



Treasury

Contact: Sean Osborn
Telephone: (02) 9228 5932

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
VIC 8007 Australia

Dear Dr Kendall

A handwritten signature in black ink that reads 'Keith'.

Exposure Draft 305 *Lease Liability in a Sale and Leaseback*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC) welcomes the opportunity to respond to ED 305 *Lease Liability in a Sale and Leaseback*. HOTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian states and territories and the Australian Government.

The attachment to this letter sets out HOTARAC's response to the specific matters for comment. Overall, HOTARAC does not support ED 305. The proposed requirement to incorporate estimated variable lease payments in the initial measurement of lease liabilities and Right of Use (ROU) assets from sale and leaseback transactions (as specified in AASB16.100A) is inconsistent with measurement requirements for leases in general.

If you have any queries regarding HOTARAC's comments, please contact Vincent Padgham from the Commonwealth Department of Finance on (02) 6215 1927 or by email to vincent.padgham@finance.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stewart Walters'.

Stewart Walters
CHAIR
Heads of Treasuries Accounting and Reporting Advisory Committee
15 February 2021

ENCLOSED:

HoTARAC Comments to the AASB on ED305

Attachment

Question 1—Measurement of the right-of-use asset and lease liability arising in a sale and leaseback transaction (paragraphs 100(a)(i), 100A and 102B of the [Draft] amendment to IFRS 16)

The [Draft] amendment to IFRS 16 Leases applies to sale and leaseback transactions in which, applying paragraph 99 of IFRS 16, the transfer of the asset satisfies the requirements to be accounted for as a sale of the asset. The [Draft] amendment proposes:

- (a) to require a seller-lessee to determine the initial measurement of the right-of use asset by comparing the present value of the expected lease payments, discounted using the rate specified in paragraph 26 of IFRS 16, to the fair value of the asset sold (paragraph 100(a)(i));
- (b) to specify the payments that comprise the expected lease payments for sale and leaseback transactions (paragraph 100A); and
- (c) to specify how a seller-lessee subsequently measures the lease liability arising in a sale and leaseback transaction (paragraph 102B).

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

HoTARAC response: The requirement to incorporate estimated variable lease payments in the initial measurement of lease liabilities and ROU assets from sales and leaseback transactions (as specified in AASB16.100A) is inconsistent with measurement requirements for leases in general. This will be confusing and lead to leases with equivalent terms being accounted for differently. Some public sector sale and leaseback leases have long terms, for which estimation of future variable payments would be difficult.

Question 2—Transition (paragraph C20E of the [Draft] amendment to IFRS 16)
Paragraph C20E of the [Draft] amendment to IFRS 16 proposes that a seller-lessee apply the [Draft] amendment to IFRS 16 retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to sale and leaseback transactions entered into after the date of initial application of IFRS 16. However, if retrospective application to a sale and leaseback transaction that includes variable lease payments is possible only with the use of hindsight, the seller-lessee would determine the expected lease payments for that transaction at the beginning of the annual reporting period in which it first applies the amendment.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

HoTARAC response: The proposed transitional implementation arrangements for sale and leaseback transactions in Appendix C seem confusing. For example, when wouldn't hindsight be required in retrospectively determining variable lease payments? Retrospective application back to the AASB 16 transition date would also be difficult, given that ED 305 may not become effective for some time.