Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
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International Accounting Standard Board
7 Westferry Circus, Canary Wharf
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United Kingdom

30 September 2025

Re: IASB Request for Information - *Post-implementation Review IFRS 16* Leases

Dear Andreas,

We are pleased to have the opportunity to provide our comments on the IASB Request for Information - *Post-implementation Review IFRS 16* Leases issued on 17 June 2025 (the 'RFI').

In order to reply to the IASB RFI we have engaged with our stakeholders. The results of this activity highlighted that, in general, the requirements of IFRS 16 are working as intended and, at the moment, significant changes to the current requirements are not necessary.

We report below the issues highlighted by our stakeholders.

Interaction between IFRS 16 and IFRS 9 *Financial Instruments* ('IFRS 9')

We observe that the IASB addressed the interaction between IFRS 16 and IFRS 9 in the *Annual Improvements to IFRS Accounting Standards—Volume 11* in July 2024. The IASB amended the IFRS 9 to clarify that, when a lease liability is extinguished in accordance with IFRS 9, a lessee recognises any resulting gain or loss in profit or loss. In our comment letter to the exposure draft, we observed that the amendment did not resolve the conflict between IFRS 9 and IFRS 16 because a change in a lease arrangement that results in the extinguishment of a lease liability in accordance with IFRS 9 also meets the definition of a lease modification in Appendix A of IFRS 16.

Consequently, we suggest the IASB to clarify the interaction between IFRS 9 and IFRS 16.

Interaction between IFRS 16 and IFRS 11 *Joint Arrangements* ('IFRS 11')

We observe that the IFRS IC addressed the interaction between IFRS 16 and IFRS 11 in March 2019. In that occasion, IFRS IC concluded that when a joint operator signs a lease contract on behalf of a joint arrangement and it has the primary responsibility for the lease liability it should recognise the entire lease liability applying paragraph 20 of IFRS 11. In our comment letter to the tentative agenda decision, we observed that the IFRS IC did not mention paragraph B11 of IFRS 16 that states (emphasis added): "*contract to receive goods or services may be entered into by a joint arrangement, <u>or on behalf of a joint arrangement</u>, as defined in IFRS 11 Joint Arrangements. In this case, the joint arrangement is considered to be the customer in the contract. Accordingly, in assessing whether such a contract contains a lease, an entity shall assess whether the joint arrangement has the right to control the use of an identified asset throughout the period of use*".

In our view, this paragraph is important because it seems to say that if a joint operator signs a lease contract on behalf of a joint arrangement, then the arrangement (and not the lead operator) is the customer of the contract. Thus, according to this paragraph, the lead operator should recognise only its share of the lease liability.

Moreover, some stakeholders note that this inconsistency between IFRS 16 and IFRS 11 is still an issue in industries where lease contracts are frequently stipulated in the context of joint operations, particularly because the lead operator should recognise the entire lease liability, even though it has the right to be reimbursed from other joint operators. They consider that recognising the entire liability could not faithfully represent joint operating agreements. Moreover, this presentation could complicate the dialogue with credit rating agencies.

Therefore, we suggest to reconsider this issue in order to allow the lead operator to recognise only its shares of any liabilities incurred by the joint operation.

Variable lease payments

We observe that the IASB addressed the issue of variable lease payments in September 2022, issuing the amendment to IFRS 16 which clarifies that the seller-lessee also includes variable payments in the subsequent measurement of the lease liability arising from sale and leaseback transactions. At that time, in Italy contracts which included variable payments, for example based on the revenues, were not widespread, and therefore the inconsistent accounting treatment of variable payments between normal leasing transactions and sale and leaseback transactions did not seem to be a priority issue.

However, recently some stakeholders operating in the retail sector expressed some concerns about contracts which combine fixed and variable payments (i.e. in the initial years, contracts include variable payments based on the revenues of the lessee; subsequently, payments become fixed). These contracts are becoming more widespread for retailers, and the current requirements of IFRS 16 do not permit to include variable payments based on revenues in the calculation of the lease liability and, therefore, in the right of use. As a result, in the initial years of a lease contract, an entity should include both depreciation of right of use and variable payments in profit or loss. This has a negative impact the income statement in the initial years, when the purpose of the contract is exactly the opposite. The aim of these contracts is to help the lessee in the start-up phase of the new leased store, where expected revenues are lower and as a consequence rents are also lower. In this case,

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therefore, the accounting required by IFRS 16 does not reflect the substance of the contract and thus it might be reconsidered.

Low-value asset lease exemption

Some stakeholders note that the assessment of whether an underlying asset is of low value should be affected by the size, nature or circumstances of the lessee. Instead, the paragraph B4 of IFRS 16, which states that the assessment is not affected by these factors, and the paragraph BC100 of IFRS 16, which mention the threshold of $5,000, could not reflect the materiality assessment required by IAS 1 *Presentation of Financial Statements*.

Moreover, some stakeholders observed that the low-value asset lease exemption does not apply to sublease transactions. In particular, in accordance with the paragraph B7 of IFRS 16, if a lessee subleases or expects to sublease an asset, the head lease does not qualify as a lease of a low-value assets. However, such non-applicability could make the accounting for these transactions complex, especially considering their little economic significance. Therefore, we suggest the IASB to provide a more principle-based exemption for low-value assets and to extend the applicability of this exemption also to sublease transactions.

Lease term and distinction between operating and finance lease liabilities

We observe that the determination of the lease term was an issue that emerged during the initial application of IFRS 16. In particular, it was unclear how to account for lease contracts which contained an option to extend the lease (e.g. contracts with a lease term of six years, with an option to extend the lease term for additional six years). Currently, stakeholders observe that there is an established practice, and no significant inconsistencies are noted.

However, stakeholders note that entities often exclude lease liabilities when calculating non-gaap financial measures (e.g. adjusted net financial position), because lease liabilities are not considered financial liabilities. A distinct classification between finance lease liabilities and operating lease liabilities within cash flow statements probably could help to improve clarity and results in helpful information for users. Classification in the statement of financial position should be coherent, in this sense, considering that such information is not useful for users of financial institutions, we expect that those would be exempted.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
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(OIC Chair of the Board of Directors)

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