

This issue arises for assets that require a construction period, such as those built under construction contracts on a customer's site. In situations where a dealer/manufacturer constructs or provides a specified asset, IFRS 15 might require over-time revenue recognition. However, if this arrangement is considered a lease under IFRS 16, the standard (specifically paragraph 71) seems to dictate a point-in-time revenue recognition, creating inconsistency.

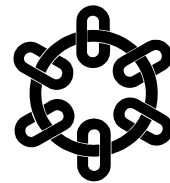
3. Interaction with IAS 16 on initial direct cost

IAS 16 requires *directly attributable costs* to include import duties and non-refundable purchase taxes (IAS 16.16a) in addition to internal and external costs for transportation, site preparation, delivery and handling, installation, assembly and testing costs, and professional fees (IAS 16.17).

For lessees: IFRS 16 BC149 states that (emphasize added) “including *initial direct costs* incurred for ROU asset is consistent with the treatment of costs associated with acquiring other non-financial assets, for example property plant and equipment (IAS 16) and intangible assets (IAS 38)”. This statement indicates a reference to *directly attributable costs* in IAS 16 and IAS 38.

For lessors, reference for initial direct cost is given to incremental costs in IFRS 15, which are costs incurred to obtain a customer contract (IFRS 16 BC150 and BC237). Sales commissions are given as an example of incremental costs, which indicates a narrower group of costs than initial direct costs.

At the same time, it is stated in IFRS 16 BC150 that the lessees and lessors should apply the same definition of initial direct costs, primarily to reduce complexity of applying IFRS 16. Since this sentence seems to equate two distinctly different concepts, it is not clear how the IASB ultimately intended the concept of initial direct costs to be applied.



We are of the opinion that costs incurred in order to bring the asset to location and condition necessary for it to be capable of operating in the manner intended by management, should be accounted for in the same manner for owned and leased assets. If this is the intention, we recommend that clearer guidance is given for lessees to clarify that the term *initial direct costs* in IFRS 16 for lessors are meant to cover the same costs as *directly attributable costs* in IAS 16 and IAS 38.

4. Distinguishing between a lease and an in-substance purchase

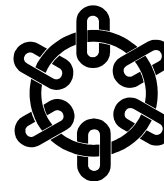
IFRS 16 does not provide specific guidance on how to distinguish between a lease and an in-substance purchase of an asset, which leads to complexity and diversity in practice. Such issues arise across a wide range of industries and typically occur where the lease term covers substantially all of the useful life of the underlying asset, when lease payments cover substantially all of the fair value of the underlying asset, and where the lessee's rights over the asset resemble those typically held by an owner.

Even though a lease and a purchase of an asset on extended payment terms are accounted for in similar ways, as noted in paragraph BC139(a) of IFRS 16, the difference between leased and owned assets is important to users, as noted above. Also, the measurement of the right of use asset and the lease liability could differ compared to a purchased item of property, plant and equipment (PPE) and the corresponding liability, both at initial recognition (for example, with respect to how future index adjustments is taken into account), as well as for subsequent accounting periods (where remeasurements of the liability would likely only be recorded against the asset in case of a lease, but not of a purchased item of PPE).

We recognise the IASB's reasons for not including specific requirements, as stated in paragraphs BC138-BC140 in the Basis for Conclusions for IFRS 16. Even though we agree with the IASB that identifying a bright line is neither feasible nor desirable, we encourage the IASB to support the application of judgement in this area by listing factors that could often be relevant to consider. In our view, this could be achieved by pointing to paragraphs 33 and 38 of IFRS 15, as a non-exhaustive source of reference when making such judgements. IFRS 15.33 list examples of factors that evidence the transfer of control, by illustrating rights that usually are held by an owner, rather than a lessee. While a more extensive list of indicators would be desirable, for example by addressing lease term compared to useful life and the value of lease payments compared to the value of the asset, we believe such a reference would be an easily achievable and cost-effective way for the IASB to improve the application of judgement in this area.

5. Lessee involvement in the design or construction of an asset

IFRS 16.B44 states that if a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable IFRS Accounting Standards. Further, costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. IFRS 16 does, however, not provide specific guidance on how to distinguish between payments before commencement date that in fact give rise to assets within the scope of IAS 16 or other IFRS Accounting Standards, and those that are in-substance upfront payments for the right to use the underlying asset and hence lease payments. This leads to complexity and may lead to diversity in practice.



A fact pattern that is common in some industries in our jurisdiction is that lessees enter into agreements to lease specialised assets. As these specialised assets require significant initial investments to construct or convert from existing assets, lessees often make large initial payments to help lessors cover those costs, in return for lower subsequent lease payments. Lessees are involved in the design of the assets, but the assets are not specialised to the extent that they are unique to the individual lessee. In these fact patterns, IFRS 16.B44, and in particular the first sentence, seems to require lessees to account for both an IAS 16 asset as well as a right-of-use asset. However, in our view this does not reflect the substance of the transaction, as the asset is returned to the lessor at the end of the lease term, including all customisations and specialised add-ons, and is available for other future lessees to benefit from. Even though the accounting for owned and leased assets is similar, the distinction between the two impacts both the usefulness of information provided to users, as well as measurement, as noted in section 6.4.4. above.

In our view, the application guidance in IFRS 16.B43-B44 might result in outcomes that are inconsistent with the underlying substance, by forcing entities to recognise items of property, plant and equipment, rather than right-of-use assets. We therefore encourage the IASB to remove these paragraphs.

If the IASB were to retain these paragraphs, we encourage the IASB to add additional guidance to help preparers make consistent and well-supported judgements, enhance comparability and reduce the risk of misapplication across entities. This could for example include criteria or indicators to help distinguish construction/design costs outside of IFRS 16 from lease payments within IFRS 16, such as:

- a. Legal title during construction/design phase or after the end of the lease term
- b. Contractual obligation to construct/design – whether the lessee is contractually required to construct or improve the asset under the lease agreement
- c. Customisation – lessee or lessor specifying the design/construction requirements
- d. Risks or rewards during construction/design phase (for example, who bears losses or receives benefits from change in market value, who bears the risk under construction for example related to theft, damage, delays and overruns)
- e. Payment profile – for example lower lease payments after commencement date if lessee pays for the construction/design of the asset (or parts of)
- f. Reversibility and/or removability of leasehold improvements/construction work
- g. Usability by subsequent tenants

11. Interaction between IFRS 16 and IFRS 11

Neither IFRS 11 nor IFRS 16 provide specific guidance on how to account for leases within the context of joint operations. This lack of guidance can affect the presentation of information by operators concerning leased field assets, for instance, in extractive industries. We understand the technical basis in the IFRS IC agenda decision from March 2019 on this matter, but in our view, the application of the conclusions in this agenda decision does not faithfully portray joint operating agreements. We therefore encourage the IASB to undertake standard setting to address situations where operators of a joint operation lease an asset, and where the operator recovers other participants' shares of the lease payments.