
IASB[®] meeting

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Project	Post-implementation Review of IFRS 15
Topic	Applying IFRS 15 with IFRS 16
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Purpose and structure

1. This paper provides a summary of the feedback and staff analysis of matters related to applying IFRS 15 *Revenue from Contracts with Customers* with IFRS 16 *Leases* that were raised by respondents in response to question 9 *Applying IFRS 15 with other IFRS Accounting Standards* of [Request for Information: Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#) (the RFI).
2. At this meeting, the IASB will be asked to decide whether to take further action on application matters related to applying IFRS 15 with IFRS 16 and if so, how to prioritise those matters, applying its framework for responding to the matters identified in a post-implementation review (PIR).¹
3. This paper provides:
 - (a) [summary of staff recommendations](#); and
 - (b) [summary of the feedback and staff analysis of specific application matters](#).

¹ See Agenda Paper 6 for the framework.

Summary of staff recommendations

4. Based on the analysis in this paper, the staff recommend the IASB:
 - (a) take no further action on the application matters related to:
 - (i) accounting for contracts that contain lease and non-lease components; and
 - (ii) other aspects of applying IFRS 15 with IFRS 16 described in Appendix A, and
 - (b) gather further evidence in the forthcoming PIR of IFRS 16 project on the application matters related to assessing whether the transfer of an asset is a sale in sale and leaseback transactions.

Summary of the feedback and staff analysis of specific application matters

5. In the RFI the IASB asked stakeholders to provide information about challenges in applying IFRS 15 with IFRS 16. Many respondents (mostly standard-setters and accounting firms) commented on the interaction between IFRS 15 and IFRS 16. A few respondents identified ‘applying IFRS 15 with IFRS 16’ as a major application matter.
6. Based on the feedback the staff have identified two main application matters:
 - (a) [accounting for contracts that contain lease and non-lease components](#); and
 - (b) [assessing whether the transfer of an asset is a sale in sale and leaseback transactions](#).
7. This section analyses whether to take action in response to these application matters based on whether the feedback provides evidence that:

- (a) there are fundamental questions about the clarity and suitability of the requirements;
 - (b) the benefits to users of financial statements of the information arising from applying the requirements are significantly lower than expected (for example, there is significant diversity in application); or
 - (c) the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the requirements were issued for which it is costly to apply the requirements consistently).
8. In addition, [Appendix A](#) summarises feedback on other matters raised by one or a few respondents and provides our responses. The staff do not recommend acting on any of these matters because the feedback does not provide evidence of fundamental questions about the clarity and suitability of the principles in the requirements, of significant diversity in application or significant ongoing costs. The feedback received does not suggest that the matters are pervasive or have substantial consequences on revenue information provided in financial statements.
9. As the IASB plans to start the PIR of IFRS 16 in Q2 2024, the staff will share the feedback related to IFRS 16 requirements with the PIR of IFRS 16 team.

Accounting for contracts that contain lease and non-lease components

Summary of IFRS 15 and IFRS 16 requirements

Paragraph 5 of IFRS 15 excludes lease contracts within the scope of IFRS 16 from the scope of IFRS 15.

When a contract with a customer is partially within the scope of IFRS 15 and partially within the scope of the other Standards, paragraph 7 of IFRS 15 requires an entity to first apply the separation and/or measurement requirements in those Standards, if applicable. An entity excludes from the transaction price the amount of the part of the contract that is initially measured in accordance with those Standards.

Paragraph 17 of IFRS 16 requires a lessor to allocate the consideration in a contract that contains lease and non-lease components by applying IFRS 15 requirements on the allocation of the transaction price to performance obligations.

In IFRS 15:

- (a) the Standard applies to the duration of the contract in which the parties to the contract have present enforceable rights and obligations;² and
- (b) variable consideration is estimated and included in the transaction price subject to the constraint.³

In IFRS 16:

- (a) the lease term includes the non-cancellable period and periods covered by an option to extend and an option to terminate when specified conditions are met;⁴ and
- (b) variable lease payments are included in lease payments when variable lease payments depend on an index or a rate.⁵

Feedback

10. A few respondents said that it is unclear how to account for a contract that contains both lease and non-lease components. In particular, it is unclear:
 - (a) whether to use the duration of the contract applying IFRS 15 or the lease term applying IFRS 16; and
 - (b) whether to measure variable consideration based on the requirements of IFRS 15 or those of IFRS 16.
11. One accounting firm said they observed diversity in practice. A few other accounting firms said that although some judgement may be needed, they had not identified

² See paragraph 11 of IFRS 15.

³ See paragraphs 50–59 of IFRS 15.

⁴ See paragraph 18 of IFRS 16.

⁵ See paragraphs 70, 81 and the definition of lease payments in Appendix A of IFRS 16.

difficulties nor diversity in accounting for contracts that include both lease and non-lease components.

12. A few respondents suggested providing guidance and/or illustrative examples to illustrate the methods for determining and allocating consideration.

Staff analysis

Clarity and suitability of the requirements

13. IFRS 15 and IFRS 16 have different requirements for determining the duration of the contract term versus the lease term and variable consideration versus variable lease payments. The requirements in each Standard were developed considering the usefulness of the resulting information to users of financial statements and the cost-benefit balance.
14. The respective requirements in IFRS 15 and IFRS 16 are clear:
- (a) in IFRS 15, the duration of the contract is limited to a period in which the parties to the contract have present enforceable rights and obligations. The transaction price is initially determined as the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer in a contract.⁶ Paragraphs 50–57 provide requirements for estimating and constraining variable consideration.
 - (b) in IFRS 16, the lease term includes specified periods covered by options together with the non-cancellable period. Lease payments are initially determined as payments relating to the right to use an underlying asset during the lease term. Variable lease payments are included in lease payments when the variable lease payments depend on an index or a rate.⁷

⁶ See paragraph 47 of IFRS 15.

⁷ See Appendix A of IFRS 16.

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15. To allocate the transaction price/lease payments to lease and non-lease components in a contract containing both, an entity needs to:
- (a) apply IFRS 15 to identify performance obligations arising during the duration of the contract and determine the lease term applying IFRS 16; and
 - (b) determine both the transaction price and the lease payments.
16. As the contract duration may be different from the lease term and the transaction price may be different from the lease payments, the allocation could be complex and require judgement. However, the staff think that careful consideration of the requirements in paragraph 14 would enable entities to account for lease and non-lease components. The staff note that the IASB received relatively few questions related to accounting for contracts that contain both lease and non-lease components and a few respondents said they did not identify difficulties in accounting for such contracts.
17. For the reasons discussed in paragraphs 13–16, the staff think that the feedback to the RFI provides insufficient evidence to suggest that there are fundamental questions about the clarity and suitability of the requirements for accounting for contracts that contain lease and non-lease components, or that the requirements are not working as intended.

Benefits to users of financial statements

18. The feedback to the RFI does not indicate significant diversity in practice. We did not hear any comments from users on this matter.
19. For the reasons discussed in paragraph 18, the staff think that the feedback does not indicate that the benefits to users of financial statements of the information about contracts that contain lease and non-lease components are significantly lower than expected.

Costs of applying the requirements

20. We think the feedback suggests accounting for some contracts that contain lease and non-lease components is challenging. Accounting for complex contracts would be expected to require more analysis and judgement, and therefore be more costly than accounting for simple contracts. However, there is no evidence that costs of applying the requirements are significantly greater than expected.

Staff recommendation and question for the IASB

21. Based on the analysis in paragraphs 13–20, the staff think the findings from the RFI provide insufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB take no further action on application matters raised by respondents in relation to accounting for contracts that contain lease and non-lease components.

Question 1 for the IASB

Do IASB members agree with the staff recommendation in paragraph 21 of this paper?

Assessing whether the transfer of an asset is a sale in sale and leaseback transactions**Summary of IFRS 16 requirements**

Paragraph 99 of IFRS 16 requires an entity to apply the requirements in IFRS 15 for determining when a performance obligation is satisfied to determine whether the transfer of an asset is accounted for as a sale in sale and leaseback transactions. Paragraph 100 of IFRS 16 requires the seller-lessee to recognise only the amount of gain or loss that relates to the rights transferred to the buyer-lessor.

Feedback

22. Some respondents suggested the IASB provide guidance and/or illustrative examples on assessing whether the transfer of an asset in a sale and leaseback transaction is a sale in accordance with IFRS 15, including:
- (a) whether the unit of account in assessing whether the transfer of an asset is a sale under IFRS 15 is the same as in the leaseback transaction—for example, when an entire building is sold, and some floors of the building are leased back;
 - (b) whether a seller-lessee’s renewal options in a leaseback transaction that would permit the seller-lessee to extend the lease for substantially all of the remaining economic life of the underlying asset preclude accounting for the transaction as a sale;
 - (c) whether the determination of transfer of control of the underlying asset can be subsequently reassessed—for example, when a repurchase option expires unexercised; and
 - (d) what percentage of asset value or asset life of a leaseback precludes accounting for the transaction as a sale.
23. A few respondents suggested the IASB address the matter either in this PIR or the PIR of IFRS 16.
24. One user said that the sale and leaseback transaction information is important to them.

Staff analysis

25. Paragraph 99 of IFRS 16 requires an entity to apply the requirements in IFRS 15 when determining whether there is a sale. Paragraph BC264 of the Basis for the Conclusion on IFRS 16 explains that the IASB concluded it was not necessary to include in IFRS 16 additional application guidance on this topic because, in its view,

the principles of IFRS 15 can be applied appropriately and consistently to sale and leaseback transactions without any further guidance. Therefore, an entity needs to make judgement and consider all facts and circumstances in applying the requirements in IFRS 15 to determine whether the control of an asset is transferred in a sale and leaseback transaction.

26. As mentioned in paragraph 22, the matters raised by respondents related to specific aspects of the IFRS 16 requirements on sale and leaseback transactions, for example, the unit of account and renewal or repurchase options. In addition, we received a few comments on each of these issues. Consequently, the staff think it would be more appropriate to seek further input on these matters in the forthcoming PIR of IFRS 16 to gather further evidence on their prevalence and effects on the financial statements.⁸

Staff recommendation and question for the IASB

27. Based on the analysis in paragraphs 25–26, the staff recommend the IASB gather further evidence in the forthcoming PIR of IFRS 16 project on the application matters raised by respondents in relation to assessing whether the transfer of an asset is a sale in sale and leaseback transactions.

Question 2 for the IASB

Do IASB members agree with the staff recommendation in paragraph 27 of this paper?

Question 3 for the IASB

As explained in paragraph 8, the staff recommend taking no action in relation to the matters discussed in Appendix A. Do you agree with the staff recommendation?

⁸ The IASB decided in [December 2023](#) to start the PIR of IFRS 16 in the second quarter of 2024.

Appendix A—Other application matters raised by a few respondents

	Application matter	Staff response
1	<p>A few standard-setters said diversity in practice is observed in identifying lease and non-lease components in the real estate industry. A few respondents said identifying both components is costly but provides little useful information to users.</p>	<p>The staff suggest no action because the feedback does not suggest that the matter is widespread. The matter is related to the requirements of identifying a lease in IFRS 16. We will share the feedback with the PIR of IFRS 16 team.</p>
2	<p>A few respondents reported challenges and suggested providing additional guidance on how to determine whether an arrangement is a lease or sale including:</p> <p>(a) when a customer has the option to return, for example, a sale of a mobile phone on credit with an option for the customer to return;</p> <p>(b) when a lease contract is modified so that the contract requires a lessee to purchase the asset at the end of the lease term; and</p> <p>(c) when energy efficiency equipment is installed on customer's premises without transferring the title.</p> <p>They noted that accounting under IFRS 15 and IFRS 16—including the timing of revenue recognition and estimation of variable payments—can be markedly different due to different requirements.</p>	<p>Paragraphs BC138–BC140 of the Basis for the Conclusions on IFRS 16 explain that the IASB decided not to include requirements to distinguish a lease from a sale in IFRS 16.</p> <p>Entities would need to apply judgement in applying the requirements of IFRS 15 and/or IFRS 16 to their facts and circumstances. For example, for (a), paragraph B70 of IFRS 15 requires a contract to be accounted for as a lease if the customer has a significant economic incentive to exercise a put option.</p> <p>The staff suggest no action other than sharing the feedback with the PIR of IFRS 16 team.</p>
3	<p>An accounting firm said the accounting is unclear when a repurchase agreement is required to be accounted for as lease under paragraphs B64–B76 of IFRS 15 but the</p>	<p>The staff suggest no action because the feedback does not suggest that the matter is widespread.</p>

	arrangement does not meet the definition of a lease because the assets are commodity or similar assets.	
4	<p>A few respondents suggested providing additional guidance to clarify perceived misalignments between the requirements of IFRS 15 and IFRS 16, including:</p> <p>(a) paragraph 9(e) of IFRS 15 requires an entity to evaluate the collectability of the consideration in identifying the contract and IFRS 16 does not;</p> <p>(b) IFRS 15 requires adjustments to the consideration for the effect of a significant financing component and IFRS 16 does not have a similar requirement for upfront payments from operating leases; and</p> <p>(c) paragraph 88 of IFRS 15 requires an entity to allocate subsequent changes in the transaction price on the same basis as at contract inception and IFRS 16 does not have a similar requirement.</p>	<p>The staff suggest no action because we heard no significant concerns about the specified requirements in IFRS 15. However, we will share the feedback with the PIR of IFRS 16 team for their analysis.</p>
5	<p>A few respondents suggested providing additional guidance on accounting for leases including:</p> <p>(a) how to account for the change in the finance lease receivable held by lessors who are manufacturers or sellers—whether to recognise income under IFRS 15 or IFRS 9 <i>Financial Instruments</i>; and</p> <p>(b) how to determine the standalone selling price of lease components.</p>	<p>The staff suggest no action. The matter is related to IFRS 16 requirements. We will share the feedback with the PIR of IFRS 16 team.</p>
6	A few preparers suggested amending the measurement requirement for variable lease	The staff suggest no action. The matter is related to IFRS 16 measurement

	<p>payments in IFRS 16 to align with the measurement requirement for variable consideration in IFRS 15 because contracts with similar economics are accounted for differently in a contract within the scope of IFRS 15 and IFRS 16.</p>	<p>requirements. We will share the feedback with the PIR of IFRS 16 team.</p>
7	<p>A few respondents asked specific questions on the sale and leaseback requirements in IFRS 16 including:</p> <p>(a) how does a seller-lessee measure the right-of-use asset arising from leaseback based on paragraph 100 of IFRS 16 when sales are recognised over time;</p> <p>(b) how does a manufacturer-seller adjust gains applying paragraph 100 of IFRS 16; and</p> <p>(c) whether it would be more appropriate to account for variable lease payments in a leaseback as discount to sales rather than lease payments.</p>	<p>The staff suggest no action. The matter is related to IFRS 16 requirements on accounting for sale and leaseback transactions. We will share the feedback with the PIR of IFRS 16 team.</p>
8	<p>A standard-setter suggested including the principal versus agent guidance of IFRS 15 in IFRS 16 to account for subleases.</p>	<p>The staff suggest no action. The matter is related to IFRS 16 requirements on accounting for subleases. We will share the feedback with the PIR of IFRS 16 team.</p>