# IFRIC Update September 2020

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings.

The Committee met on 15 September 2020, and discussed:

**Committee's tentative agenda decisions**

- Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 *Consolidated Financial Statements* and IFRS 16 *Leases*)—Agenda Paper 2

**Other matters**

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*)—Agenda Paper 3
- Work in Progress—Agenda Paper 4

**Related information**

Next scheduled IFRS Interpretations Committee meeting:

- 1–2 December 2020

Interpretations Committee open items

For further information about IFRS Interpretations Committee activities including how to receive past IFRIC *Updates* follow the Interpretations Committee group page.

# Committee's tentative agenda decisions

The Committee discussed the following matter and tentatively decided not to add a standard-setting project to the work plan. The Committee will reconsider this tentative decision, including the reasons for not adding a standard-setting project, at a future meeting. The Committee invites comments on the tentative agenda decision. Interested parties may submit comments on the open for comment page by 23 November 2020. All comments will be on the public record and posted on our website unless a responder requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. The Committee will consider all comments received in writing by 23 November 2020; agenda papers analysing comments received will include analysis only of comments received by that date.

## Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 *Consolidated Financial Statements* and IFRS 16 *Leases*)—Agenda Paper 2

The Committee received a request about the applicability of the sale and leaseback requirements in IFRS 16 to a transaction in which an entity sells its equity interest in a subsidiary that holds one asset and leases that asset back. In the fact pattern described in the request:

a. an entity owns 100% of the equity in a subsidiary;
b. the subsidiary was established some time ago and holds only one asset (a building) and has no liabilities; and
c. the building the subsidiary holds does not meet the definition of a business (as defined in IFRS 3 *Business Combinations*).

The entity enters into a transaction in which:

a. it sells all its equity interest in the subsidiary to a third party and loses control of the subsidiary as a consequence;
b. it enters into a contract to lease the building back. Payments for the lease are at market rates;
c. the transfer of the building satisfies the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale of the building; and
d. the sales price equals the fair value of the building at the date of the transaction and exceeds its carrying amount.

The request asked whether the entity in its consolidated financial statements applies the sale and leaseback requirements in IFRS 16 and therefore recognises only the amount of the gain that relates to the rights transferred to the third party.

Paragraph 98 of IFRS 16 states that 'if an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 99–103'.

In the transaction described in the request, the entity:

a. loses control of the subsidiary. Accordingly, the loss of control requirements in IFRS 10 apply to the transaction.

b. transfers the building to the third party (through the sale of its equity interest in the subsidiary) and leases the building back. The transaction is therefore a sale and leaseback transaction as described in paragraph 98 of IFRS 16, to which the sale and leaseback requirements in IFRS 16 apply.

The Committee therefore concluded that, in the transaction described in the request,:

a. the entity applies paragraphs 25 and B97-B99 of IFRS 10 to account for the loss of control of the subsidiary—in particular, paragraph B98 of IFRS 10 requires the entity to derecognise the building held by the subsidiary and recognise the fair value of the consideration received; and
b. the transfer of the building satisfies the requirements in IFRS 15 to be accounted for as a sale of the building (paragraph 99 of IFRS 16)—the entity therefore applies paragraph 100(a) of IFRS 16. The Committee observed that:
    i. applying the requirements in IFRS 15 for determining whether a performance obligation is satisfied—as required by paragraph 99 of IFRS 16—does not result in the transaction being included within the scope of IFRS 15.
    ii. applying paragraph 100(a) of IFRS 16, the entity (a) measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the building that relates to the right of use it retains; and (b) recognises only the amount of any gain that relates to the rights transferred to the third party. The entity also recognises a liability at the date of the transaction, the initial measurement of which is a consequence of how the right-of-use asset is measured—and the gain on the sale and leaseback transaction determined— applying paragraph 100(a).

Consequently, the gain the entity recognises on the transaction reflects the requirements in paragraph 100(a) of IFRS 16.

***Illustrative example***

*Entity P owns 100% of the equity in Entity S (a subsidiary). Entity S holds only one asset— a building. The building has a fair value of CU800 and a carrying amount of CU500 at the date of the transaction. The net assets of Entity S are also CU500 (ie Entity S has no liabilities) at that date. Entity P enters into a transaction in which:*

*a. it sells all its equity interest in Entity S to a third party for cash of CU800, losing control of Entity S.*
*b. it leases the building back. All payments for the lease are fixed and at market rates. The present value of the lease payments at the commencement date is CU600.*
*c. the transfer of the building satisfies the requirements in IFRS 15 to be accounted for as a sale of the building.*

*Applying paragraph B98 of IFRS 10, Entity P in its consolidated financial statements derecognises the building held by Entity S and recognises the fair value of the consideration received.*

*The transfer of the building satisfies the requirements in IFRS 15 to be accounted for as a sale of the building (paragraph 99 of IFRS 16)—Entity P therefore applies paragraph 100(a) of IFRS 16. Entity P measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the building that relates to the right of use it retains. Entity P determines that it is appropriate to calculate that proportion by comparing the present value of the expected lease payments to the fair value of the building. On this basis, the proportion of the building that relates to the right of use retained is 75%, calculated as CU600 (present value of the expected lease payments) ÷ CU800 (fair value of the building). The proportion of the building that relates to the rights transferred is therefore 25% (CU800 − CU600) ÷ CU800.*

*Applying paragraph 100(a), Entity P:*

a. *measures the right-of-use asset at CU375, calculated as CU500 (carrying amount of the building) × 75% (proportion of the building that relates to the right of use it retains); and*
b. *recognises a gain of CU75 at the date of the transaction. This gain relates to the rights transferred to the third party and is calculated as CU300 (total gain on sale of the building (CU800 − CU500)) × 25% (proportion of the building that relates to rights transferred).*

*At the date of the transaction, Entity P accounts for the transaction as follows:*

| | | |
|---|---|---|
| *Dr. Cash* | *CU800* | |
| *Dr. Right-of-use asset* | *CU375* | |
| *Cr. Building* | | *CU500* |
| *Cr. Liability* | | *CU600* |
| *Cr. Gain on rights transferred* | | *CU75* |

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for the entity to determine its accounting for the transaction described in the request. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

## Other matters

### Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*)—Agenda Paper 3

The Committee discussed the Board's project *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*. Committee members provided advice on the project direction considering the feedback received on the related Exposure Draft.

The Board will consider the Committee's advice when it discusses the matter at a future meeting.

### Work in Progress—Agenda Paper 4

The Committee received an update on the current status of open matters not discussed at its meeting in September 2020.