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**Our Comments on the Request for Information:
Post-implementation Review of IFRS 16 *Leases***

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to provide our comments to the International Accounting Standards Board (“the IASB”)’s Request for Information: Post-implementation Review of IFRS 16 *Leases* (hereinafter referred to as “the RFI”), issued in June 2025.
2. This comment letter is based on the feedback that the ASBJ staff received through its outreach with stakeholders in our jurisdiction. Accordingly, this comment letter not only includes the views of the ASBJ regarding the questions in the RFI but also the stakeholders’ views in our jurisdiction.
3. The ASBJ issued the “Accounting Standard for Leases” under Japanese GAAP (hereinafter referred to as “Japanese leasing standard”) in 2024, which was developed under the basic policy of aligning the requirements in IFRS 16 *Leases* (hereinafter referred to as “IFRS 16”). This comment letter also takes into account the issues when applying IFRS 16 which were identified during the development of the Japanese leasing standard.

Overall assessment of IFRS 16

4. Stakeholders in our jurisdiction stated that a significant amount of time and effort was required to implement IFRS 16. In particular, many preparers indicated that

one of the main factors that required a significant amount of time and effort was the amount of judgement required in IFRS 16 by the lessee. These preparers noted that, if the IASB were to amend IFRS 16, additional time and effort would be needed to implement the revised requirements, when entities have already devoted significant time and effort to initially apply IFRS 16. Accordingly, our view is that any change to the existing requirements under IFRS 16 would require sufficient evidence regarding the benefits of implementing the change compared to the expected costs for implementing the change.

5. Additionally, stakeholders considered that convergence between IFRS 16 and Topic 842 *Leases* (hereinafter referred to as “Topic 842”) is of importance. We think that where the requirements under IFRS 16 are largely converged with those of Topic 842, IASB should not make changes that would lead to divergence to the extent possible. On the other hand, we think that whenever the IASB amends IFRS 16, the IASB should consider amending the standard with the view to converge with Topic 842.

Comments on specific questions

6. Feedback from stakeholders in our jurisdiction also asked for changes to existing requirements in IFRS 16 and the development of additional guidance.
7. However, in the light of our overall assessment of IFRS 16 and the impact on the Japanese leasing standard, we have limited the comments on the specific questions to those that might improve IFRS 16, even after we considered the additional costs incurred to implement the change to IFRS 16.
8. We think that it is necessary to reconsider the accounting treatments for sale and leaseback transactions, particularly in relation to Questions 6.2 and 6.3. Furthermore, we think that it is necessary to set guidance in IFRS 16 that is consistent with the requirements in IFRS 15 *Revenue from Contracts with Customers* regarding the recognition of income by intermediate lessors in sublease transactions. For our comments on the specific questions in the RFI, please refer to the Appendix of this letter.
9. We hope our comments are helpful for the IASB’s consideration in the future. If you have any questions, please feel free to contact us.



Yours sincerely,

Y. Kawanishi

Yasunobu Kawanishi

Chair

Accounting Standards Board of Japan

Comments on the Specific Questions in the RFI

Our comments on the specific questions in the RFI are as follows.

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.

The Effects Analysis on IFRS 16 describes the expected likely effects of the Standard, including benefits and implementation and ongoing costs.

1. In the light of the feedback received from stakeholders in our jurisdiction, we are of the view that IFRS 16 has generally achieved its objective of providing information that gives a basis for users to assess the effect that leases have on the financial position, financial performance and cash flows of an entity, by (1) introducing a single lessee accounting model in which a lessee accounts for all leases as providing finance, and (2) determining to recognise right-of-use assets and lease liabilities for all leases in the statement of financial position, and to recognise in the statement of profit or loss depreciation of lease assets and interest on lease liabilities over the lease term.
2. Users stated that the lessee accounting model in IFRS 16 has improved the comparability between capital expenditures financed by interest-bearing debt and leases. Accordingly, we think that the overall improvement in the quality and comparability of financial information related to leases is considered to be largely met in line with user expectations.
3. When IFRS 16 was developed, it was expected that lessees would need to exercise judgement to apply the standard. We have not received any feedback that indicates that the costs to apply IFRS 16 (including the costs to exercise judgement) and the

benefits to users were significantly different from that expected in the IASB's effect analysis. However, the fact does not necessarily mean that the overall ongoing costs were not high.

Question 2 — Usefulness of information resulting from lessees' application of judgement

- (a) Do you agree that the usefulness of financial information resulting from lessees' application of judgement is largely as the IASB expected? If your view is that lessees' application of judgement has a significant negative effect on the usefulness of financial information, please explain why.
- (b) Do you agree that the requirements in IFRS 16 provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently? If not, please explain why not.
- (c) If your view is that the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, please explain:
 - (i) what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or
 - (ii) what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).

4. We received the following comments from stakeholders regarding the disclosure of information related to the lease term.
- (1) Some users and some academics stated that it was difficult to understand the assumptions underlying the calculation of the right-of-use assets and the lease liabilities because disclosures regarding the lease term determined by the entity and/or the application of the lessee's judgment in determining the lease term were insufficient, even when significant judgment was required. Additionally, these users stated that indicators reflecting profitability, debt redemption years, and financial soundness – such as ROA, net interest-bearing debt to EBITDA ratio, equity ratio, and net D/E ratio – were affected by the lease term.
 - (2) On the other hand, some preparers stated that significant costs could arise from, for example, disaggregating the assets and disclosing the lease term by the type

of assets with similar lease terms, and from disclosing the lessee's judgment applied in determining the lease term.

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.

5. Some users stated that, when capital expenditures using leases were material, they would make adjustments to free cash flows to reflect the repayments for lease liabilities shown in cash flows from financing activities. These users are asking for improvements in the lease-related cash flows disclosed by the lessees, but we have not yet identified a unified view regarding how improvements should be made that would lead to more useful information.

Question 4 — Ongoing costs for lessees of applying the measurement requirements

- (a) Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected? If your view is that the ongoing costs are significantly higher than expected, please explain why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs.
- (b) If your view is that the ongoing costs are significantly higher than expected, please explain how you propose the IASB reduce these costs without a significant negative effect on the usefulness of financial information about leases.

6. We have not received specific feedback from stakeholders in our jurisdiction indicating that the ongoing costs of applying the measurement requirements in IFRS 16 were significantly higher than expected. However, some comments received included the following:

- (1) Some preparers stated that the costs of disclosing the expenses relating to leases

of low-value assets (paragraph 53(d) of IFRS 16) outweighed the benefits of the information, because the right-of-use assets and the lease liabilities for such leases were exempted from recognition due to their immateriality of the underlying assets.

- (2) Some users noted that the disclosure of the expenses related to leases of low-value assets is necessary because the aggregated amount could be significant even when the amounts for individual leases of low-value assets were small. On the other hand, during the development of the Japanese leasing standard, it was suggested that even if the amount of the expenses related to leases of low-value assets were disclosed, it would be difficult for users to use that information to adjust the amounts of the right-of-use assets and the lease liabilities.

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.

7. Many preparers applied the modified retrospective approach when adopting IFRS 16, and the transitional options specified in IFRS 16 were considered to be helpful in reducing the transition costs when preparers first applied the new requirements. On the other hand, we did not receive any specific feedback from stakeholders in our jurisdiction regarding the potential improvements to future transition requirements.

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.

8. The type of rent concessions described in Spotlight 6.1 were not frequently observed in our jurisdiction. However, some stakeholders in our jurisdiction stated that it would be beneficial to clarify the accounting treatments for the rent concessions.

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.

9. Our view is provided in our response to Question 6.3.

Question 6.3 — Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction

- (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.

(Fundamental Accounting Treatment for Sale and Leaseback Transactions)

10. We think that, for sale and leaseback transactions, it is appropriate to account for the transfer of the asset and the leaseback as a single financial transaction or as separate transactions, depending on whether the transfer of the asset qualifies as a sale, in the same manner as in Topic 842. Our reasons are as follows:
- (1) When determining that profit or loss is recognised for the transfer of an asset in accordance with the requirements in IFRS 15, the entire amount of profit or loss related to the transfer of the asset would be recognised. On the other hand, if requirements similar to those in IFRS 16 were applied, even when profit or loss would be recognised for the transfer of the asset had IFRS 15 been applied, adjustments to the profit or loss related to the transfer of the asset would be required. Accordingly, the accounting would be different than that required in IFRS 15.
 - (2) Because no gain or loss related to the rights retained by the seller-lessee under the leaseback would be recognised at the time of the sale under IFRS 16, the accounting model under IFRS 16 may be more complex than the model under Topic 842 to the extent that adjustments for the gain or loss on sale would be required. Instead of adjusting the gain or loss related to the transfer of the asset in accordance with IFRS 16, requiring disclosures about sale and leaseback transactions (for example, the gain or loss arising from the sale and leaseback transaction) would lead to providing useful information.
11. Regarding the issue of determining whether the transfer of the asset in a sales and leaseback transaction constitutes a sale, one possible approach would be to treat the transfer of the asset and the leaseback as a single transaction and to account for it as a financial transaction when the leaseback qualifies as a finance lease as defined in Appendix A of IFRS 16. We think that this approach would enable stakeholders to make consistent judgments regarding the assessment of whether the transfer of the asset in a sale and leaseback transaction constitutes a sale (related to Question 6.2), and would also make assessments easier and thus reduce implementation costs.

(Treatment of Variable Lease Payments)

12. Based on the agenda decision in June 2020 ‘IFRS 16 *Leases* - Sale and Leaseback

Arrangements with Variable Lease' and *Lease Liabilities in Sale and Leaseback Arrangements*, which amended IFRS 16 *Leases* in September 2022, our understanding is that liabilities are recognised for variable lease payments in the leaseback when they are not determined based on an index or a rate.

13. On this point, because there is no difference in terms of application costs and complexity between lease transactions and leaseback transactions, to maintain internal consistency within IFRS Accounting Standards, it is necessary to recognise lease liabilities for both lease transactions and leaseback transactions, or not to recognise lease liabilities for neither lease transactions nor leaseback transactions. We think that not recognising lease liabilities for neither lease transactions nor leaseback transactions is appropriate from the perspective of convergence with Topic 842 and of reducing implementation costs.

Question 6.4 — Other matters relevant to the assessment of the effects of IFRS 16

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

(Separation of lease components and non-lease components by the lessor)

14. During the development of the Japanese leasing standard, preparers (lessors) expressed the view that the separation of lease components and non-lease components for all contracts containing leases would impose significant practical burden. In this regard, the Japanese leasing standard, referencing Topic 842, stated that the two need not be separated, and instead, the accounting standard applicable to the predominant part (either the leasing standard or the revenue recognition standard) should be applied, when the contract containing a lease has the same timing and pattern of revenue recognition for the lease components and the related non-lease components, and when the lease component was an operating lease. We think that introducing similar treatments in IFRS 16 would be useful from the perspective of reducing implementation costs.

(Clarification of Accounting Treatments for Sublease Transactions)

15. We observed diversity in practice regarding whether the principal-agent distinction

concept can be applied to the revenue recognition of an intermediate lessor in a sublease transaction, because IFRS 16 provides no specific guidance as to whether such an intermediate lessor should recognise revenue on a gross or net basis. This diversity was noted during the post-implementation review process of IFRS 15 and during the development of the Japanese leasing standard.

16. We are aware that the Basis for Conclusions for IFRS 16 states that “IFRS 16 requires an intermediate lessor to account for a head lease and a sublease as two separate contracts, applying the accounting for both the lessee and the lessor” (paragraph BC232 of IFRS 16). On this point, the requirements in determining the principal or agent under IFRS 15 are based on the premise that multiple contracts exist separately, and require that whether an entity is the principal or agent depends on whether the entity controls the specified goods or services before those goods or services are transferred to a customer, or whether the entity does not control the specified goods or services before those goods or services are transferred to the customer and the performance obligation is to arrange for those goods or services to be provided by third parties. Additionally, IFRS 15 specifies whether revenue should be recognised on a gross basis or on the basis of the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services as an agent. Accordingly, we think that it is necessary to set accounting treatments consistent with IFRS 15 in IFRS 16.
17. Furthermore, considering the opinions heard during the development of the Japanese leasing standard, if the intermediate sublessor qualifies as an agent, we think that it is necessary to consider whether recognising the right-of-use asset and the lease liability related to the head lease faithfully represents the substance of the transaction.

(Disclosure of the schedule of changes in Right-of-Use Assets and Lease Liabilities)

18. We received the following comments from stakeholders in our jurisdiction regarding the disclosure of the schedule of changes in right-of-use assets and lease liabilities:
 - (1) Some users stated that, it is necessary to disclose the schedule of changes in right-of-use assets and lease liabilities from the beginning to the end of the fiscal year, as well as the main reasons behind the increases and decreases to understand the trends in the increase and decrease of right-of-use assets and lease liabilities, in order to predict future statement of financial position and future statement of cash flows.

Additionally, a subset of these users stated that combining the information disclosed in accordance with paragraph 53 of IFRS 16 with the information presented and disclosed in the statement of cash flows may lead to providing information similar to information provided in a schedule of changes. However, it could be difficult to use this information as an alternative source of information because the total cash outflows for leases presented in accordance with paragraph 53(g) of IFRS 16 includes amounts for short-term leases and leases for which the underlying asset is of low value.

- (2) On the other hand, preparers stated that preparing a schedule of changes is not necessarily easy and incurs considerable costs.

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