STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)**
Paper topic	Comment letters on tentative agenda decision

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Introduction

1. In September 2020, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission about the applicability of the sale and leaseback requirements in IFRS 16 *Leases* to a transaction in which an entity sells its equity interest in a subsidiary that holds only a real estate asset and then leases that real estate asset back.

2. In the fact pattern described in the submission:

   (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*).

3. 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.

4. The submission 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.

5. In the transaction described in the submission, the entity:

(a) loses control of the subsidiary. Accordingly, the loss of control requirements in IFRS 10 *Consolidated Financial Statements* apply to the transaction.

(b) transfers the building to the third party 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.

6. The Committee therefore concluded that, in the transaction described in the submission:

(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—as required by 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).

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

8. The objectives of this paper are to:

(a) analyse the comments on the tentative agenda decision; and

(b) in the light of the feedback received, ask the Committee whether to:

(i) finalise the agenda decision; or

(ii) propose a clarifying narrow-scope amendment to IFRS 10.

9. There are two appendices to this paper:

(a) Appendix A—proposed wording of the agenda decision; and

(b) Appendix B—analysis of comments on other matters.

Comment letter summary

10. We received 19 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our website[1]. This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Agenda Paper 2A.

[1] At the date of posting this agenda paper, there was one late comment letter.

11. Four respondents (the Institute for the Accountancy Profession in Sweden (FAR), the Institute of Chartered Accountants of Nigeria (ICAN), KPMG and the Malaysian Accounting Standards Board (MASB)) agree with the Committee's analysis and conclusions. Most of the other respondents agree with the outcome explained in the tentative agenda decision (ie the gain the entity recognises reflects the requirements in paragraph 100(a) of IFRS 16). However, they raise concerns about aspects of the Committee's technical analysis, and question whether the requirements in IFRS Standards provide an adequate basis to support the Committee's analysis and conclusions. Many of these respondents suggest adding a standard-setting project to the workplan to address this matter.

12. In addition:

(a) several respondents say the transaction described in the tentative agenda decision is narrow, unusual, specific and relatively simple compared to the more complex transactions seen in practice. They ask whether and how the explanatory material in the tentative agenda decision would extend to those other transactions; and

(b) some respondents say the submission raises the broader matter of the accounting for transactions involving single-asset entities. They suggest considering the transaction described in the submission as part of a broader consideration of those transactions—possibly as part of the Post-implementation Review (PIR) of IFRS 10. Some of these respondents also suggest the Committee reconsider its June 2019 discussion on the accounting for another transaction involving the sale of a single-asset entity (see paragraphs 43–50 of this paper for further details) together with its discussion of the transaction described in the submission.

13. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

14. We have separately analysed comments related to:

    (a) application of the requirements in IFRS 10 and IFRS 16 (paragraphs 16–34);

    (b) other similar transactions (paragraphs 35–42);

    (c) other transactions involving single-asset entities (paragraphs 43–50); and

    (d) requests for standard-setting (paragraphs 51–58).

15. Appendix B to this paper analyses comments received on other matters.

Application of the requirements in IFRS 10 and IFRS 16

Respondents' comments

16. Several respondents raise questions on aspects of the Committee's analysis—particularly on the interaction of the applicable requirements in IFRS 10 and IFRS 16—as described in the following paragraphs.

Paragraph B98(d) of IFRS 10

17. Several respondents say the Committee's analysis and conclusions result in the gain recognition requirements in paragraph 100(a) of IFRS 16 overriding the gain recognition requirement in paragraph B98(d) of IFRS 10 with insufficient basis to do so—applying the accounting set out in the tentative agenda decision, the entity fails to comply with the requirements in paragraph B98(d) of IFRS 10. The Autorité des Normes Comptables (ANC) says the tentative agenda decision 'seems to 'cherry pick' the requirements in IFRS 10 that are compatible with those in IFRS 16'. IOSCO says any final agenda decision would need to explain how the accounting set out in it does not change the requirements in IFRS 10 (as is required by the *Due Process Handbook*[2]).

[2] Paragraph 8.4 of the *Due Process Handbook* states: 'Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards.'

Consistency with other similar situations

18. Several respondents acknowledge that a similar interaction to that of IFRS 10 and IFRS 16 (as described in the tentative agenda decision) also applies to other sale and leaseback transactions—for example, the derecognition requirements in IAS 16 *Property, Plant and Equipment* interact with the sale and leaseback requirements in IFRS 16 in a similar manner when an entity transfers an item of property, plant and equipment (PPE) and leases the asset back. However, these respondents note that the derecognition requirements in IAS 16, IAS 38 *Intangible Assets* and IAS 40 *Investment Property* include specific cross-references to the sale and leaseback requirements in IFRS 16[3]. The loss of control requirements in IFRS 10 do not include a similar cross-reference.

19. The Board issued amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] in September 2014. As part of these amendments, the Board addressed what at that time it acknowledged as a conflict between the gain recognition requirements in IFRS 10 (full gain recognition on the sale of a subsidiary) and IAS 28 (restriction on the amount of gain recognised to the extent of the interests attributable to unrelated investors) when an entity contributes a subsidiary to an associate or joint venture. Some respondents say the underlying question (ie the interaction of the applicable requirements in IFRS 10 and IFRS 16) is similar to that addressed by the Board as part of the September 2014 amendments. It would therefore be inconsistent to conclude in this situation that there is no conflict between the requirements in IFRS 10 and IFRS 16.

[3] Paragraphs 68 and 69 of IAS 16, paragraphs 113 and 114 of IAS 38, and paragraphs 67 and 69 of IAS 40 include references to the sale and leaseback requirements in IFRS 16.

[4] The amendments to IFRS 10 and IAS 28 clarified that if the transferred assets do not constitute a business as defined in IFRS 3, the entity recognises a gain only to the extent of unrelated investors' interests; otherwise, the entity recognises the full gain. After finalising the amendments, issues were identified that resulted in the effective date of the amendments being deferred indefinitely—it was decided to consider the issues identified as part of the Board's research project on equity accounting.

Applicability of IAS 8

20. Paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states:

> In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
>
> (a) relevant to the economic decision-making needs of users; and
>
> (b) reliable, in that the financial statements:
>
> (i) represent faithfully the financial position, financial performance and cash flows of the entity;
>
> (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
>
> …

21. Three respondents (the ANC, FSNM & Co and PwC) say paragraph B98(d) of IFRS 10 contradicts paragraph 100(a) of IFRS 16. Accordingly, in their view, there is no IFRS Standard that *specifically* applies to the transaction, so the entity applies the requirements in paragraph 10 of IAS 8. Applying those requirements, the entity recognises a gain in accordance with paragraph 100(a) of IFRS 16. For the transaction described in the submission, applying paragraph 100(a) provides more relevant and reliable information than applying the gain recognition requirements in paragraph B98(d) of IFRS 10. These respondents suggest including this rationale as support for the Committee's conclusion in any agenda decision published on this matter. FSNM & Co also suggests saying, in this situation, an entity should disclose the accounting policy applied (ie IFRS 10 or IFRS 16).

Scope of IFRS 10 and IFRS 16

22. Two respondents suggest specifying that the transaction is in the scope of only the sale and leaseback requirements in IFRS 16 and not in the scope of IFRS 10. In particular:

(a) the Accounting Standards Board of Japan (ASBJ) says the transaction is in substance a sale and leaseback transaction; and

(b) the International Air Transport Association's Industry Accounting Working Group (IATA) says, for the transaction described in the submission, the requirements in IFRS 10 are satisfied by the application of the requirements in IFRS 16. It says the application of both Standards could lead to questions about which disclosure requirements apply.

23. In contrast, Petróleo Brasileiro (Petrobras) and the Saudi Organization for Certified Public Accountants (SOCPA) say the sale and leaseback requirements in IFRS 16 do not apply to the transaction because the transaction involves the sale of equity interests in a subsidiary and not the direct sale of an asset that is leased back.

Staff analysis

24. We continue to agree with the Committee's analysis and conclusions on the interaction of the applicable requirements in IFRS 10 and IFRS 16 for the reasons explained in the following paragraphs.

Paragraph B98(d) of IFRS 10

25. The application of the requirements in IFRS 10 and IFRS 16 to the transaction does not, in our view, result in an entity failing to comply with paragraph B98(d) of IFRS 10. Paragraphs 27–32 of Agenda Paper 2 of the Committee's September 2020 meeting illustrate our view of how an entity applies the requirements in both IFRS 10 and IFRS 16 to the transaction. Applying that approach, an entity first applies the loss of control requirements in IFRS 10 and then overlays the sale and leaseback requirements in IFRS 16. Overlaying the two sets of requirements in this way does not mean that an entity fails to comply with paragraph B98(d) of IFRS 10 but that there is another aspect to the loss of control transaction—ie the leaseback—which results in adjustments to the amounts that would otherwise result from applying paragraphs B98(d) to a loss of control transaction that does not involve a leaseback.

Consistency with other similar situations

26. The tentative agenda decision explains the interaction of the applicable requirements in IFRS 10 and IFRS 16 in the same way that the derecognition requirements in IAS 16, IAS 38 and IAS 40 interact with the applicable requirements in IFRS 16 for sale and leaseback transactions that involve an item of PPE, an intangible asset or investment property—in these situations an entity applies the derecognition requirements in IAS 16, IAS 38 or IAS 40 and also the sale and leaseback requirements in IFRS 16. We nonetheless acknowledge respondents' comments that paragraphs 68–69 of IAS 16, paragraphs 113–114 of IAS 38 and paragraphs 67 and 69 of IAS 40 include cross-references to the sale and leaseback requirements in IFRS 16 while IFRS 10 does not include a similar cross-reference. Those cross-references in IAS 16, IAS 38 and IAS 40 remove any doubt about the gain or loss to be recognised on a sale and leaseback transaction that involves the derecognition of an item of PPE, an intangible asset or investment property.

27. Although IFRS 10 does not include a similar cross-reference, in our view the Board's intentions with respect to the gain or loss to be recognised in the transaction described in the submission are clear. Paragraph 98 of IFRS 16 describes a sale and leaseback transaction not as one that involves the legal sale of an asset—but rather the *transfer* of an asset—that an entity leases back. Paragraph BC261 explains why the Board decided that the sale and leaseback requirements in IFRS 16 include within their scope all *transfers* of assets that an entity leases back—that paragraph states 'the IASB observed that, in considering whether a transaction should be accounted for as a sale and leaseback transaction, an entity should consider not only those transactions structured in the form of a legal sale and leaseback, but should also consider other forms of transactions for which the economic effect is the same as a legal sale and leaseback…'. In our view, the absence of a cross-reference in IFRS 10 does not mean that an entity is unable to apply both sets of requirements in accounting for the transaction or that those requirements conflict.

28. We note that there are transactions—other than sale and leaseback transactions—that similarly are within the scope of more than one Standard and for which similarly the

application of both sets of requirements results in an outcome in profit or loss that reflects what one set of those requirements specifies (without cross-reference).

29. For example, in 2018 the Committee discussed *Contributing Property, Plant and Equipment to an Associate* (IAS 28). Paragraph 68 of IAS 16 requires an entity to recognise the gain or loss arising from the derecognition of an item of PPE in profit or loss, and paragraph 71 of that Standard specifies how to calculate the gain or loss (as the difference between the net disposal proceeds and the carrying amount of the item of PPE). However, paragraph 28 of IAS 28 *Investments in Associates and Joint Ventures* requires an entity to recognise gains and losses resulting from transactions between an entity and its associate or joint venture *only to the extent* of unrelated investors' interests in the associate or joint venture. The Committee's conclusion in that agenda decision confirms that on contributing an item of PPE to an associate (and consequently derecognising that item of PPE), an entity eliminates (or does not recognise) any gain or loss related to its own interest in the associate. The entity therefore recognises only the amount of any gain or loss that relates to unrelated investors' interests in the associate. In reaching its conclusion on that submission, the Committee did not view the requirements in IAS 16 and IAS 28 as being contradictory, even though the gain or loss requirements in IAS 16 do not include a cross-reference to IAS 28. [5]

30. Both IOSCO and SOCPA acknowledge the interaction of these requirements in IAS 16 and IAS 28. However, IOSCO says paragraph 28 of IAS 28 specifically refers to 'sales or contributions of assets from the investor to its associate or joint venture' as an example to which that paragraph applies. SOCPA says IAS 28 sets a specific rule as an exclusion from the general rule in IAS 16. We note that, similarly, IFRS 16 describes a sale and leaseback transaction in paragraph 98 and includes in paragraphs

[5] The ANC questions whether, in that agenda decision, the Committee concluded on the interaction of the requirements in IAS 28 and IAS 16. In our view, the Committee did conclude on the interaction of the requirements in IAS 28 and IAS 16. In particular, in response to Question B, the agenda decision states '…the Committee concluded that an entity recognises any gain or loss on contributing PPE to an associate to the extent of other investors' interests in the associate' and, in response to Question C, states '…an entity recognises a gain or loss on contributing PPE and a carrying amount for the investment in the associate that reflects the determination of those amounts based on the fair value of the PPE contributed…'.

99–103 specific requirements that apply to sale and leaseback transactions—as explained in paragraph 5(b) of this paper, the transaction described in the submission is a sale and leaseback transaction. We view the specificity of the requirements in IFRS 16 with respect to a sale and leaseback transaction as no different from the specificity of the requirements in IAS 28 with respect to a sale or contribution of an asset to an associate.

31. We also note that IFRS 9 *Financial Instruments* requires an entity to recognise interest expense calculated using the effective interest method in profit or loss over the relevant period (definition of effective interest method in Appendix A to IFRS 9[6]). However, IAS 23 *Borrowing Costs* requires an entity to capitalise interest expense in specified circumstances[7]. We do not view these requirements as contradictory, even though the requirement in IFRS 9 to recognise interest expense in profit or loss does not include an explicit cross-reference to IAS 23. In applying these requirements, an entity first recognises interest expense calculated using the effective interest method applying IFRS 9 and then applies (or overlays) the requirements in IAS 23.

32. We acknowledge respondents' comments that the Committee's conclusions in the tentative agenda decision could be viewed as inconsistent with the Board's rationale for issuing the September 2014 amendments (see paragraph 19 of this paper). We agree that the interaction between IFRS 10 and IAS 28 addressed in the September 2014 amendments is similar to the interaction between IFRS 10 and IFRS 16 with respect to the sale and leaseback transaction in the submission (in the same way that we view the interaction between IAS 16 and IAS 28, and IFRS 9 and IAS 23, described above as similar). We note that the effective date of the September 2014 amendments has been deferred indefinitely.

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[6] Appendix A to IFRS 9 defines effective interest method as the method that is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period.

[7] Paragraph 8 of IAS 23 states 'An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them'.

Applicability of IAS 8

33. We disagree that an entity applies paragraph 10 of IAS 8 to the transaction described in the submission. This paragraph applies in the 'absence of an IFRS that specifically applies to a transaction...'. Requirements in both IFRS 10 and IFRS 16 apply to the transaction described in the submission and, thus, in our view paragraph 10 of IAS 8 is not applicable to the transaction.

Scope of IFRS 10 and IFRS 16

34. We continue to agree with the Committee's view that the transaction described in the submission is in the scope of both IFRS 10 and IFRS 16 for the reasons set out in paragraph 5 of this paper and paragraphs 18–26 of the September paper. We note in particular that the sale and leaseback requirements in paragraph 100(a) of IFRS 16 specify only how to measure the right-of-use asset arising from the leaseback and the gain or loss arising from the sale and leaseback transaction—they do not include derecognition requirements that would apply to the transfer of the asset to the buyer-lessor.

Other similar transactions

Respondents' comments

35. Several respondents say the transaction described in the submission is narrow, specific, unusual and relatively simple compared to the more complex transactions seen in practice. They ask whether and how the explanatory material in the tentative agenda decision would extend to those other transactions. Some respondents provide examples of variations of the transaction, including those in which:

(a) the subsidiary has a tax balance related to the underlying asset;

(b) the subsidiary holds a group of assets and the leaseback relates to only one (or some) asset(s);

(c) the subsidiary contains a business;

(d) the seller-lessee does not own 100% of the equity in the subsidiary before the sale (ie the subsidiary has non-controlling interests);

(e) the seller-lessee does not sell all its equity interest in the subsidiary and retains an interest after the sale; and

(f) the entity loses control of the subsidiary but the transfer of the asset subject to the sale and leaseback transaction does not satisfy the requirements in IFRS 15 to be accounted for as a sale of the asset.

36. KPMG says:

> Although the fact pattern discussed by the Committee is notably narrow, the analysis supporting the tentative agenda decision seems very broad…It is unclear whether the Committee believes this discussion establishes an overarching premise that applies equally to other fact patterns or is specific to the narrow fact pattern in the agenda request.

37. The ASBJ says if the agenda decision is restricted to the transaction described in the submission, it may discourage appropriate judgement that is required for other transactions. It suggests (a) making the assumptions included in agenda decision wider and more generic in nature; and (b) emphasising in the agenda decision that an entity is required to apply judgement based on the facts and circumstances.

38. The ANC suggests performing outreach before finalising the tentative agenda decision. It says doing so would help the Committee assess whether the transaction described in the agenda decision is prevalent and, thus, whether the publication of an agenda decision would be helpful and necessary. It also says doing so would help the Committee assess whether the explanatory material included in the tentative agenda decision could have unintended consequences for other similar, but more complex, transactions.

Staff analysis

39. The Committee’s analysis and conclusions in the tentative agenda decision are based on the question submitted. Whilst we agree there could be several variations of the transaction that might exist in practice, in our view it is not feasible for the Committee to consider all such variations in answering the question asked.

40. The explanatory material included in any agenda decision explains how an entity applies the applicable requirements in IFRS Standards to the fact pattern or transaction described in that agenda decision. Considering whether and how that explanatory material might extend to variations of the fact pattern or transaction necessarily requires judgement—it depends on, and does not replace, an entity's consideration of all relevant facts and circumstances in applying the applicable IFRS Standards.

41. We note that the explanatory material in this tentative agenda decision—which explains the requirements an entity applies in accounting for the transaction—refers specifically to 'the transaction described in the request'.

42. For reasons described in paragraphs 16–17 of the September paper, we continue to think the Committee should not perform outreach on this submission. In particular:

   (a) the transaction described in the submission could be prevalent (if not now, in the future) and could have a material effect on those affected. We note that sale and leaseback transactions are often highly-structured transactions; and

   (b) in the light of the effective date of IFRS 16 (annual reporting periods beginning on or after 1 January 2019), there is likely to be limited observable practice with respect to the transaction described in the submission (and with respect to variations of it).

Other transactions involving single-asset entities

Respondents' comments

Interaction with the June 2019 discussion

43. In June 2019, the Committee considered the accounting for a transaction in which an entity, as part of its ordinary activities, enters into a contract with a customer to sell real estate by selling its equity interest in a subsidiary. The Committee made no

decisions on this matter. The Board considered whether, and in June 2020 decided not, to add a standard-setting project to the workplan to address the question asked.[8]

44. The Accounting Standards Committee of Germany (ASCG) and the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) both suggest reconsidering the June 2019 matter together with this sale and leaseback transaction because the underlying question in both situations is similar—ie whether the form of a transaction (ie sale of an equity interest in a single-asset entity rather than a direct sale of the asset within that entity) results in any difference in accounting for the transaction. The ASCG says if the application of the relevant requirements to the two situations results in different outcomes—which in its view would 'seem illogical and not a satisfactory outcome'—then the Board should consider this as part of an upcoming PIR. It also suggests amending the description of the question in the agenda decision to focus on whether the form of the transaction results in any difference in accounting for that transaction rather than on which IFRS Standard is applicable to the transaction.

45. The ASBJ says the agenda decision suggests that the transaction is not in the scope of IFRS 15 without a clear rationale. It says this could result in unintended consequences in the context of the June 2019 matter.

Broader consideration of transactions involving single-asset entities

46. A few respondents suggest that the Board consider more holistically the accounting for transactions involving single-asset entities. For example:

   (a) Deloitte suggests that the Board undertake a broader project to address the accounting for the sale of single-asset entities.

   (b) IOSCO says there are several application questions regarding the accounting for single-asset entities and suggests the Board consider these as part of the IFRS 10 PIR.

[8] Further details can be found here.

Staff analysis

Interaction with the June 2019 discussion

47. For the reasons set out in paragraph 26 of the September paper, we continue to think the transaction described in the submission differs from the June 2019 discussion and see no reason to revisit that discussion in the light of the Committee's analysis and conclusions on this sale and leaseback transaction. Paragraph 26 of the September paper states:

> In contrast, in June 2019 the Committee discussed [the June 2019 matter]. The Committee considered whether IFRS 10 *or* IFRS 15 would apply to the transaction. This question arose because paragraph 5(c) of IFRS 15 excludes from its scope contractual rights and obligations within the scope of IFRS 10. Because of this explicit scope requirement, the transaction is within the scope of either IFRS 10 or IFRS 15; it could not be within the scope of both IFRS 10 and IFRS 15. In contrast IFRS 16 does not exclude from its scope contractual rights and obligations within the scope of IFRS 10.

48. In addition, if the Committee were to finalise the agenda decision, we see no particular benefit in changing the articulation of the question as described in the tentative agenda decision—the submitter specifically asked whether the requirements in IFRS 16 apply to the transaction.

49. We also note that, for the transaction described in the submission, there is no question about whether the transaction is within the scope of IFRS 15. The transaction involves the loss of control of a subsidiary that is within the scope of IFRS 10 (and consequently not within the scope of IFRS 15) and the buyer-lessor is not a customer of the entity.

Broader consideration of transactions involving single-asset entities

50. The Board has published *Request for Information—Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities* (RFI) to seek feedback on the application of those Standards. The Board will use the feedback to determine whether any further

action is required. We expect any concerns about the accounting for transactions involving a single-asset entity to be provided to the Board in response to that RFI.

Requests for standard-setting

Respondents' comments

51. As mentioned above, several respondents agree with the outcome explained in the tentative agenda decision. However, they raise concerns about aspects of the Committee's technical analysis, and question whether the requirements in IFRS Standards provide an adequate basis to support the Committee's analysis and conclusions. Paragraphs 16–23 of this paper summarise respondents' concerns in this respect. Many of these respondents suggest adding a standard-setting project to the work plan to address the matter. In particular, they say:

    (a) the requirements in paragraph B98(d) of IFRS 10 and paragraph 100(a) of IFRS 16 conflict. When the requirements in paragraph 100(a) of IFRS 16 interact in a similar manner with the derecognition requirements in other Standards (for example, IAS 16, IAS 38 or IAS 40), those other Standards include a specific cross-reference which addresses any potential conflict between those requirements (see paragraphs 17–18 of this paper)—adding a similar cross-reference within the derecognition requirements in IFRS 10 would address this matter; and

    (b) the Board undertook standard-setting to address a similar matter when it issued the September 2014 amendments (see paragraph 19 of this paper for more information).

Staff analysis

52. For the reasons described in paragraphs 14–50 of this paper, respondents' comments do not change our agreement with the Committee's conclusions set out in the tentative agenda decision. In our view, the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the accounting for the transaction described in the submission.

53. We acknowledge however that analysing how the loss of control requirements in IFRS 10 interact with the sale and leaseback requirements in IFRS 16 in the context of the transaction described in the submission requires quite some analysis—the interaction is not, for example, explained in one sentence or through a cross-reference as it is in some other situations. In particular, we acknowledge the concerns noted in paragraph 51 above and can understand why some might view the Committee's analysis as selectively looking at, or cherry-picking, only those aspects of the applicable requirements that support its conclusions.

54. Having considered those comments, we think the Committee could either:

(a) finalise the agenda decision (see Appendix A to this paper); or

(b) recommend an amendment to the loss of control requirements in IFRS 10 to add a cross-reference to the sale and leaseback requirements in IFRS 16 (possibly as part of the Board's next Annual Improvements to IFRS Standards).

Finalise agenda decision

55. Based on our assessment of the work plan criteria in paragraph 5.16 of the *Due Process Handbook*, in our view it is unnecessary to add or change requirements in IFRS Standards to improve financial reporting. This is because the principles and requirements in the Standards provide an adequate basis to determine the accounting for the transaction described in the submission. Therefore, if the Committee agrees with our technical analysis set out in paragraphs 14–50 of this paper, the Committee could respond to the question submitted by publishing an agenda decision with explanatory material.

56. Appendix A to this paper contains proposed wording for a final agenda decision if the Committee decides to take this approach. Based on our analysis, we recommend no change to the tentative agenda decision. In our view the agenda decision would not add or change requirements in IFRS Standards.

Narrow-scope amendment

57. For the reasons set out in paragraphs 53–54 above, the Committee could recommend an amendment to the loss of control requirements in IFRS 10 to add a cross-reference to the sale and leaseback requirements in IFRS 16.

58. Although such a project would not necessarily be entirely straight-forward—there are likely to be questions about scope—the Board could address those questions as part of the project. In particular, we note that whilst the agenda decision set out in Appendix A to this paper would address only the narrow fact pattern described in the submission, an amendment to IFRS 10 (as described in paragraph 57 above) would by its nature apply to the sale of any subsidiary that results in an entity transferring an asset to another entity and leasing that asset back.

Question for the Committee

59. Based on the above analysis, we continue to support the Committee's technical conclusions set out in the tentative agenda decision.

60. However, in light of the feedback received, we ask the Committee whether:

    (a) the principles and requirements in IFRS 10 and IFRS 16 provide an adequate basis for an entity to account for the transaction described in the submission (if the answer is 'yes', the Committee will finalise the agenda decision set out in Appendix A subject to any drafting comments and, as a consequence, will confirm that in its view the agenda decision would not add or change requirements in IFRS Standards); or

    (b) a narrow-scope amendment to the loss of control requirements in IFRS 10 is required?

Question for the Committee
To which of the following does the Committee agree: (a) finalise the agenda decision set out in Appendix A to this paper? **or:** (b) recommend an amendment to the loss of control requirements in IFRS 10 to add a cross-reference to the sale and leaseback requirements in IFRS 16?

Appendix A—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision, which is unchanged from the tentative agenda decision except to remove a comma and the square brackets in the last paragraph.

Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)

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.

Appendix B—analysis of comments on other matters

B1. The following table summarises respondents' comments on other matters together with our analysis of those comments.

Respondents' comments	**Staff analysis and conclusions**
1. Gain recognition in a sale and leaseback transaction IOSCO says the partial sale model for a sale and leaseback transaction is inconsistent with the requirements on transfers of control in other Standards. It suggests reconciling the derecognition requirements in IFRS 16 with those in other Standards as part of the PIR of IFRS 16. SOCPA says the economic effect of the transaction described in the submission is different from a transaction in which an entity directly sells the asset held by a subsidiary and leases that asset back (evidenced by the fact that IFRS 10 applies to the transaction).	We do not agree. In particular, we note that: (a) the sale and leaseback requirements in IFRS 16 do not include derecognition requirements. (b) any difference in the gain or loss recognised applying IFRS 16 and the gain or loss recognised applying other IFRS Standards reflects that the economic effect of a sale and leaseback transaction is different from a transaction in which an entity transfers, but does not leaseback, an asset. The Board was also of the view that the economic effect of a sale and leaseback transaction structured as a legal sale and leaseback could be the same as such a transaction structured in a different form (see paragraph BC261 of IFRS 16).
2. Multiple arrangements Shady Mehelba suggests that an entity consider whether the transaction is a sale and leaseback transaction or, instead, the sale of the subsidiary and a leaseback (that the entity would account for separately) by applying paragraph B97 of IFRS 10.	We do not agree. Paragraph B97 of IFRS 10 applies to the loss of control of a subsidiary in two or more arrangements (transactions); it does not apply in assessing whether an entity accounts for the sale of the subsidiary and the leaseback separately.

Respondents' comments	**Staff analysis and conclusions**
3. Scope of IFRS 15 and loss of control requirements in IFRS 10 SOCPA says the sale and leaseback requirements in IFRS 16 require the 'sale' leg of the transaction to be in the scope of IFRS 15. SOCPA also suggests that an entity assess whether the subsidiary contains a business in determining whether the loss of control requirements in IFRS 10 apply to the transaction.	We do not agree. As explained in the tentative agenda decision, applying the requirements in IFRS 15 for determining whether a performance obligation is satisfied—as required by paragraph 99 of IFRS 16—does not include the 'sale' leg of the transaction within the scope of IFRS 15. The loss of control requirements in IFRS 10 apply to the loss of control of any subsidiary, regardless of whether it contains a business.
4. Illustrative example in the tentative agenda decision Shady Mehelba asks whether Entity P loses control of Entity S in the illustrative example because the right of use retained by Entity P represents a significant proportion of the asset sold. David Hardidge suggests illustrating individual components of the journal entry to avoid any confusion. He also says Example 24 in the Illustrative Examples accompanying IFRS 16 (IE24) refers to the liability as a 'financial liability'—describing it as a 'liability' in the tentative agenda decision is inconsistent with IE24.	We recommend no change to the tentative agenda decision in this respect. Similar to the transaction described in the submission, the illustrative example assumes that Entity P loses control of Entity S—this is specifically noted as an assumption at the start of the illustrative example. We also are of the view that: (a) the journal entry, as illustrated, is understandable; splitting the journal entry into components could be confusing. (b) the illustration of the liability is consistent with the Committee's agenda decision Sale and Leaseback with Variable Payments published in June 2020. It is also not inconsistent with IE24.

Respondents' comments	Staff analysis and conclusions
5. Illustrative examples The MASB suggests amending the Illustrative Examples accompanying IFRS 16 to add: (a) an example illustrating the transaction described in the submission; and (b) adding further examples illustrating paragraphs 101–103 of IFRS 16. The ICAN suggests adding an example illustrating how an entity measures the right-of-use asset arising in a sale and leaseback transaction.	We recommend no action in response to these comments. The agenda decision, if finalised as set out in Appendix A to this paper, will include an example illustrating the transaction described in the submission. Considering examples on other aspects of the sale and leaseback requirements in IFRS 16 is beyond the scope of the agenda decision. We note that the Board has published an Exposure Draft *Lease Liability in a Sale and Leaseback*, which proposes to clarify how an entity measures the right-of-use asset arising from a leaseback. It also proposes to include further examples illustrating the application of the sale and leaseback requirements in IFRS 16.