ANALYSIS OF CONCEPTUAL AND TECHNICAL (IN)CONSISTENCIES IN THE IFRS 16 "LEASES" ACCOUNTING MODEL

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Abstract: *The purpose of this research is to identify a set of viable arguments for a critical analysis of the new standard in terms of the needs of users of financial statements, but also to clarify a number of conceptual and technical issues that we will have to take into account in the future, while implementing it. IFRS 16 solves the conceptual dilemmas for the lessee, but not for the lessor. It is obviously an unfinished project which requires further conceptual clarification along with consistent and less expensive technical solutions. We have seen that preparers are rather willing to accept conceptually unsubstantiated solutions if they bring cost savings. They are blaming IASB for taking no account of the different business models which, in their opinion, account for the fact that not all lease contracts are financing for the lessee (a dual model would be more appropriate). Unlike them, auditors, academics, and EFRAG consider it absolutely necessary that IASB solutions should be in accordance with the international conceptual framework and that both the lessee and the lessor should apply a single accounting model based on the right-of-use asset theory.*

Keywords: *lease; right-of-use asset theory; off-balance sheet financing; lease capitalisation; discount rate.*

JEL classification: *M41.*

1. Introduction

Recent years have seen an increasing concern of both IASB and all stakeholders for revising the accounting model for lease contract representation in accordance with IAS 17. Objections raised to this standard included a lack of conceptual consistency, poor clarity of classification criteria which motivated certain managers to abusively structure the contracts in order to benefit from certain desired effects in financial statements, different and questionable valuation rules, lack of relevant information which investors and financial analysts had to reconstruct through expensive adjustments, etc.

In order to ensure consistency with the international conceptual framework, IASB proposed to replace the models based on the theory of risks and benefits transfer with models based on the right-of-use asset theory. Stakeholders considered that in the case of the lessee the benefits exceeded the costs, but also expressed concern for the way this theory was applied for the lessor. The high complexity of recognition and valuation rules, as well as the ambiguity of certain concepts and information caused IASB to postpone the accounting change for the lessor.

Entities based in Romania should measure the impact of the transition to IFRS 16 and prepare for the application of the new rules. This preparation takes time and costs. Academics and professional organizations (CECCAR: The Body of Expert and

Licensed Accountants of Romania and CAFR: Chamber of Financial Auditors of Romania) must prepare to train students, accounting professionals and auditors, but also company managers in order to understand and apply IFRS 16. Changes are also expected for regulators and tax authorities. Given this context, we considered useful to undertake a research identifying the strengths and weaknesses of the new lease accounting model, both in conceptual and in technical terms. The analysis has not lost sight of the interest of external users in useful decision-making information, as well as the assessment of the new rules in terms of costs and benefits.

2. Research methodology

We intend to conduct a qualitative research in order to identify to what extent the proposals put forward by the consulted parties can be found in the final product represented by standard IFRS 16 "Leases". The purpose of this research is to identify a set of viable arguments for a critical analysis of the new standard in terms of the needs of users of financial statements, but also to clarify a number of conceptual and technical issues that we will have to take into account in the future, while implementing it.

Our analysis integrates the following sources of information:

(i) the comment letters received by IASB and FASB to the proposals included in the ED/2013/6;

From a total of 641 comment letters we considered relevant for our research the opinions of some auditors, the opinions of some entities having the lease as a business model or heavily using leased assets, and the opinion of EFRAG (European Financial Reporting Advisory Group).

Our decision is mainly based on the following arguments:

-entities with a lease business model or entities heavily using leased assets are those that implemented IAS 17 and will implement IFRS 16 (we expect them to signal the rather technical issues and special aspects of certain contracts which elude the current standard);

We have selected for analysis the comments made by companies operating businesses in Romania, such as: Deutsche Telekom, Societe Generale Group, IBM, Lafarge, Apple, McDonalds, and Nestle.

-the auditors are those who were able to carry out surveys and to conduct studies on the behaviour of reporting entities' management in implementing the current standard (they will have to audit the financial statements which will be impacted by implementation of the new standard);

Since, in Romania, most entities implementing IFRS are audited by Big Four, we were interested to primarily examine their perception. We have extended the analysis to the comments of offices such as Mazars, BDO, and RSM, as their portfolio also includes relevant entities for the Romanian business environment which implement IFRS.

-EFRAG (European Financial Reporting Advisory Group) is the technical component of the European Commission which decides on the terms and timing of application of the new standard in the European Area (although the application term of IFRS is 2019, EFRAG may decide to postpone its application by European companies if it finds that there are significant risks involved or that jurisdictions are not ready to make the transition);

(ii) relatively recent studies on the impact of operating lease capitalisation in terms of transition to the new standard;
These studies may provide empirical evidence of the limitations of IAS 17, but may also clarify the actual impact of implementing the new accounting model desired by IASB.
(iii) IASB products concerning the lease (provisions of IAS 17, with its corresponding interpretations, provisions of IFRS 16, the conclusion bases of IAS 17 and IFRS 16, the international conceptual framework, the analysis of benefits expected from the application of the new standard).
These products allow an analysis of the internal consistency of the new standard and of its external consistency with the international conceptual framework and with other related standards (IAS 16, IAS 36, IAS 38, IFRS 15, etc.).

3. Literature review

Entities can conceal liabilities of thousands of dollars and can raise profits and profitability ratios by classifying the lease as operating lease (Duke et al., 2009).
There have long been concerns for measuring the impact of operating lease capitalisation. Most of these studies confirm the fact that recognition of the operating lease in the balance sheet will have a significant impact, even a considerable impact in certain industries (Fübier et al., 2008; Duke et al., 2009; Whong and Joshi, 2015; De Villiers and Middelberg, 2013).
Ratios such as D/E (total debt/total equity) or D/A (total debt/total assets) will increase significantly. As regards the impact on profitability ratios, there are some studies indicating that in certain industries this impact will be minor (Fübier et al., 2008), while others identify significant differences, sometimes in opposite directions (De Villiers and Middelberg, 2013). ROA (operating income before interest expense but after taxes/average total assets) will decrease more, ROE (net income/average shareholders' equity) will either increase or decrease, the decrease ranging between slight and significant.
Other ratios that will decrease are EPS (earning per share) and interest cover rate.
There are studies indicating that there is a positive correlation between the size of an entity and the impact of operating lease capitalisation (Fito et al., 2013). Off-balance sheet liabilities will improve the leverage ratio, but will not fool the rating agencies (Cotton et al., 2013).
Some believe that there is no need to extend balance sheet recognition of assets and liabilities to operating lease contracts because there is no difference for the market between recognised information and information disclosed in the notes. The notes are sufficient for the market needs.
There are also studies showing that, regardless whether or not the lease is capitalised, capital market participants use the information in the notes. Information requirements are the same for finance lease and operating lease. Therefore, investors will capitalise on the information in a similar way, whether or not the lease was recognised in the balance sheet (Bratten et al., 2013).
Conversely, others believe that stock market participants identify the economic substance of assets and liabilities in the lease regardless of the accounting treatment used for such contracts (Dhaliwal et al., 2011). Their conclusion is that all leases should be capitalised because investors perceive both the operating risks and financial risks related to the operating lease.

Company managers have no preference for a certain type of lease (Beattie et al., 2006). However, the importance of operating lease has increased in recent years.
For auditors, operating lease is positively and significantly correlated with the audit fee. Finance lease is not. For the going concern decision, auditors believe that operating lease obligations are real liabilities (Krishnan & Sengupta, 2011).
Regarding the comment letters to the IASB lease project, almost half of the respondents were from the USA, and the rest from Continental Europe, Africa, Latin America, Canada, Australia, and Asia. The majority of them did not agree with the project proposals, and some even thought that amending IAS 17 was unnecessary (Barone et al., 2014).

4. Discussion

4.1. About conceptual vulnerabilities…

The conceptual basis of standard IAS 17 is the theory of economic risks and benefits transfer from lessor to lessee. This theory is derived from the concept of asset defined in the international conceptual framework. An asset is viewed as an economic resource controlled by an entity. Control is most often explained by the transfer of economic risks and benefits associated with ownership of the economic resource. If by acquiring an economic resource the entity also receives the economic risks and benefits associated with ownership, then the resource is deemed controlled, and if the conditions for recognition are also satisfied, then it will be recognised as an asset in the balance sheet. In the case of lease contracts represented in accordance with IAS 17, the economic resource is controlled by the entity holding the majority of the economic risks and benefits associated with ownership. If their majority is held by the lessee, then control is exercised by the latter and the consequence will be the recognition of the resource as an asset in the lessee’s balance sheet. If, however, the majority of the economic risks and benefits stay with the lessor, then control is not transferred to the lessee and the resource is retained as an asset in the lessor’s balance sheet.
The consequence of the above principle is that, in the case of finance lease contracts, the lessee recognises the asset and the liability in the balance sheet, while in the case of operating leases neither asset nor liability are recognised. The limitation of this dual representation is given by the fact that, even in the case of operating leases there is a present obligation which will generate outflows of economic resources for its settlement, but it is not recognised in the balance sheet because it represents the counterpart of a resource which is not an asset. Therefore, the obligations associated with operating lease contracts, although they satisfy the criteria for recognition of the liability defined in the international conceptual framework, are disclosed in the notes, as most users of financial statements consider them off-balance sheet financing.
To facilitate determining real short-term and long-term leverage, IAS 17 requires the disclosure in the notes of the amounts payable for operating leases, with a maturity breakdown: amounts payable up to one year, amounts payable between one and five years, and amounts payable in over five years. In reality, users of financial statements have no choice but to make their own adjustments to bring these values to values comparable to those presented in the balance sheet for finance lease contracts. Certain situations are identified where reporting entities refuse to specify

in detail the amounts payable for operating leases in the notes. In other situations, the lessees, although they wish to use a good in the long term, they conclude a short-term contract and conceal their intention to renew it, so that they may disclose amounts payable with shorter maturities in the notes.

The fact that IAS 17 provides no threshold against which to determine whether or not the economic risks and benefits are being transferred to the lessee generates, in most cases, a different classification of similar contracts, which results in the non-recognition of the asset by either party or a simultaneous recognition of the asset in both parties' balance sheets.

Furthermore, another element which makes contract classification even more vulnerable, in accordance with IAS 17, is the emphasis on risks in determining control transfer. The risks associated to a lease contract are various and may be divided between the lessee and the lessor. In such cases, what are the criteria to be used in assessing which party holds the majority of risks or the significant risks?

4.2. …and removing some of them

The standpoints expressed in the public consultation process ranged from total scepticism towards the project put forward by IASB to accepting that amending the lease accounting model is necessary. A prevailing trend of opinion emerged, but it was visible that the arguments used by the consulted parties were somewhat different.

Let us summarize the different perspectives of some respondents before addressing the common views.

Some auditors (e.g., Mazars) considered that IAS 17 did not generate significant differences in practice and that, in time, requests for interpretation issued by IASB were rather few. The current standard seems easy to understand both by entities and by external users. Such users would rather be interested in the improvement of IAS 17 than in having a new standard issued, because such change would not bring more relevant information. It is believed that the benefits of the project will not exceed the high costs of its implementation and that it does not reduce the opportunities for structuring lease contracts.

An opposite view is that of Deloitte which claims that many users of financial statements make adjustments on operating lease liabilities using their own assumptions and models, and that a dual model only maintains the complexity and structuring opportunities of the lease contracts. They insist on the need for a single accounting model for leases (all leases should be recognised in the balance sheet).

Others believe that a dual model is justified since not all the leases are financing, but their distinction based on "more than insignificant consumption of a party" will be difficult to achieve in practice (e.g., RSM).

There have also been respondents who qualified as dangerous the lack of consistency with the general conceptual framework of some project proposals (e.g., KPMG and EFRAG). Such vulnerability will affect IASB in future decisions on revising other standards, which will generate further inconsistencies.

IASB proposes recognition of the right-of-use as an identified tangible asset relying on the notion that an asset is an amount of rights. This notion has not been sufficiently debated in conceptual terms. The existence of exceptions from balance sheet recognition of the rights of use and the option to use fair value in certain situations will create difficulties for users in determining which rights are being recognised and how they are measured (EFRAG).

Some considered that the lack of symmetry in the lessee and lessor accounting models is a project limitation which will upset users (e.g., KPMG and Deloitte). If we accept that for the lessee the lease is always financing and that there must be a single accounting model, then we will have to do the same for the lessor. The latter will have to use a single model, symmetrical with the model used by the lessee (e.g., BDO).
It is believed that the asymmetry given by type-B contracts requiring the lessor to retain the asset in the balance sheet and the lessee to recognise the right of use is not coherent with the right-of-use model (e.g., Societe Generale Group).
Others consider that symmetry should not be an objective and that its provision is unnecessary if a consistent conceptual model can be applied for the lessee and for the lessor and if more useful information is obtained for user decision-making (e.g., Ernst&Young).
While some argue that the definition of the lease is sufficiently clear and that it incorporates clarifications from IFRIC 4 (e.g., RSM), others believe that confusion will be created between the right to control the use of the asset and the right to control the economic benefits generated by the use of the asset (e.g., Ernst&Young). Others, again, consider that the definition does not provide sufficient clarification to enable a distinction between lease contracts and some services (e.g., KPMG).
There are preparers who believe that the right-of-use model should be abandoned because not all leases consist in the financing of the purchase of an asset. In many cases the objective pursued is not the acquisition of an asset, but operating flexibility (e.g., Societe Generale Group).
Deutsche Telekom considers that reference to fair value in IAS 17 should be maintained in the initial assessment of the asset and liability for the lessee. The company advances the following case:
"For example, if the leasing contract for a tower with a remaining 5 year economic life is for a 10 year lease term (5 year non-cancellable with 1 x 5 year optional extension period because there is a significant economic incentive to exercise), then it is clear that the tower site operator will have to replace the current tower with a new tower to fulfil its contract with the lessee. If the right-of-use asset is meant to represent the underlying asset, then there should be a cap of the amount capitalised that should not be more than the fair value of the underlying asset with a 5 year economic life. Otherwise, the amount recognised is overstated and multiple assets (still to be constructed) may be capitalised".
Given the specifics of the business model, the German group believes that the A-type model is appropriate for leases concerning assets, and the B-type model for leases concerning services.
Some preparers perceive that the objective pursued by IASB in revising the lease standard is a purely accounting one, that is, to limit "balance-sheet management". They state that entities manage their lease contracts not for accounting purposes, but to optimize resources (e.g., Lafarge).
The idea of a single model is not approved of because the economic substance of lease contracts may vary considerably (McDonalds):
"We believe that the characteristics and strategic intent of a 20-year property lease are very different than a 3-year copier lease; and, therefore, different accounting treatment is appropriate."

Nestle believes that the main advantage of IASB proposals is the elimination of the operating lease category for the lessee and that the same approach should be appropriate for the lessor.
The same conclusion has been reached by IBM, which believes that replacing the IAS 17 dual model by another, far more complex, dual model is not a desirable solution for users of financial statements. The company considers that the right of use is not consistent with the concept of assets in the conceptual framework if it includes renewal options.
Apple is in favour of accepting recognition of the expenses related to assets and liabilities recognised according to the B-type model on a linear basis because it would lead to substantial reduction of implementation costs. Auditors do not agree with this solution because it is not conceptually consistent with the provisions of other standards.
The prevailing trend of opinion which resulted in changing the representation model of lease contracts for the lessee in the new IFRS 16 standard has been that, regardless of the terms agreed upon between the parties, the lessee pays for the control of the legal right-of-use of the underlying asset of a contract, and not for its actual control. Therefore, the lessor should invariably recognise an asset called right-of-use asset and a counterpart liability.
IASB has complied with the criticism of the dual capitalisation model of the lease defined in the 2013 ED and eliminated the different representation in the lessees' financial statements of the effects of lease contracts depending on how the future economic benefits associated with the underlying asset were expected to be consumed. If it is accepted that the lease is financing for the lessee, then the representation of its consequences in the statement of financial position, in the statement of comprehensive income, and in the statement of cash flows should be the same. Users of financial statements would obtain more relevant and more comparable information.
IFRS 16 sets forth two exceptions to the balance sheet recognition of lease contracts for the lessee. The lessee has the possibility not to recognise asset and liability in the balance sheet for short-term leases, as well as for leases of low-value assets. These exceptions are not consistent with the concepts of asset and liability in the conceptual framework, their justification being rather based on avoiding the excessively high costs of applying the assessment rules required by the standard compared to the poor benefits in terms of relevant information for users.
The decision whether the fair value of the underlying asset is small may be quite subjective. IASB itself recognises the need for a materiality threshold; this is why it recommends the value of $5,000 in the conclusion base, although it is obvious that auditors will adjust this threshold according to transaction volumes, business models, etc.
The standard also provides for recognition on an aggregate basis of certain leases of assets with a low fair value, but highly dependent on, or highly interrelated with other underlying assets.
The opponents of these exceptions argue that there is no consistency in applying the criteria for recognition of liabilities. Why do liabilities to suppliers or liabilities to employees up to $5,000 have to be recognised in the balance sheet and lease liabilities do not?

If we can consider the representation of leases in the case of the lessee to be conceptually consistent, we may not claim the same thing about the model applied to the lessor.
The majority of those who sent comment letters to IASB on the 2013 ED aggressively criticised the proposals concerning the lease accounting for the lessor. The main complaints were:
-complexity of representation of A-type contracts (those where the lessee consumes more than an insignificant part of the economic benefits associated with the underlying asset), which will result in high implementation costs;
-recognition of a residual asset difficult to understand by external users;
-initial assessment of the residual asset according to the rules for financial assets although it is considered a non-financial asset which will be disclosed along with other non-financial assets assessed according to other rules;
-difficulty of the subsequent assessment of the receivable and the residual asset;
-the lack of symmetry in the case of B-type contracts (it is not perceived as logical that the lessee should recognise the contract payments as liability, and the lessor should not recognise the proceeds as receivables) is considered to be conceptually inconsistent.
IASB recognises that the receipts from the lessee and the rights retained over the underlying asset comply with the definition of asset in the conceptual framework, but also that the proposed model involves excessively high costs and that, from the point of view of most users, the model laid down in IAS 17 can be considered still viable (BC 57, BC 58).
Criticism has prompted IASB to postpone changing the accounting model for the lessor pending further conceptual clarification, and to retain the provisions of IAS 17. Accordingly, standard IFRS 17 stipulates that the lessor must classify lease contracts into one of the two categories (finance lease or operating lease).
This compromise was viewed with concern by some external users and by auditors. Two theories are identified in the new standard: the right-of-use theory applied by the lessee and the theory of risks and benefits transfer applied by the lessor. Why is it that the two of them should use different theories to categorise the same contract? It appears that what the lessor grants is not what the lessee receives. The lessor assigns the economic risks and benefits associated with the underlying asset (hence, control over the underlying asset), and the lessee receives the right of use over the underlying asset (i.e., control over the legal right of use).
It is still not understood why the amount recognised as liability at the lessee is not recognised as receivable at the lessor. Why is no longer relevant for the lessee how the economic benefits associated with the asset are consumed when the contract is recognised, whereas at the lessor this consumption remains the basic criterion in recognising the contract?
Some do not consider it justified that a loan granted as cash should be represented differently in the financial statements from a loan granted as a non-monetary asset. A loan granted as cash is always recognised as a financial asset whatever the size of the benefits obtained by the recipient of the loan from using such amount. Why is it that where a loan is granted as a non-monetary asset (land, building, equipment, etc.) no financial asset is recognised if the recipient of the loan obtains only insignificant benefits?
Another argument advanced by IASB to justify the dual lessor model is that most users of financial statements do not currently adjust lessors' financial statements for

the effects of leases—indicating that the lessor accounting model in IAS 17 already provides users of financial statements with the information that they need. In addition, investors generally analyse the financial statements of individual entities (and not a lessee and lessor of the same underlying asset). Accordingly, it is not essential that the lessee and lessor accounting models are symmetrical (BC 61).

4.3. Technical difficulties inherent to the assessment process

An important issue in our view is that IFRS 16 eliminates reference to the fair value where the lessee capitalises the lease contract at the time of its initial recognition. Fair value measurement was only justified if the lease asset was new and the lessor ensured that he would recover from the lessee the asset's fair value or almost all of the fair value. Sometimes the lessee takes on lease an asset which is no longer new. Its value is low on the market, but the lessee is willing to pay well above this value to the lessor because he expects to obtain high economic benefits (certain assets may be very productive for lessees even though their market worth is low). In such a situation, recognising the initial liability at fair value (lower than the present value of the lease payments) will cause the inclusion in the cost of financing of a portion of the principal. Besides, identifying the fair value of certain assets which are no longer new may become quite subjective.

This drawback has been removed by the new standard, which stipulates that the initial assessment of the lease liability is always made at the present value of the lease payments.

Another element of difficulty is given by determining the discount rate of the lease payments. This can be either the interest rate implicit in the lease, or the lessee's incremental borrowing rate.

As regards the interest rate implicit in the lease, the new standard has eliminated the possibility to include in the lease payments some contingent rentals based on the asset's performance for the lessee. Only payments based on the trends of certain indicators can be added to the lease payments.

Payments based on the asset's performance reputedly fail to satisfy the criteria for recognition of the liability at the time of the initial recognition of the contract. They depend on future events which, even though they may be very likely, cannot always be controlled by the lessee.

Where the interest rate implicit in the lease cannot be determined or is not considered relevant, the lessee's incremental borrowing rate is being used. If the lessor is a leasing entity, the lessee receives the payment schedule from the lessor and the interest rate implicit in the lease is known. A real difficulty in the application of the new standard will be the capitalisation of lease contracts which are currently recognised as operating leases. The lessee often receives invoices stipulating only the payment to be made, but he does not have an interest rate implicit in the lease. He will have to capitalise lease payments with an incremental borrowing rate. Obtaining this rate will generate costs for the lessees because it must be provided by an independent valuation expert or an actuary.

4.4. What are the expected effects of implementing the new lease standard?

In order to identify the effects of applying IFRS 16 we have conducted an analysis of the studies made by IASB. We have compared the effects identified in these studies with those identified by PWC, but also with some effects identified in comment letters.

Our findings lead us to conclude that there are no significant differences in the impact of the new rules on financial statements and financial analysis ratios, or on cost items associated with the implementation of the standard, but there are different perceptions of the possible benefits expected for users of financial statements.
A list of identified costs of implementing the new standard, at inception and thereafter, includes:
a) costs for adapting IT systems and internal processes, personnel training costs (such costs will be lower for entities with more financial lease, and higher for entities with more operating lease);
b) costs for determining the discount rates;
c) costs for communicating the changes in the reported information to external parties;
d) costs for identification of the lease (the more complex the contracts, the higher the costs);
f) costs of applying the leases disclosure requirements);
g) costs for regulators and tax authorities.
Cost savings will be achieved from implementing exceptions (short-term lease and leases of low-value assets) and from classifying contracts for the lessee, but also from giving up adjustments by analysists and investors to the values disclosed by the entities.
As regards the industries which are likely to be affected, IASB's ranking is somewhat different than the ranking of PWC. IASB mentions among the most affected industries Airlines, Retailers, Travel and leisure, Transport, Telecommunication. PWC considers that the highest impact will be on industries of Retail, Airlines, Health Care, Textile and Apparel, Wholesale, Transport and infrastructure.
We have identified two relevant sources for these two differences. Firstly, the PWC study eliminates the USA from the sample, whereas the IASB study is significantly based on American companies. The second reason is given by different research methodologies.
The benefits of implementing the new standard are expressed rather in IASB expectations than in concrete values:
(i) improved quality of financial reporting
IFRS 16 is expected to reduce the need for investors and financial analysts to make adjustments in order to provide more useful information than is available as a result of applying IAS 17. Such adjustments are coarse and, depending on the methodology used, determines much higher values as compared to those that would be obtained if IFRS 16 was applied.
However, IASB recognises that users of financial statements will make further adjustments to the information obtained from the application of IFRS 16 in order to obtain useful information, but it expects such adjustments to have lower costs.
The lessor is required to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.
For some it is hard to believe that lessors who in the past refused to disclose the detailed criteria underlying lease classification and risks related to contracts will begin to analyse the efficiency in managing such risks.
Other reservations are related to debt maturity analysis. This analysis is required by IFRS 7 and entities are expected to adopt different practices in disclosing such information.

The IFRS requirement of determining the discount rate is expected to prompt certain companies to revise the way they finance and operate their businesses.
(ii) improved comparability
It is admitted that comparability is improved for the lessee, but for the lessor, differences between companies will continue to occur in reflecting similar contracts. Differences affecting comparability may also arise in disclosure issues.

5. Conclusions

IFRS 16 solves the conceptual dilemmas for the lessee, but not for the lessor. It is obviously an unfinished project which requires further conceptual clarification along with consistent and less expensive technical solutions.
We have seen that preparers are rather willing to accept conceptually unsubstantiated solutions if they bring cost savings. They are blaming IASB for taking no account of the different business models which, in their opinion, account for the fact that not all lease contracts are financing for the lessee (a dual model would be more appropriate). Unlike them, auditors, academics, and EFRAG consider it absolutely necessary that IASB solutions should be in accordance with the international conceptual framework and that both the lessee and the lessor should apply a single accounting model based on the right-of-use asset theory.
There is no disagreement concerning the impact of the new rules on financial statements and financial ratios, there is the same perception of the main costs inherent to applying IFRS 16, but views diverge as to the benefits expected for users.
We believe that our research may be helpful to:
a) accounting professionals who need to understand and apply the new standard by exercising professional judgment (they should know the new rules, but also their advantages and limitations);
b) teachers who must explain to their students the differences between IAS 17 and IFRS 16 in terms of information quality for external users and for company management;
c) regulators and tax authorities.
National accounting regulations represented by Ministry of Public Finance Order No. 1802/2014 include texts taken over from IAS 17. The transition to IFRS 16 in Romania will lead Romanian authorities to change the lease accounting policies by taking over concepts from the new standard into the national regulations. The European Commission will not allow a situation where some companies enjoy a tax advantage only because they apply rules inspired from IAS 17, while other companies do not have this advantage because they moved to applying IFRS 16.

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