

## STAFF PAPER

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## IASB Meeting

Project	Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)		
Paper topic	Transition, effective date and due process		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

### Introduction and purpose

1. In December 2021, the International Accounting Standards Board (IASB) decided to proceed with its proposed amendments to IFRS 16 *Leases* published in the Exposure Draft *Lease Liability in a Sale and Leaseback*, with some changes to the proposals.
2. The purpose of this paper is to:
  - (a) ask the IASB whether it agrees with our recommendations with respect to the transition requirements and effective date for the amendments to IFRS 16;
  - (b) set out the steps in the [IFRS Foundation Due Process Handbook](#) (*Due Process Handbook*) that the IASB has taken in developing the amendments;
  - (c) ask the IASB to confirm it is satisfied that it has complied with the due process requirements; and
  - (d) ask whether any IASB member intends to dissent from the amendments.

### Structure of the paper

3. This paper is structured as follows:
  - (a) summary of the amendments (paragraphs 5–10);
  - (b) transition requirements (paragraphs 11–18);

- (c) effective date (paragraphs 19–23);
  - (d) due process steps and permission for balloting (paragraphs 24–32):
    - (i) re-exposure;
    - (ii) intention to dissent;
    - (iii) confirmation of due process steps; and
    - (iv) proposed timetable for balloting and publication.
4. There are two appendices to this paper:
- (a) Appendix A—Extracts from the *Due Process Handbook*; and
  - (b) Appendix B—Actions taken to meet the due process requirements.

## Summary of the amendments

5. Paragraph 100(a) of IFRS 16 requires a seller-lessee to measure the right-of-use asset arising from a sale and leaseback transaction at the proportion of the previous carrying amount of the asset that relates to the right of use the seller-lessee retains. Accordingly, in a sale and leaseback transaction the seller-lessee recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.
6. The Agenda Decision [Sale and Leaseback with Variable Payments](#) explains that the *initial measurement* of the leaseback liability is a consequence of how—applying paragraph 100(a)—the seller-lessee measures the right-of-use asset and the gain or loss on the sale and leaseback transaction.
7. IFRS 16, however, includes no specific *subsequent measurement* requirements for sale and leaseback transactions. Consequently, it is not always clear how to subsequently measure the leaseback liability, in particular when the leaseback payments include variable payments linked to future performance or use of the underlying asset, which are excluded from the measurement of a lease liability<sup>1</sup>. There is therefore a risk that, without additional requirements, a modification or change in the leaseback term could result in the seller-lessee recognising a gain or loss

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<sup>1</sup> This paper uses ‘lease liability’ to refer to the liability that arises from a lease unrelated to a sale and leaseback transaction.

on the right of use the seller-lessee retains at the time of remeasurement, solely because of the remeasurement.

8. The IASB, therefore, proposed:
  - (a) not to change the initial measurement requirements in paragraph 100(a) of IFRS 16 for the right-of-use asset and the gain or loss arising from the sale and leaseback.
  - (b) in applying these initial measurement requirements, to require a seller-lessee to determine the proportion of the previous carrying amount of the asset that relates to the right of use retained by comparing the present value of the expected lease payments to the fair value of the asset sold. The seller-lessee would initially measure the leaseback liability at the present value of the expected lease payments.
  - (c) to specify the payments that comprise the expected lease payments and, with reference to these payments, add subsequent measurement requirements for the leaseback liability.
  - (d) for completeness:
    - (i) to clarify that the leaseback liability is a liability to which IFRS 16 applies;
    - (ii) to clarify that a seller-lessee subsequently measures the right-of-use asset arising from the leaseback applying paragraphs 29–35 of IFRS 16; and
    - (iii) to include an illustrative example of a sale and leaseback transaction with variable payments.
  
9. In response to comments received, the IASB tentatively decided in December 2021:
  - (a) not to change the initial measurement requirements in paragraph 100(a) of IFRS 16 for the right-of-use asset and the gain or loss arising from the sale and leaseback (as proposed);
  - (b) not to prescribe how, at the commencement date, a seller-lessee determines the proportion of the previous carrying amount of the asset that relates to the right of use the seller-lessee retains (a change to the proposals); and

- (c) to require the seller-lessee to subsequently measure the leaseback liability applying paragraphs 36–46 of IFRS 16. For the purposes of applying paragraphs 36–46, the seller-lessee would be required to apply the term ‘lease payments’ or ‘revised lease payments’ in such a manner that it does not recognise any amount of the gain or loss that relates to the right of use retained (this would retain the objective of the proposals but do so without prescribing a particular method of initially and subsequently measuring the leaseback liability).
10. In December 2021, the IASB also tentatively decided to retain as part of the amendments the clarifications noted above in paragraph 8(d)(i) and 8(d)(ii) of this paper, and to include an illustrative example of a sale and leaseback transaction with variable payments.

## Transition requirements

### *IASB’s proposals and rationale*

11. The IASB proposed requiring a seller-lessee to apply the amendments 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.
12. However, if retrospective application to a sale and leaseback transaction that includes variable payments would be possible only with the use of hindsight, the IASB proposed requiring the seller-lessee to determine the expected lease payments for that transaction at the beginning of the annual reporting period in which the seller-lessee first applies the amendments (date of initial application of the amendments). In such circumstances, the seller-lessee would:
- (a) measure the lease liability arising from the leaseback at the present value of the remaining expected lease payments at the date of initial application of the amendment, discounted using the rate specified in paragraph 37;
  - (b) measure the right-of-use asset arising from the leaseback at its carrying amount as if the amendments had been applied since the commencement date, but measured using the remaining expected lease payments at the date

of initial application of the amendments plus the actual payments made for the lease until that date; and

- (c) recognise the cumulative effect of applying the amendments as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the date of initial application of the amendments.

13. Paragraphs BC32–BC34 of the Exposure Draft explain the IASB’s rationale. In particular, the IASB:

- (a) concluded that the expected benefits of retrospective application in accordance with IAS 8 would outweigh the costs. This is because:
  - (i) sale and leaseback transactions often involve the sale of high-value items of property, plant and equipment with a long economic life. The accounting for such transactions could have a long-term material effect on the financial position of seller-lessees. It is, therefore, important for users of financial statements that seller-lessees apply IFRS 16 consistently to those transactions.
  - (ii) the proposals would be expected to affect sale and leaseback transactions with variable payments occurring after the initial application of IFRS 16. Therefore, for most seller-lessees, the proposed amendments would affect only sale and leaseback transactions with variable payments occurring from 2019.
- (b) considered that retrospective application of the proposed amendments might involve the use of hindsight for sale and leaseback transactions with variable payments and for which the seller-lessee had not already applied accounting consistent with that in the amendments. Retrospective application would require the seller-lessee to estimate the expected lease payments at the commencement date of sale and leaseback transactions. Even though these circumstances might not be common because many sale and leaseback transactions are likely to include only fixed payments, the IASB proposed specific transition requirements to avoid the use of hindsight and to ensure seller-lessees apply the same approach if those circumstances arise.

## Summary of respondents' comments

14. [Agenda Paper 12E](#) of the May 2021 IASB meeting summarises respondents' comments on the proposed transition requirements. Many respondents provided no comments on those proposed requirements. Some respondents agreed with the proposed transition requirements for the reasons explained by the IASB, and a few respondents disagreed. We have not reproduced those comments in this paper because the concerns raised relate to the proposed requirement for the seller-lessee to estimate expected lease payments at the commencement date. The IASB has tentatively decided to remove this proposed requirement from the amendments (see paragraph 9(b)).

## Staff analysis and recommendation

### *Entities already applying IFRS Accounting Standards*

15. We recommend requiring seller-lessees to apply the amendments retrospectively in accordance with IAS 8, thereby removing the specific transition requirements proposed in the Exposure Draft (see paragraph 12). In our view, the expected benefits of retrospective application would outweigh the expected costs. The amendments:
- (a) are expected to affect only sale and leaseback transactions:
    - (i) with variable leaseback payments;
    - (ii) for which the seller-lessee's existing accounting policy for the leaseback liability fails to comply with paragraphs 36–46 of IFRS 16 applied in a way that does not result in the recognition of any amount of the gain or loss that relates to the right of use retained; and
    - (iii) occurring from 2019.
  - (b) change only the subsequent measurement of the leaseback liability. The IASB's tentative decisions in December 2021 (see paragraph 9) removed from the proposals the requirement for a seller-lessee to determine, at the commencement date, the proportion of the previous carrying amount of the asset that relates to the right of use retained by comparing the present value of the expected lease payments to the fair value of the asset sold. Consequently, on applying the amendments a seller-lessee need not restate

its accounting at the commencement date of a sale and leaseback transaction occurring before the effective date.

- (c) do not require the seller-lessee to estimate expected lease payments. The seller-lessee would be able to use the initial carrying amount of the leaseback liability (as previously determined) to develop its accounting policy for the subsequent measurement of the leaseback liability.

- 16. For these reasons, we see no need for specific transition requirements. The reason for proposing such requirements no longer exists in the light of the IASB’s tentative decisions in December 2021.

***First-time adopters***

- 17. Paragraphs D9–D9E of IFRS 1 *First-time Adoption of International Financial Reporting Standards* specify requirements for leases. Those requirements mean that a first-time adopter applies the sale and leaseback requirements in IFRS 16 only to sale and leaseback transactions occurring after its date of transition to IFRSs. A first-time adopter is, therefore, in a similar position to entities already applying IFRS Accounting Standards in that the amendments will apply only to particular sale and leaseback transactions after a particular date, which in the case of a first-time adopter is its date of transition to IFRSs.
- 18. For the same reasons as set out in paragraph 15, we therefore recommend no specific transition exemption for first-time adopters.

**Question 1 – Transition requirements**

Does the IASB agree with our recommendations to:

- (a) require entities to apply the amendments retrospectively in accordance with IAS 8; and
- (b) provide no specific transition exemption for first-time adopters?

**Effective date**

- 19. Paragraph 6.35 of the *Due Process Handbook* explains that the effective date of any amendments is set so that (a) jurisdictions have sufficient time to incorporate the new

requirements into their legal systems; and (b) those applying IFRS Accounting Standards have sufficient time to prepare for the new requirements.

20. The IASB generally allows at least 12-18 months between the issue of a new Standard or amendment and its effective date. If the IASB agrees with our recommendations set out in this paper, we expect the IASB to issue the amendments during the third quarter of 2022.
21. In our view entities would have sufficient time to prepare for the new requirements if the IASB were to set an effective date of annual reporting periods beginning on or after 1 January 2024, that is approximately 15 months after the end of the third quarter of 2022. The amendments are expected to affect only sale and leaseback transactions with variable payments occurring since 2019. We also note the changes made to the proposed amendments in response to feedback received, which for example result in no change to the initial measurement requirements for sale and leaseback transactions in IFRS 16.
22. Further, we think such an effective date would allow jurisdictions sufficient time to incorporate the new requirements into their legal systems. We therefore recommend that the IASB require entities to apply the amendments for annual reporting periods beginning on or after 1 January 2024.
23. The IASB received no feedback on its proposal to permit earlier application. We therefore recommend permitting such earlier application, with a requirement to disclose the fact that the amendments have been applied early when that is the case.

**Question 2 – Effective date**

Does the IASB agree with our recommendation to require entities to apply the amendments for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted?

## Due process steps and permission for balloting

### *Re-exposure*

24. As noted in paragraph 9, the IASB has tentatively decided to proceed with its proposal to add to IFRS 16 subsequent measurement requirements for leaseback liabilities. The IASB will make two changes to the proposals in the Exposure Draft:
- (a) not to prescribe how, at the commencement date, a seller-lessee determines the proportion of the previous carrying amount of the asset that relates to the right of use the seller-lessee retains; and
  - (b) to require the seller-lessee to subsequently measure the leaseback liability applying paragraphs 36–46 of IFRS 16 in such a manner that it does not recognise any amount of the gain or loss that relates to the right of use retained.
25. These changes replace proposals that would have required a seller-lessee to estimate expected lease payments in measuring leaseback liabilities.
26. In the light of these changes, we considered the requirements in paragraphs 6.25–6.29 of the *Due Process Handbook* (reproduced in Appendix A to this paper) to assess whether the IASB should re-expose the amendments to IFRS 16.
27. Removing from the proposals the requirement for a seller-lessee to estimate expected lease payments responds to concerns and questions raised by respondents about that requirement, without fundamentally changing the proposed amendments. The amendments will retain the IASB’s objective for the project, which is to develop subsequent measurement requirements for leaseback liabilities that would prohibit the recognition of any amount of the gain or loss on the right of use retained. The changes made in response to respondents’ feedback mean that the amendments will be narrower in scope than the proposals—because they will have no effect on the initial measurement requirements for sale and leaseback transactions—and will be less prescriptive—because they will not prescribe a particular method of initially and subsequently measuring the leaseback liability. We think it unlikely that re-exposure would reveal new information or feedback not already considered by the IASB because the Exposure Draft had already explained the IASB’s objective.

28. Accordingly, we recommend finalising the amendments to IFRS 16 without re-exposure.

**Question 3 – Re-exposure**

Does the IASB agree with our recommendation not to re-expose the amendments to IFRS 16?

***Intention to dissent***

29. In accordance with paragraph 6.23 of *Due Process Handbook*, we are asking whether any IASB member intends to dissent from the amendments to IFRS 16.

**Question 4 – Dissent**

Does any IASB member intend to dissent from the amendments to IFRS 16?

***Confirmation of due process steps***

30. In our view the IASB has undertaken all the due process steps identified as being required in the *Due Process Handbook* and, thus, is able to finalise the amendments. Appendix B to this paper summarises the due process steps taken in developing the amendments to IFRS 16. The applicable due process steps to date for issuing the amendments have been completed.
31. We request permission to start the balloting process if the IASB is satisfied that (a) it has been provided with sufficient analysis, and (b) has undertaken appropriate consultation and due process to support issuing the amendments.

**Question 5 – Permission to ballot**

Is the IASB satisfied it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments to IFRS 16?

***Proposed timetable for balloting and publication***

32. The balloting process for the amendments to IFRS 16 will commence in the near term, with the amendments planned for issue in the third quarter of 2022.

**Appendix A—Extracts from the *Due Process Handbook* (August 2020)**

6.25 In considering whether there is a need for re-exposure, the Board:

- (a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;
- (b) assesses the evidence that it has considered;
- (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and
- (d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

6.26 It is inevitable that the final proposals will include changes from those originally proposed. The fact that there are changes does not compel the Board to re-expose the proposals. The Board needs to consider whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the Basis for Conclusions accompanying the Exposure Draft. The Board also needs to consider whether it will learn anything new by re-exposing the proposals. If the Board is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-exposure will reveal any new concerns, it should proceed to finalise the proposed requirements.

6.27 The more extensive and fundamental the changes from the Exposure Draft and current practice the more likely the proposals should be re-exposed. However, the Board needs to weigh the cost of delaying improvements to financial reporting against the relative urgency for the need to change and what additional steps it has taken to consult since the Exposure Draft was published. The use of consultative groups or targeted consultation can give the Board information to support a decision to finalise a proposal without the need for re-exposure.

6.28 The Board should give more weight to changes in recognition and measurement than disclosure when considering whether re-exposure is necessary.

6.29 The Board's decision on whether to publish its revised proposals for another round of comment is made in a Board meeting. If the Board decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft. However, because it is not the first exposure of the proposed IFRS Standard, it may be appropriate to have a shortened comment period, particularly if the Board is seeking comments on only specific aspects of the revised exposure draft, while recognising that respondents may not limit their comments to these aspects. The public comment period for such documents will normally be at least 90 days.

## Appendix B—Actions taken to meet the due process requirements

Step	Required / Optional	Actions
<b>Consideration of information gathered during consultation</b>		
The IASB posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required	<p>All comment letters received by the IASB (87 comment letters) have been posted on the project website here:</p> <p><a href="#">IFRS - Exposure Draft and comment letters: Lease Liability in a Sale and Leaseback</a></p>
IASB and IFRS Interpretations Committee meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	<p>At its May 2021 meeting, the IASB discussed a summary of feedback on the Exposure Draft. The IASB did not make any decisions at that meeting, but members did provide their initials thoughts on the feedback.</p> <p>In September 2021, we presented to the IFRS Interpretations Committee analysis and preliminary views on how to proceed on the project, having considered respondents’ comments on the Exposure Draft.</p> <p>In December 2021, the IASB decided to finalise its proposed amendments to IFRS 16 with some changes.</p> <p>All staff papers above are publicly available.</p> <p>The project webpage has up-to-date information about all technical papers related to the project:</p> <p><a href="#">IFRS - Lease Liability in a Sale and Leaseback</a></p>
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	The IASB considered the likely effects of the amendments at each stage of their development. The basis for conclusion on the amendments will include the IASB’s views on these effects.
<b>Finalisation</b>		
Due process steps are reviewed by the IASB.	Required	This step will be met by this Agenda Paper.
Need for re-exposure of a Standard is considered.	Required	Paragraphs 24–28 of this paper discuss re-exposure. We recommend that the IASB not re-expose the amendments.

The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	Paragraphs 19–23 of this paper discuss the effective date. We recommend an effective date of annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.
<b>Drafting</b>		
Drafting quality assurance steps are adequate.	Required	<p>To be completed in due course.</p> <p>The Translations, Taxonomy and Editorial teams will review the pre-ballot draft.</p> <p>We intend to send a draft of the amendments to external parties for review before finalisation. This process provides us with feedback on the clarity and understandability of the new requirements.</p>
<b>Publication</b>		
News release to announce the final Standard.	Required	To be completed in due course. A news release will be published with the amendments.
A Feedback Statement is provided for a new IFRS Accounting Standard or a major amendment to a Standard, which provides an executive summary of the Standard and explains how the IASB has responded to the comments received.	Required	<p>Not considered necessary because these amendments are narrow in scope.</p> <p>The Basis for Conclusions on the amendments will explain how the IASB has responded to the main comments received.</p>
Standard is published.	Required	The amendments will be made available on our website when published.