



**Australian Government**

**Australian Accounting  
Standards Board**

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Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
Columbus Building  
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Canary Wharf, London E14 4HD  
UNITED KINGDOM

29 March 2021

Dear Hans,

***IASB ED/2020/4 Lease Liability in a Sale and Leaseback***

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to provide comments on ED/2020/4 *Lease Liability in a Sale and Leaseback* issued in November 2020 (ED/2020/4).

In formulating these comments, the views of Australian stakeholders were sought and considered. This included:

- two formal comment letters received;
- targeted consultation with key stakeholders, such as professional bodies and auditors; and
- consultation with the AASB's User Advisory Committee,<sup>1</sup> comprising a range of primary users of financial statements.

The AASB acknowledges the efforts of the IASB. However, the AASB does have concerns about the proposals in ED/2020/4. In particular:

- The AASB does not support the proposed amendments to require entities to incorporate estimated variable lease payments that are not based on a rate or index into the initial measurement of lease liabilities and right-of-use assets arising from sale and leaseback transactions. Our concerns are primarily that:
  - The proposals will create an inconsistency in the application of IFRS 16 *Leases* to sale and leaseback transactions and general lease transactions, as estimated variable lease payments that are not linked to a rate or index are excluded when accounting

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<sup>1</sup> The User Advisory Committee (UAC) is an expert panel formed by the AASB, which is comprised of analysts, investors, ratings agencies, fund managers, and investor relations professionals from the For-Profit sector. The purpose of the UAC is to provide the AASB with input, recommendations, and feedback pertaining to the creation or emendation of Australian Accounting Standards, as well as outreach to the wider stakeholder community.

for general leases due to the inherent measurement uncertainty associated with estimating such payments.

- Determining variable future lease payments that are not based on a rate or index will lead to increased measurement uncertainty due to the significant judgement that may be required. For example, some sale and leaseback arrangements may have long leaseback terms (e.g., 10+ years) and may include variable lease payments based on factors such as market movements for which there is no external evidence. The variable lease payments may also be subject to an annual revaluation.
- The AASB suggests that making the proposed amendments before the post-implementation review of IFRS 16 may be premature. As the Standard has only recently become applicable, considering the need for possible amendments as part of the post-implementation review will allow more time to obtain a greater understanding of the significance and prevalence of this particular issue.

Overall, the AASB does not support the proposals in ED/2020/4. We suggest that the matter should be re-examined in light of the above concerns, ideally in conjunction with the post-implementation review of IFRS 16.

If you have any questions regarding this letter, please contact me or Kimberley Carney, Senior Manager ([kcarney@aasb.gov.au](mailto:kcarney@aasb.gov.au)).

Yours sincerely,



Dr. Keith Kendall  
AASB Chair

**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.

The AASB disagrees with the IASB's proposal to include estimated variable lease payments that are not linked to a rate or index in the measurement of lease liabilities and right-of-use assets arising from sale and leaseback transactions.

We are concerned that:

- the proposals will create an inconsistency in applying IFRS 16 to sale and leaseback arrangements and general leases transactions, as estimated variable lease payments that are not linked to a rate or index are excluded when accounting for general leases due to the inherent measurement uncertainty associated with estimating such payments;
- this inconsistency may reduce the comparability of financial statements as leases with equivalent terms, for potentially the same underlying assets, will be accounted for differently. Feedback received during outreach indicates that stakeholders believe such reporting may lead to confusion for both preparers and users of financial statements;
- the inclusion of variable lease payments that are not based on a rate or index may lead to increased estimation uncertainty because preparers may be required to exercise significant judgement in calculating expected future lease payments. For example, we understand that some sale and leaseback transactions may have long leaseback terms (e.g., 10+ years) and may include variable lease payments based on factors such as market movements for which there is no external market evidence. The variable lease payments may also be subject to an annual revaluation. The proposals may also increase the propensity for managerial bias in forecasting, given the effect the forecasts may have

on the financial statements in subsequent periods and the difficulties associated with estimating variable lease payments, especially in uncertain economic conditions; and

- We are also concerned that this estimation uncertainty may result in challenges for auditors in obtaining sufficient and appropriate audit evidence to attest against the relevant financial reporting requirements.

We suggest that the amendments proposed in ED/2020/4, though addressing an existing gap in IFRS 16, maybe premature given the post-implementation review of IFRS 16 is yet to occur. Whilst we acknowledge that there is a need to address the gap in the subsequent measurement requirements for sale and leaseback transactions, we have not seen evidence to suggest that the scenario which lead to the initial IFRIC submission is widespread. This suggests there may be merit in delaying any proposed amendments until such time as a scenario in which all lease payments in a sale and leaseback arrangement are variable becomes prevalent enough to warrant such modifications. This approach would also avoid unnecessarily increasing the complexity for all in-scope sale and leaseback transactions (i.e., sale and leaseback transactions with a mix of fixed and variable lease payments). Additionally, by waiting for the post-implementation review, other potentially more prevalent IFRS 16 implementation issues may be identified and addressed concurrently.

Lastly, we are concerned that amendments proposed in ED/2020/4 will further add to the cost burden of entities as they may be required to change existing accounting systems, processes and controls to comply with the proposed requirements for questionable benefits so soon after the initial implementation of IFRS 16.

**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.

Although the AASB does not support the proposals in ED/2020/4, if the IASB proceeds with the proposals, we note that some stakeholders suggested that the requirement to apply the proposals retrospectively would add unnecessary complexity for preparers. This is partly due to the requirement to restate prior year financial statements and the complexity in retrospectively determining variable lease payments.