



STAFF PAPER

February 2021

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		
CONTACT	Kensuke Okabe	kokabe@ifrs.org	+44 (0)20 7246 6439
	Jawaid Dossani	jdossani@ifrs.org	+44 (0)20 7332 2742

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee) and does not represent the views of the International Accounting Standards Board (Board), the Committee or any individual member of the Board or the Committee. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Decisions by the Board are made in public and reported in IASB® *Update*. Decisions by the Committee are made in public and reported in IFRIC® *Update*.

Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS10 *Consolidated Financial Statements* and IFRS 16 *Leases*)' published in September 2020.



DRSC / ASCG • Zimmerstr. 30 • 10969 Berlin

Sue Lloyd
Chair of the IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH

United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 6 November 2020

Dear Sue,

IFRS IC's tentative agenda decision in its September 2020 video conference

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decision on Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10/16) taken by the IFRS Interpretations Committee (IFRS IC) as published in the September 2020 *IFRIC Update*.

We agree with the outcome of the tentative agenda decision that we deem appropriate. However, we believe that the rationale of the agenda decision could be improved if the substance of the question was brought out more clearly: Currently, the question raised focusses on the relevant standard to be looked at (or the sequence of two standards); we believe that a more logical, substance-based approach would be to ask whether the existence of a corporate wrapper does or does not have an influence on the transaction concerned. As we see it, a transaction that could have been facilitated standalone or through an empty shell should lead to the same accounting as its substance does not differ (which is where the Committee also landed, but with a different rationale).

If the Committee agreed with our line of thinking, another issue (resulting from a prior submission, termed "Sale of a subsidiary to a customer", or formerly "Sale of a single asset entity containing real estate") should be revisited. This issue had been discussed by the IFRS IC in its June 2019 meeting and also touches on whether a transaction comprising an asset in a corporate wrapper is accounted for under IFRS 10 or another IFRS (ie. IFRS 15). Since then, that issue has not been discussed again by the IFRS IC, but has instead been deliberated twice by the IASB – in October 2019, when a majority proposed to discuss the feasibility of a narrow-scope amendment at a future meeting, and in June 2020, when a majority voted for not adding this project to the Board's work plan.

We suggest the IFRS IC re-deliberate that issue in the context of this recent issue, with the aim of working off both issues/submissions consistently. This seems particularly warranted as both submissions answer the impact of a corporate wrapper on the specific issue differently – which, in our view, seems illogical and not a satisfactory outcome. Even if the guidance in IFRS, as it currently stands, led to that assessment, we do not believe that the co-

Contact:

Joachimsthaler Str. 34
D-10719 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:

Deutsche Bank Berlin
IBAN-Nr.
DE26 1007 0000 0070 0781 00
BIC (Swift-Code)
DEUTDE33XXX

Register of Associations:

District Court Berlin-Charlottenburg, VR 18526 Nz
President:
Prof Dr Andreas Barckow
Executive Director:
Prof Dr Sven Morich



existence of two conflicting outcomes for the same underlying economic question was desirable and should be defended as a principle-based outcome. We therefore suggest that if such difference arose, the issue should be dealt with in one of the upcoming post-implementation reviews (i.e. IFRS 10/11/12, IFRS 15 or IFRS 16).

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

4 November 2020

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: Tentative Agenda Decision - Sale and Leaseback of an Asset in a Single-Asset Entity

Dear Ms. Lloyd,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Auditing and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the IFRS Interpretations Committee (IFRS IC) tentative agenda decision, *Sale and Leaseback of an Asset in a Single-Asset Entity* (TAD).

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

We appreciate the IFRS IC addressing this topic to support preparers in their application of International Financial Reporting Standard (IFRS) 10, *Consolidated Financial Statements* and IFRS 16, *Leases* to the fact pattern submitted. The specific fact pattern considered by the IFRS IC involves a single-asset entity (often referred to as an asset held within a "corporate wrapper") wherein the owner ("seller-lessee") sells 100% of the legal entity and leases back the asset.

To be clear, in the specific fact pattern considered, we do not disagree with the *outcome* of the IFRS IC's deliberations. We do, however, have concerns about whether the TAD could be



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

enforced in all similar circumstances and the scope of the TAD. We also have broader observations about IFRS 10 and IFRS 16 that the IASB may want to consider.

We have organized our comments into three categories: enforceability of the TAD, scope of the TAD, and potential post-implementation review considerations.

Enforceability of the TAD

Committee 1 members agree that the fact pattern addressed by the TAD, in which a single asset entity is sold to another party with a subsequent leaseback of that asset, is economically the same as selling the asset and leasing it back. For that reason, we believe the accounting outcomes for these two transactions should be similar, and thus we agree with the *outcome* described in the TAD. While we believe the sequential accounting analysis described in the TAD represents one acceptable alternative application of IFRS standards to the fact pattern, without further explanation, we struggle to conclude that it is the only acceptable alternative given the guidance that exists in the authoritative standards (i.e., IFRS 10).

As acknowledged by IFRS IC Agenda Paper 2 from the September 2020 IFRS IC meeting, the guidance on accounting for the loss of control in a subsidiary in IFRS 10 differs from the gain recognition guidance in IFRS 16 when a seller-lessee derecognizes an asset that it leases back. The Agenda Paper describes an overlay or sequential approach whereby a preparer would first apply IFRS 10 to calculate the *initial* gain or loss upon deconsolidation of the subsidiary and then overlays IFRS 16. The subsequent overlay of IFRS 16 results in a deferral of a portion of the gain which, of course, results in an accounting outcome that is identical to the accounting prescribed by applying IFRS 16 alone.

The agenda paper noted that there are other transactions for which a similar interaction between two different accounting standards occurs. Specifically, it noted that similar guidance regarding gain or loss recognition upon derecognition of assets exists in International Accounting Standard (IAS) 16, *Property, Plant and Equipment*, and IAS 40, *Investment Property* (IAS 40), and that in the case of a sale and leaseback transaction, IFRS 16 effectively reverses a portion of the gain or loss otherwise prescribed by the derecognition guidance in those standards. However, we observe that the guidance in paragraphs IAS 16.68 and IAS 40.69 make clear that the derecognition guidance applies “unless IFRS 16...requires otherwise on a sale and leaseback”. Thus, IAS 16 and IAS 40 contain guidance that specifically negates the otherwise applicable



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

derecognition guidance in those standards when the derecognition event is a sale-leaseback transaction. Neither IFRS 10 nor IFRS 16 include a similar statement.

Further, the Agenda Paper notes that IAS 28, *Investments in Associates and Joint Ventures*, requires an elimination of any gain or loss related to its own interest in an associate that might otherwise be required by IAS 16 upon contribution of property, plant and equipment to that associate. While we acknowledge that neither IAS 16 nor IAS 28 specifically provides reference to the other to clearly negate the derecognition guidance in IAS 16, we note that the guidance in paragraph IAS 28.28 specifically refers to relevant transactions as including “contributions of assets from the investor to its associate.” We also note, however, that a similar question to that in the TAD existed regarding whether contributions of single-asset entities to an associate should follow the derecognition guidance in IFRS 10 or the guidance in IAS 28 on elimination of gains or losses related to an investor’s own interest in an associate. In response to the potential conflict, the Board determined that it needed to amend IFRS 10 to include paragraph B99A to specify that in such a situation, that profit should be eliminated. However, the Board found it necessary to indefinitely defer that amendment so that the Board could consider additional issues regarding the application of the equity method.

As noted above, we can agree with the *outcome* of the TAD for this fact pattern. However, some might see the sequential or overlay approach described in the TAD as amounting to an override of the explicit guidance in paragraph IFRS 10.B98(d) to recognize the entire gain upon deconsolidation of a subsidiary in profit or loss since a portion of the gain related to the leaseback would be deferred under the TAD. Therefore, we believe that a final agenda decision will need to explicitly address this question and will also need to explain how this is not changing the requirements of IFRS 10 since, in accordance with paragraph 8.4 of the *Due Process Handbook*, “Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards.”

Scope of the TAD

We appreciate that the TAD is specific to the fact pattern presented. However, it is unclear whether and how the TAD might be applied to other sale-leaseback transactions involving the sale of a subsidiary. For example, the transaction described in the TAD notes that the building



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

that is transferred does not meet the definition of a business.¹ It is not clear whether the accounting outcome would be the same if the building, or a set of assets, did meet the definition of a business, and one or more assets were leased back from the acquirer.

Based on the TAD and the analysis in the Agenda Paper it would seem that the same analysis could be applied to the deconsolidation of a business with a leaseback of an asset. However, when the Board addressed the topic *Sale or contribution of assets between an investor and its associate or joint venture—amendments to IFRS 10 and IAS 28*, the Board concluded that the current requirements in IAS 28 for the partial gain or loss recognition for transactions between an investor and its associate or joint venture should only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business.² Given the conclusion that full gain or loss should be recognized upon the deconsolidation of a business, even when contributed to an associate, we believe the IFRS IC should clarify whether the TAD should be applied upon deconsolidation of a business followed by a leaseback of an asset transferred in the sale of that business or if, instead, the full gain or loss on the deconsolidation should be recognized similar to the conclusions reached in the amendments to IFRS 10 and IAS 28.

We also note that there are other similar fact patterns that might be within the scope of the TAD but for which the calculation of the gain or loss may not be obvious. For example, it is unclear how to calculate the gain or loss if the entity sold less than 100% of its interest in the subsidiary such that it retained a noncontrolling interest and leased back the building. Likewise, it is unclear how the TAD might be applied if the legal entity held multiple assets and one or more, but not all, of the assets were leased back.

Post-Implementation Review Considerations

We believe that some of the issues addressed in the TAD relate to broader topics that should be analyzed as part of the post-implementation reviews (PIRs) of IFRS 10 and, eventually, IFRS 16.

¹ We further note that while it is less likely to be the case in light of the IASB’s amendment to IFRS 3, *Definition of a Business*, paragraph IAS 40.14A acknowledges that an investment property could constitute a business.

² As noted above, we acknowledge that the Board has indefinitely deferred the effective date of the amendment, however in doing so the Board continued to permit earlier application of the amendment because the “Board did not wish to prohibit the application of better financial reporting” (IFRS 10.BC1900).



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

Specifically with respect to IFRS 10, we observe that a number of questions have arisen around assets in a legal entity, or corporate wrapper, including questions about the accounting when the assets in a corporate wrapper do and do not constitute a business. For example, as noted earlier, questions arose regarding the interaction of IFRS 10 and IAS 28 from the contribution of interests in a legal entity to an associate. Further, as noted in the Agenda Paper, in June 2019 the IFRS IC received a request about a transaction involving the sale of a parent's equity interest in a subsidiary that held only a real estate asset that was transferred to a customer in the ordinary course of business, and whether that transaction should be accounted for in accordance with IFRS 10 or IFRS 15.

The current request further demonstrates the challenges of applying the guidance in IFRS 10 to transactions in which assets held in a corporate wrapper are transferred inside that legal entity. As evidenced by the various agenda requests, there are a number of questions in practice evolving from the form of a transaction. We believe the Board should consider these types of transactions as part of its current IFRS 10 PIR process.

With regard to IFRS 16, members are of the view that the Board should start its PIR as early as possible within the timeframe prescribed by the *Due Process Handbook*. Members encourage the Board to engage with constituents, including regulators, that have been addressing application challenges with IFRS 16 and can provide information that can feed into the Board's initial identification and assessment of matters to be examined.

We also note that other questions have arisen about the application of the sale and leaseback guidance in IFRS 16. Some members believe that these questions are arising, at least in part, because the partial sale model for sale-leasebacks in IFRS 16 is inconsistent with the guidance addressing the transfer of control of assets in other standards, including IFRS 10 and IFRS 15, which do not include a partial gain concept. These members also observe that the deferred gain which results from this application appears to some to be inconsistent with the Framework since it can affect the measurement of the related liability or result in a separate liability for the amount of the deferred gain.³ We believe that as part of the PIR of IFRS 16, consideration should be

³ These members also observe that the accounting for sale-leaseback transactions is one of the nonconverged aspects of IFRS 16 and FASB Topic 842, *Leases*.

November 10, 2020

IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

SOCPA Comments on Tentative Agenda Decision: Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)

Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision- Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)*.

We noticed that the analysis of the case considers the sale of the 'business' as direct sale of the individual assets held by that business, which might not be the proper analysis. We believe that the first step in the analysis is to evaluate whether the said subsidiary satisfies the definition of 'business'. If it satisfies that definition, the disposal of the business is in the scope of IFRS 10, and the disposed subsidiary is the owner of the building before and after the disposal. The fact that the entity holds only one asset and has no liability is irrelevant to the analysis. Evaluating whether the building itself is a business or not is required only if the subsidiary itself fails to satisfy the definition of business. IFRS 15, paragraph 5, explicitly excludes "...contractual rights or obligations within the scope of ... IFRS 10 *Consolidated Financial Statements*..." from its scope. In other words, in the absence of specific requirements in IFRS 10, the sale of the business does not constitute the sale of the individual assets owned by the subsidiary to the new holders of its equity and hence IFRS 15 does not apply. Since there is no sale in the scope of IFRS 15, there is no lease back in the scope of IFRS 16 because the sale and leaseback requirements in the scope of IFRS 16 are totally linked to IFRS 15. Moreover, as long as the definition of business is satisfied for the disposed subsidiary in this inquiry, the parties to the sale of the business (entity and new owner) are different from the parties to the lease of the building (entity and former subsidiary) regardless of the fact that the entity controls the subsidiary before the disposal and regardless whether the subsidiary holds a single asset or more than one asset.

Referring to September 2020 staff paper 'Agenda ref 2', we notice the following:

1. The paper refers to paragraph BC261 of IFRS 16. We believe the context of that paragraph is different from the case in question because the sale of a business has its own economic substance that mandate the application of IFRS 10.
2. The paper supports its conclusion by reference to IAS 16 and IAS 40. We believe such analogy is not appropriate since IAS 16, paragraph 68 makes explicit exclusion of sale and lease back. Similar exclusion is also made in IAS 40, paragraph 67. There is no specific exclusion for sale of a single asset subsidiary in IFRS 10.

3. The paper supports its conclusion by reference to IAS 28 with comparison with IAS 16. We believe such analogy is not appropriate since IAS 16 sets the general rule and IAS 28 sets a specific rule as an exclusion from the general rule.

If the Committee believes that the proper treatment of this transaction is sale and lease back, it might be appropriate to suggest a standard setting activity to modify, or interpret, IFRS 16 to explicitly include in the scope of sale and lease back leasing an asset from a disposed subsidiary immediately after disposing or losing control of it in a way similar to IAS 28, or, alternatively, exclude such transaction from the scope of IFRS 10 in a way similar to the exclusion made in both IAS 16 and IAS 40 and include it in the scope of IFRS 15.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames
Secretary General



November 15, 2020

Ms Sue Lloyd
Chair, IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Sue,

Subject: Comments of the Institute of Chartered Accountants of India (the ICAI) on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee on Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

We agree with the conclusion in the TAD with regard to the treatment prescribed in context of measurement of right-of-use and gain calculated as proportion of the building that relates to rights transferred. While deliberating the TAD at the meeting of the ASB, some of the members highlighted following concerns:

1. In June 2019, the IFRS Interpretations Committee discussed a transaction that involved the transfer of a parent's 100% equity interest in a subsidiary that held only a real estate asset. IFRS Interpretations Committee did not issue Agenda Decision on the matter. Later in October 2019 and June 2020, IASB discussed the matter but decided not to add this project to its work plan. In the given TAD on Sale and Leaseback of an Asset in a Single-Asset Entity, IFRS Interpretations Committee has issued tentative Agenda decision to seek views from public. ASB Members were of the view that the two issues have similar underlying situation except the fact that in the current TAD there is also a lease back transaction. Therefore, a principle based and consistent approach may be followed in this regard. The IFRS Interpretations Committee may consider revisiting the earlier issue regarding sale of a parent's equity interest in a subsidiary that held only a real estate asset and a guidance may be issued on both the matters.
2. The TAD deals with a very simplistic fact pattern, practical situations could be more complex involving a number of assets. Therefore, scope of Agenda decision may be specified clearly as stakeholders may apply this IFRS Interpretations Committee's Agenda Decision in different situations involving sale and lease back transactions.
3. The IFRS Interpretations Committee staff paper on the matter states that entity first applies the loss of control requirements in IFRS 10 and then overlays the sale and leaseback

requirements in IFRS 16. Members agreed that the stated fact pattern is economically similar to selling an asset and leasing it back. However, IAS 16, *Property, Plant and Equipment*, and IAS 40, *Investment Property*, specifically states that IFRS 16 applies to disposal by a sale and leaseback. However there is no such requirement in IFRS 10. Therefore, with regard to the overlay approach stated in the staff paper, it would be useful if IFRS 10 also clarifies that sale and lease back transactions are treated as per IFRS 16.

IFRS Interpretations Committee may address the above concerns.

With kind regards,

CA. M.P. Vijay Kumar,
Chairman,
Accounting Standards Board,
Institute of Chartered Accountants of India



IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

17 November 2020

Dear Sir/Madam

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

We are responding to your invitation to comment on the tentative agenda decision - Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16) - published in September 2020, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the tentative agenda decision. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree that the entity applies the sale and leaseback requirements in IFRS 16 to the transaction described in the request and therefore recognises only the amount of the gain that relates to the rights transferred to the third party. However, we disagree with IFRIC's tentative conclusion that the entity applies both IFRS 10 and IFRS 16.

Unless otherwise specified, our comments refer specifically to the transaction described in the request ('the transaction'), i.e sale of 100% of the shares of a single entity, that owns only one asset and does not meet the definition of a business.

Why we agree that the entity applies IFRS 16 sale and leaseback requirements

We agree that, considering each standard in isolation, the transaction is a loss of control (IFRS 10) and a sale and leaseback (IFRS 16). Some standards exclude from their scope transactions which are in scope of another standard. For example, IFRS 15 excludes contractual rights or obligations which are in scope of IFRS 10. The scope requirements in IFRS 10 and IFRS 16 do not specify that transactions which are within scope of one of those standards are excluded from the scope of the other.

PricewaterhouseCoopers International Limited, 1 Embankment Place, London WC2N 6RH

T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 4652, www.pwc.co.uk



If the transaction was only in scope of IFRS 10 (and not IFRS 16) then the entity would recognise the entire gain. It would derecognise the building and recognise the consideration received (paragraphs 25 and B97-B99), with the resulting difference recognised as a gain or loss in profit or loss (paragraph B98(d)).

If the transaction was only in scope of IFRS 16 (and not IFRS 10) then the entity would only recognise the amount of the gain that relates to the rights transferred to the third party (paragraph 100(a)).

To summarise the preceding 3 paragraphs, the transaction is in the scope of both standards, and those standards have conflicting requirements for the gain recognition.

In our view, IAS 8 paragraph 10 should be applied because there is not “an IFRS that specifically applies” to the gain recognition for the transaction, there are 2 IFRSs which could apply and have conflicting requirements. Applying IAS 8 paragraph 10, management “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 ...”.

Considering the substance of the transaction described in the request, we think that applying IFRS 16 gain recognition requirements would result in more relevant and reliable information than IFRS 10 gain recognition requirements. We therefore agree that IFRS 16’s gain recognition requirements apply, and the entity only recognises the amount of the gain that relates to the rights transferred to the third party.

We note that management would need to use judgement, taking into account the specific facts and circumstances, when deciding whether IFRS 10 or IFRS 16 gain recognition guidance would result in more relevant and reliable information for transactions that are similar, but not identical, to the transaction described in the request.

Why we disagree with the entity applying both IFRS 10 and IFRS 16

As mentioned above, IFRS 10 and IFRS 16 contain conflicting requirements for gain recognition. In our view, IAS 8 should be applied to select the accounting policy that results in the most relevant and reliable information. We do not agree with the tentative agenda decision that both IFRS 10 and IFRS 16 can apply to the gain recognition, because they are contradictory.

We note that in the past, where a transaction met the requirements to be in scope of two different standards, it did not result in the Board or Interpretations Committee proposing or concluding that both standards apply. Examples include:

- Full or partial gain recognition on loss of control of a subsidiary that is contributed to an associate or joint venture (IFRS 10 / IAS 28) - Deferred indefinitely by the IASB in December 2015.



- Variable payments for property, plant and equipment (IAS 16 / IFRS 9) - various IFRIC discussions, most recently September 2015.
- Trailing commissions (IAS 18 / IAS 39) - September 2008 IFRIC.

We are concerned that this agenda decision might create a precedent for transactions which are in scope of multiple standards which have different recognition or measurement requirements.

If you have any questions in relation to this letter please do not hesitate to contact Jessica Taurae (jessica.taurae@pwc.com).

Yours faithfully,

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

Rio de Janeiro, November 18, 2020

CONTRIB 0056/2020

Ms. Lloyd, Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, United Kingdom

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

Reference: Tentative Agenda Decision (TAD)

Dear Ms. Lloyd,

Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's Tentative Agenda Decision - Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16). We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Committee's activities.

In summary, we do not agree with the conclusions that support the Committee's decision not to add the matter to its standard-setting agenda. We believe the tentative agenda decision would create a scope exclusion that, presently, does not exist in IFRS 10 and, consequently, would result in a situation of noncompliance with that standard.

The gain or loss determination for a sale of equity interests that results in the loss of control of a subsidiary is explicitly set out in paragraphs 25 and B97-B99 of IFRS 10. Such standard does not have any implicit or explicit reference to a subsequent lease arrangement derived from transactions within its scope. On the other hand, IAS 16, IAS 38 and IAS 40 provides explicit references to IFRS 16 regarding sale and leaseback when dealing with derecognition, as reproduced below (emphasis added):

IAS 16.68 - The gain or loss arising from the derecognition of an **item of property, plant and equipment** shall be included in profit or loss when the item is derecognised (**unless IFRS 16 Leases requires otherwise on a sale and leaseback**) (...)

IAS 38.113 - The gain or loss arising from the derecognition of an **intangible asset** shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised (**unless IFRS 16 requires otherwise on a sale and leaseback.**) Gains shall not be classified as revenue.

IAS 40.67 -The disposal of an **investment property** may be achieved by sale or by entering into a finance lease. The date of disposal for investment property that is sold is the date the recipient obtains control of the investment property in accordance with the requirements for determining when a performance obligation is satisfied in IFRS 15. **IFRS 16 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.**

The transaction described in the request (the transaction) does not formally involve the sale of the underlying asset “PP&E - building” but rather the sale of the equity interest, while the lease of the underlying asset only becomes effective after such sale takes place.

It is also worth mentioning that the scope of IFRS 16 does not reach the sale of the equity interest described in the transaction, but rather only the lease agreement initiated after the subsidiary sale. Therefore, taking into account the requirements and the scope of the standards mentioned above, the transaction, for accounting purposes, cannot currently qualify as a sale and leaseback.

In this sense, it seems reasonable to conclude that the current requirements in IFRS leads the transaction to be accounted for as follows:

- i. P derecognises the assets and liabilities of S and recognizes the gain associated with the loss of control in accordance with paragraphs 25 and B97-B99 of IFRS 10; and
- ii. Subsequently the sale of all equity interest in the subsidiary, P recognize the lease, in accordance with paragraph 22 of IFRS 16 as per the scope of such Standard.

We agree that the approach described above does not reflect the substance of the transaction. In this sense, we strongly recommend the Committee to verify with the Board the possibility of amending IFRS 10 in order to add a scope exclusion that would support the conclusion reached by the tentative agenda decision.

We would also like to note that US GAAP¹ formally provides references to sale and leaseback of in-substance nonfinancial assets². Such references, if incorporated into IFRS, could be a path to account for the transaction as a sale and leaseback.

¹ ASC 360-10-40-3A and ASC 610-20-15

² As per ASC 610, in substance nonfinancial asset is a financial asset (for example, a receivable) promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to a counterparty in a contract is concentrated in non financial assets, then all of the financial assets promised to the counterparty in the contract are in substance nonfinancial assets. **For purposes of this evaluation, when a contract includes the transfer of ownership interest in one or more consolidated subsidiaries that is not a business, an entity shall evaluate the underlying assets in those subsidiaries.** (emphasis added).

If you have any questions in relation to the content of this letter, please do not hesitate to contact us (cc-contrib@petrobras.com.br).

Respectfully,

/s/Rodrigo Araujo Alves
Rodrigo Araujo Alves
Chief Accountant and Tax Officer

International Financial Reporting Standards Interpretations
Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

18 November 2020

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative Agenda Decision (TAD): Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 Consolidated Financial Statements and IFRS 16 Leases)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee (the Committee) published in the September 2020 *IFRIC Update*.

The Committee discussed the question “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”.

We agree with the Committee’s conclusion that IFRS 10 should be applied to determine when and whether control of the subsidiary is lost. We also support the Committee’s observation that the entity should then consider whether the sale and leaseback requirements in IFRS 16 should be applied to the transfer of the building.

However, the agenda decision may raise a number of questions regarding whether and how the tentative decision would be applied to other fact patterns including:

- ▶ Entities that hold a group of assets where the leaseback relates to only one (or a portion of an) asset
 - ▶ Entities that lose control of a subsidiary that constitutes a business
 - ▶ A transaction where the transfer of an underlying asset(s) that will be leased back does not satisfy the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale
- Or**
- ▶ A transaction, including those described in the bullets above, where significant influence is retained

We also note that the same approach could have been applied to the conflict between IFRS 10 and IAS 28, but that, at the time, an amendment to IFRS 10 and IAS 28 was deemed necessary (although its application was deferred indefinitely).

Therefore, we recommend that a project to clarify when the guidance in IFRS 16 for sale and leaseback transactions should be applied, and to amend paragraph 25 of IFRS 10 to state 'If a parent loses control of a subsidiary, the parent: [...] (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest, as specified in paragraphs B98-B99A **(unless IFRS 16 Leases requires otherwise on a sale and leaseback)**'. This would align the guidance in IFRS 10 with paragraph 68 of IAS 16 *Property, Plant and Equipment* and paragraph 69 of IAS 40 *Investment Property*. Therefore, it would remove the risk of diversity in practice if some entities were to conclude that the difference in guidance implies a different accounting treatment. In addition, we suggest including illustrative examples addressing the various fact patterns described above.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully,

Ernst + Young Global Limited



IFRS Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
London
E14 4HD

19 November 2020

Subject: Tentative Agenda Decision—Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)

Dear IFRS Interpretations Committee:

On behalf of the International Air Transport Association's ("IATA") Industry Accounting Working Group ("IAWG"), we are writing to comment on the Tentative Agenda Decision—Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16) issued on September 23, 2020.

IAWG is made up of senior finance professionals of major airlines and represents over 290 IATA member airlines.

IAWG agrees with the Tentative Agenda Decision (TAD) with regard to the sale and leaseback provisions of IFRS 16.98 applying to the fact pattern provided and the journal entry shown in the illustrative example. We do have several additional observations.

The fact pattern addressed within the consolidated accounts is within the scope both IFRS 10 and 16. The transaction both meets the derecognition criteria in IFRS 16.99 for a sale and leaseback and triggers the IFRS 10.B98 requirement that the disposal of the subsidiary be treated as the derecognition of the asset and recognition of the consideration in the consolidated accounts. This is reflected in the TAD.

We observe that the two-step approach in the TAD results in the same outcome as only applying IFRS 16 requirements as the IFRS 10 requirements are satisfied by the requirements of IFRS 16 in this fact pattern. The issue observed with the approach prescribed by the TAD if both standards are applied the disclosure requirements of both standards are triggered and a question is created with regard to whether the gain should be shown only as a sale and leaseback or also as the disposal of a subsidiary. As a result, we believe that the TAD should indicate that the transaction be treated as a sale and leaseback with only IFRS 16 applied as IFRS 10 would be of no additional consequence to this fact pattern.



IAWG agrees that the principles and requirements in the existing standards provide an adequate basis for an entity to determine its accounting for the disposal of an entity with a single asset that then is subject to a leaseback arrangement in the consolidated accounts.

If you would like to discuss our comments further, please do not hesitate to contact Thomas Egan, IAWG Accounting Technical Expert at egant@iata.org.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Thomas Stellpflug".

Thomas Stellpflug
Chairman
IATA IAWG

A handwritten signature in blue ink, appearing to read "Donal Cahalan".

Donal Cahalan
Vice-Chairman
IATA IAWG

20 November 2020

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Tentative Agenda Decision Relating to
IFRS 10 Consolidated Financial Statements and IFRS 16 Leases — Sale and
Leaseback of an Asset in a Single-Asset Entity

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (“the Interpretation Committee”)’s tentative agenda decision relating to “IFRS 10 *Consolidated Financial Statements* and IFRS 16 *Leases — Sale and Leaseback of an Asset in a Single-Asset Entity*” in the September 2020 IFRIC Update.

Accounting of sale and leaseback transactions

2. Our understanding is that, in order to reflect the economics of the transaction, IFRS 16 prescribes that a sale-and-leaseback transaction be accounted for together as if it were a single financial transaction, rather than two separate transactions (that is, the sale and the leaseback). In addition, IFRS 16 sets out 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 legal form of a sale-and-leaseback, but should also consider other forms of transactions for which the economic effects are the same as a legal sale-and-leaseback (paragraph BC261). While there may be various views regarding when a gain should be recognised on the sale of an underlying asset in a sale-and-leaseback transaction, we agree with the approach in IFRS 16.

3. On the other hand, the tentative agenda decision states that, in the transaction described in the submission where the transfer of the asset (building), which is the subject of the leaseback to a third party, is made through the sale of the equity interest in the subsidiary that holds the asset, the entity:
 - a. loses control of the subsidiary. Accordingly, the loss of control requirements in IFRS 10 apply to this part of the transaction.
 - b. transfers the building to a third party (through the sale of the 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.
4. We, however, disagree with the proposal in the tentative agenda decision where the accounting for the sale of the entity's equity interest (IFRS 10) is overlaid with a sale-and-leaseback transaction in accordance with IFRS 16, for the following reasons:
 - In the light of the assumptions provided in the tentative agenda decision, it can be viewed that the economic substance is a sale-and-leaseback of real estate and, accordingly, it would be appropriate to apply to the transaction IFRS 16 only. If existing IFRS Standards do not allow such accounting, the IASB should consider amending IFRS Standards so that the relationship between IFRS 10 and IFRS 16 is clarified, instead of resolving the issue by issuing an agenda decision.
 - In June 2019 the Interpretations Committee received a submission about the sale of a single asset entity containing real estate. The IASB subsequently discussed a possible narrow-scope amendment to IFRS Standards to address this submission; however, in June 2020 the IASB eventually decided not to amend the IFRS Standards in relation to the application of IFRS 10 and IFRS 15, but to consider the feedback it obtains as part of its Post-implementation Review of IFRS 10. Under such circumstances, describing in the tentative agenda decision the conclusion that the transaction will not be within the scope of IFRS 15 without a clear rationale may result in unintended consequences in the context of applying IFRS 10 and IFRS 15.

Assumptions provided in the agenda decision

5. The tentative agenda decision provides certain assumptions, such as the only asset the subsidiary holds is the building and the building the subsidiary holds does not meet the definition of a business. These assumptions apparently come directly from

the submission that was sent to the Interpretation Committee by the submitter. In this context, the IASB should consider the following:

- If the assumptions provided in the submission are used in this tentative agenda decision without any changes, which is the case for this tentative agenda decision, we are concerned that this tentative agenda decision may discourage appropriate judgement that is otherwise required for other transactions. Considering that the revision of the Due Process Handbook essentially made agenda decisions authoritative guidance, we think that the assumptions provided in agenda decisions should be wider and more generic in nature.
 - For issues that are likely to be controversial, such as this issue, judgement should be required based on the facts and circumstances. If the agenda decision is to become explanatory material that is intended to be applied under IFRS Standards, the agenda decision should emphasise that judgement based on the facts and circumstances is required.
6. We hope that our comments are helpful for the Interpretation Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,



Atsushi Kogasaka

Chair

Accounting Standards Board of Japan



KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

rdotzlaw@kpmg.ca

Ms Sue Lloyd
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref RD/288

20 November 2020

Dear Ms Lloyd

Tentative agenda decision: *Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)*

We appreciate the opportunity to comment on the IFRS Interpretations Committee (Committee) tentative agenda decision *Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)* (IFRIC Update September 2020). We have consulted with, and this letter represents the views of, the KPMG network.

We support the Committee's tentative conclusion that, in the fact pattern described in the agenda request, the entity applies paragraphs 25 and B97-B99 of IFRS 10 to account for the loss of control of the subsidiary and because the transfer of the asset satisfies the requirements in IFRS 15 to be accounted for as a sale, the entity also applies paragraph 100(a) of IFRS 16. However, we recommend that the Committee clarify the intended scope of the agenda decision.

Although the fact pattern discussed by the Committee is notably narrow, the analysis supporting the tentative agenda decision seems very broad. Specifically, the tentative agenda decision discusses (a) the applicability of the loss of control requirements in IFRS 10 when an entity loses control of a subsidiary and (b) the applicability of the sale and leaseback requirements in IFRS 16 to the lease of an underlying asset transferred by the lessee to the lessor through the sale of an equity interest in a former subsidiary of the lessee. 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.

We are concerned that the specific fact pattern discussed by the Committee is more narrow than variants of the fact pattern commonly seen in practice. These include, for example:

- a tax balance related to the underlying asset being included within the corporate wrapper;

- other assets and liabilities within the corporate wrapper including significant funding balances, e.g. a property asset and a loan liability secured on the property;
- the leaseback relating to only a portion of the asset held by the corporate wrapper, e.g. specific floors in a property;
- other assets and liabilities that constitute a business being included within the corporate wrapper; and
- the presence of non-controlling interest before and/or after the sale of the corporate wrapper.

In the absence of outreach, it is unclear whether application of the tentative agenda decision to some of these common variants to the fact pattern in the request could represent a major change in practice.

In order to assist stakeholders in applying the agenda decision in a consistent manner, we recommend that the Committee specify whether the discussion in the agenda decision relies on specific aspects of the fact pattern in the request, or establishes an overarching premise about the applicability of IFRS 10 and/or IFRS 16. This will assist stakeholders in better understanding the scope of the agenda decision and the associated reasoning.

Please contact Reinhard Dotzlaw at rdotzlaw@kpmg.ca or Kimber Bascom at kbacom@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

23 November 2020

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

Tentative Agenda Decision: Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 Consolidated Financial Statements and IFRS 16 Leases)

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the above Tentative Agenda Decision.

We agree with the Interpretations Committee's analysis and conclusion set out in the Tentative Agenda Decision.

However, we would like to recommend a narrow-scope amendment to the Illustrative Examples of IFRS 16 as we believe the inclusion of this fact pattern and its applicable IFRS principles and requirements into the IE would be helpful. In addition, we noted that the current illustrative example with regard to sale and leaseback transactions only addresses paragraph 101(b), and believe that the inclusion of further examples applying the requirements of paragraphs 101 to 103 of IFRS 16 would be beneficial.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director

November 23, 2020**The IFRS Interpretations Committee,
IFRS Foundation**Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD**Subject: Comments on the Tentative Agenda Decisions ('TAD') relating to Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)**

Dear Members of the IFRS Interpretations Committee,

We are writing this in response to your invitation to comment on the tentative agenda decision reached by the IFRS Interpretations Committee (hereinafter referred to as the 'Committee') in relation to Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16).

We at F S N M & Co, Chartered Accountants, believes that the conclusion reached by the Committee reflect the most relevant and reliable information based on the substance of the transaction in fact pattern described in this TAD and accordingly, we agree with the views of the Committee.

Our analysis for agreement with the views of Committee

We noted that the Committee has considered simultaneous application of **IFRS 10 – Consolidated Financial Statements** [for (a) determination of whether there is a loss of control of the subsidiary or not, (b) derecognition of asset and liabilities of entity and (c) recognition of fair values of the consideration] and **IFRS 16 – Leases** [for determination of the amount of gain or loss to be recognised in the consolidated financial statements of the entity].

We also noted that:

- (a) The scope exclusions in IFRS 10 and IFRS 16 do not specify any transactions which are excluded from the scope of one another.
- (b) There are conflicting requirements in the two standards for recognition of the amount of gain or loss. Paragraph B98 of IFRS 10, requires recognition entire of gain or loss (i.e., fair value of consideration less the carrying amount of assets and liabilities of the subsidiary), whereas Paragraph 100(a) of IFRS 16, requires recognition of gain or loss only to the extent of the rights transferred to the third party.

- (c) While there was conflict in accounting for gain or loss under IFRS 10 and IAS 28, for loss of control of subsidiary which is retained as an associate or joint venture, even though the project got deferred indefinitely, the Committee had considered amending IFRS 10 and IAS 28 respectively to resolve the conflict.
- (d) Paragraph 10 of **IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors**, specifies that, management shall use its judgement in developing and applying an accounting policy that results in information that is:
- (i) relevant to the economic decision-making needs of users; and
 - (ii) reliable, in that the financial statements:
 - a. represent faithfully the financial position, financial performance and cash flows of the entity;
 - b. reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - c. are neutral, i.e., free from bias.
 - d. are prudent; and
 - e. are complete in all material respects.

To summarise the above, when there is no specific guidance to deal with any transaction, the management shall consider using an accounting policy that provides information which is most relevant and reliable in the given circumstances. In the fact pattern covered in the TAD, we believe that recognition of gain to the extent of rights transferred to the buyer-lessor as specified in Paragraph 100(a) of IFRS 16, reflects the most relevant and reliable information considering the substance of the transaction, and this is the reason, we agree with the views of the Committee.

Our Suggestions

- (a) We believe that a narrow scope amendment to IFRS 10 and / or IFRS 16 specifically addressing such circumstances would be the most appropriate.

The amendments can be made in clause (c) of Paragraph 25 of IFRS 10 as under:

- (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest, except for gain or loss on sale and leaseback transactions recognised in accordance with the requirements of IFRS 16, Leases.

Specific paragraphs alongwith illustrative examples may be included in **IFRS 16 – Leases** for dealing with the transaction specified in the TAD and also for other matters relating to sale and leaseback (e.g. entity transferred is a business, the sale does not satisfy the conditions specified in IFRS 15 – Revenue from Contract with Customers etc.).

If the amendments to IFRS 10 and / or IFRS 16 is made, it would help in removing diversity in practices.

(b) Alternatively, without adding this in the project for amending IFRS 10 and / or IFRS 16 the conclusion reached in the TAD may be continued. However, it shall be specified that, since the requirements for recognition of gains or loss in IFRS 10 and IFRS 16 are conflicting or contradictory to each other, it would be appropriate to apply the requirements in paragraph 10 of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, to account for the gain or loss.

Additionally, the Committee may also specify that the entity shall disclose which policy (IFRS 10 or IFRS 16) it has applied in recognition of gain or loss in the consolidated financial statements. Also, the effect on the financial position and results of operation of the entity, had the alternate accounting policy been applied, shall also be disclosed.

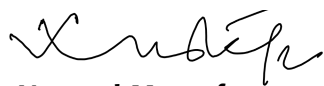
The above, would provide information which is relevant and reliable for the economic decision making of users of general purpose financial statements.

Our comments are based on the facts pattern described in the TAD and may not hold good in case the fact pattern changes.

In case you require any clarification in this regard, may please feel free to connect to Nesarul Mustafa at nesarulmustafa@fsmco.com or +91 33 4603 8922.

Thanking you.

For **F S N M & Co,**
Chartered Accountants



Nesarul Mustafa
Partner

Kolkata, November 23, 2020



IFRS Interpretation Committee
30 Cannons Street
London EC4M 6XH
United Kingdom

Stockholm 17th November 2020

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

FAR, the Institute for the Accountancy Profession in Sweden, has been invited to comment on the above comment Tentative Agenda Decision; *Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)*. FAR welcomes this opportunity to comment on the request.

FAR agrees with the Committee's conclusion that the gain the entity recognizes on the transaction reflects the requirements in paragraph 100 (a) of IFRS 16, it means that FAR agrees with the Committee's tentative decision 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.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P. Lundqvist'.

Pernilla Lundqvist
Chairman Accounting Practices Committee



An Independent Member of



AMERICA EUROPE ASIA AFRICA OCEANIA
www.uccsglobal.org

*Egyptian Pioneers Group
Independent member of UC & CS Global
Shady mehelba
Chartered Accountants & Consultants
4 Mohamed Mostafa ismail, champion St. , Azareta
Floor 6
Alexandria, Egypt*

Subject: Tentative Agenda Decision: Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)

Dear colleagues,

I would like to thank you all , for your bright recognized efforts you performed in the *Tentative Agenda Decision :Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16*.In the matter of fact , the committee's analysis and examples in such critical cases ,as the presented agenda decision's case ,are very important and useful not only for achieving objective of transparency of financial reporting but also to consist practical guide for those adopting IFRS and attempting to reduce gap in post implementation especially in case of vague financial reporting areas for recently issued standards .

You may find my analysis and conclusion to respond for tentative agenda decision on pages (2-4)

Kindly, if any additional further explanation is requested, in relation to the response (analysis & conclusion) , it will be my pleasure to clarify or respond to you using below contact.

Thanks & Best regards,

Your sincerely,,

Shady Mehelba

Chartered Public Accountant -Egypt
CPA- California Board of accountancy
Member of ESAA -Egypt
IFRS diploma
Shady@epg-network.com
Tel :00201275161713

EPG
Shady Fouad Mehelba
Chartered Accountant & Founder Partner
M.E.S.A.A Egypt , CPA-AICPA . USA
FRS Diploma
Registry in financial Ministry No.18199



An Independent Member of



AMERICA EUROPE ASIA AFRICA OCEANIA
www.uccsglobal.org

The comment:

A) Resources, analysis and justifications: -

Although the treatment of the committee for each transaction independently (the loss of control , sale and lease back) is appropriate , I find it more appropriate to consider the following hierarchy and analysis in such situation to reach the conclusion :-

- 1- Since the subsidiary's sole building does not meet the definition " business "as defined in IFRS 3 and assuming it was the case since purchasing ,and subsidiary has one asset and no liability , then the case is out of scope of IFRS 3 (Ref: Par.2(b)) .while such result affect application of IFRS 3 , IFRS 10 does not deal with the accounting requirements for business combinations and their effect on consolidation ,therefore neither the scope of inquiry have any request related to this area nor considered by committee in analysis , accordingly I find it more appropriate in such case to presume that this information may not be relevant to scope of inquiry ,otherwise company would have to assess the appropriateness of its policy regard consolidation since acquisition and which request to consider whether there is an acquisition for business in the first step, in accordance with IFRS 3 Par. 3 and B5-B12d
- 2- Since the scope of IFRS 3 does not apply , and in the case the inquirer indicated that parent and subsidiary (assuming meet both definitions and criteria in IFRS 10) , then IFRS 10 would have to be applied in case of loss of control . In such situation, (Par.25 , Par B97:B99A) fully describe that the parent shall derecognize assets and liabilities , recognize any maintained interest in previous subsidiary and gain or loss related to part of controlling interest disposed .
- 3- According to the criteria in Par (2) above and Par (IFRS 10 , B.97) entity should assess terms of arrangement to consider whether loss of control occurred in two or more arrangement , accordingly I would like to draw attention that entity would have to consider indications in Par B.97 to determine whether parent shall consider multiple arrangement as single transaction .By analogy If same criteria was applied to aforementioned case entity will determine as a substance whether single transaction depend on both arrangements including the sale of the subsidiary and the lease back of asset or otherwise only sale of assets and lease back (i.e. request applying IFRS 15, IFRS 16-sale and lease back). And whether, therefore, sale of asset would be considered loss of control. By analogy, losing control will be assessed considering criteria mentioned in (IFRS 10, Par 7).
- 4- In reference to Par B.97(D), IFRS 10, the board describe the case of complication of arrangements regard loss of control. In which the board indicated that "One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. Actually , there is an indication from committee's response on the case that the proceeds from sale relate to sales of the asset which constitute sale and lease back and for that purpose IFRS 15 was applied to determine whether sale occurred or not . If the sales price is equal to FV of the building



An Independent Member of



AMERICA EUROPE ASIA AFRICA OCEANIA
www.uccsglobal.org

, there is an indication that there is no any other right remaining with arrangement that constitute loss of control (which would represent returns or exposure of investee as a result of power over investee as a separate legal entity) . And as a consequence, in substance , the power and returns linked to the rights related to the building and benefits derived from such assets' right

- 5- In reference to (Par.68, IAS 16) the board indicated that gain or loss on sale of P,P,E will be recognized except when referred otherwise by IFRS 16, By analogy IFRS 10 should have described the loss of control through derecognition of asset of subsidiary in sale and lease back as exception to cross link the case to IFRS 16 ,while my review to IFRS 10 did not indicate such reference or link . And taking in considerations that Par.68 only describe derecognition of asset "i.e building -in case" and not a group of assets or single asset controlled through equity interest, so it does not fit to analogize for determination of accounting policy in such case . In addition, while IFRS 16 Par 98 describes transfer of asset through sale and lease back it does not indicate transfer of equity interest in subsidiary that represent such asset . Logically, It is contrary to the view of the loss of control of parent to separate power to transfer asset , also in committee's analysis, it may not be an appropriate to indicate transfer of asset in subsidiary (consolidation) for which parent already lost control , if committee assumed using IFRS 10 in loss of control , no sale for individual asset and accordingly no sale in accordance to IFRS 15 to have sale and lease back in IFRS 16 , it is only lease contract
- 6- In reference to The example represented by the committee the retained interest (right of use of asset) amounted 375 CU , and net assets of the subsidiary represent 500 .And due to materiality of retained interest of right of use asset , this may make it questionable whether we have already a situation of loss of control over subsidiary and that might have been critical point ,had more date been provided by the inquirer in the presented case that would have suggested additional assessment for such area .

B) Conclusion:

In accordance to the previous reasons ,although the response of the committee is fully appreciated and would represent appropriately the use of economic substance over form and represent faithfully the transaction and provide more relevant data ,taking in considerations the predictive value of the proposed transaction which absolutely reflect future cash flows consequences , I reached to conclusion that it may be more appropriate that committee considers more deliberation to modify IFRS 10 and refer to such situation either in scope to exclude it or to consider such exclusion in IFRS 16, depending on substance of transaction .In addition , in case in which arrangement of sale of subsidiary constitute in substance , existence of sale and lease back transaction of single asset .Additionally ,the board may describe assessment whether loss of control may be occurred and whether in one transaction or two arrangements in light of Par .B97 , and



An Independent Member of



AMERICA EUROPE ASIA AFRICA OCEANIA
www.uccsglobal.org

whether the transaction would have to be accounted as sale and lease back in such situation.

The previous both suggestions will avoid the application of IAS 8 by entity to formulate relevant and reliable accounting policy as no indication for such case in both IFRS 10 and IFRS 16 . Consequently, in so far applying IAS 8 as alternative without modification may lead to variability in application and inconsistency.

23 November 2020

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

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

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September 2020 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on 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.

We agree that the IFRS Interpretations Committee's conclusions as laid out in the agenda decision reflect the requirements of IFRS 10 and IFRS 16 in relation to the specific fact pattern presented therein.

However, we strongly suggest that in addition to this decision the Board takes on a broader project to address the treatment of the sale of corporate wrappers, in particular when, if ever, these should be accounted for as sales of assets rather than subsidiaries. This is because sales of corporate wrappers holding an asset may be in the scope of multiple standards (e.g., IFRS 10 and the IFRS standard applicable to the asset within the subsidiary) that do not address all aspects of derecognition in the same manner. Further, when an asset is sold through a corporate wrapper, applying IFRS 10 based on the legal form of the transaction may result in a different accounting outcome than if the asset had been sold directly despite the fact that in some circumstances the economic substance of both transactions may be the same. The Board addressing this issue will alleviate confusion on how to address conflicting guidance and provide more consistency and comparability for situations where the economic substance is the same but a difference in legal form leads to application of different standards and thus produces different results.

Further, the situation presented in the agenda decision is relatively simple as compared to the more complex transactions encountered in practice. For example, if the fact pattern was changed such that the seller-lessee held a purchase option on the leased asset at the end of the lease term, IFRS 10.B98 would require the asset

to be derecognised and the fair value of the consideration received to be recognised. However, applying IFRS 16.99, the transfer would fail the requirements to be recognised as a sale in IFRS 15 such that IFRS 16 would require the asset to remain on the seller-lessee's statement of financial position. Rather than multiple agenda decisions addressing various other complex situations, a broader Board project would be more efficient and effective.

Furthermore, from the acquirer perspective, IFRS 3 requires that transactions resulting in the acquisition of control of a corporate structure are accounted for differently depending on whether the transaction is the acquisition of a business or asset(s). This concept of distinguishing whether or not a transaction involves a business was also introduced, from a seller's perspective, in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*, though the project has been deferred indefinitely. We believe therefore that the Board should consider whether a symmetry of judgement by the seller and the acquirer of whether a transaction involves transfer of control of a corporate entity or an asset should be maintained. It is that judgement that leads to the current difference in the approach to accounting by the acquirer and seller when assets are purchased/sold through a corporate wrapper whereby the seller is required to treat the transaction as a sale of shares, whilst the acquirer treats it as an acquisition of an asset. The post-implementation review of IFRS 10 may provide an appropriate opportunity for this.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader

PO Box 1411
Beenleigh QLD 4207
23 November 2020

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: <https://www.ifrs.org/projects/work-plan/sale-and-leaseback-of-an-asset-in-a-single-asset-entity/>

Dear Sue

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

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

The TAD does not adequately address the conflict between IFRS 10 paragraph B98 that requires the gain on disposal of the entire building, and the requirements of IFRS 16 paragraph 100 that only permits recognition of the gain on the portion of the building sold (i.e. portion not retained).

Below I illustrate the accounting that I would expect by applying the requirements of IFRS 16 to the substance of the transaction, using the illustrative entries I included in my submission on IFRIC Tentative Agenda Decision - Sale and Leaseback with Variable Payments (IFRS 16). When my entries are combined, they result in the same net entry as in the TAD. However, the underlying entries assist in understanding what accounting is being applied.

Understanding the underlying accounting is important for other situations. For example, if the sale and leaseback did not meet the criteria for a sale under IFRS 15 (say, because of a call option), there would be no gain recognition under IFRS 16 at all.

I believe that the narrow scoping of the issue in the TAD has the potential to cause confusion. I would expect the same broad accounting (IFRS 16 gain accounting overriding IFRS 10 gain accounting for the leaseback transaction in the scope of IFRS 16) to apply when:

- there are other assets and liabilities in the “single asset” entity / corporate wrapper – such as tax liabilities and loans
- there are multiple buildings in the entity sold, and the leaseback only applies to one, or part, of a single building
- the entity sold is a business
- the entity sold has a non-controlling interest.

The overriding of IFRS 10’s gain recognition would also seem to apply for disposals of single asset / corporate wrapper entities with financial assets under IFRS 9, and when continuing involvement is retained, even though control over the entity has been lost.

I also believe that the accounting entries (referring to a liability and not to a finance liability) are in conflict with IFRS 16 Illustrative Example 24 – as I commented in my submission on IFRIC Tentative Agenda Decision - Sale and Leaseback with Variable Payments (IFRS 16).

Illustrative entries

As I submitted on IFRIC Tentative Agenda Decision - Sale and Leaseback with Variable Payments (IFRS 16), there should be a further explanation on the accounting for the gain on sale. The accounting can be confusing as there is reference to proceeds on sale, a sale under IFRS 15, but only a portion of the gain recognised. Some people seem to interpret the lease liability as including a deferred gain, when it does not.

I suggest the following guidance be included for the calculation of the gain on sale:

CU 200	Proceeds applicable to the portion of the asset sold (CU 800 for the entire asset less CU 600 for the retained portion that has to be ‘repaid’ – 75%):
CU 125	Carrying value of portion of asset sold (CU 500 entire carrying value less CU 375 for the 75% portion retained)

CU 75	

While I believe that the liability from a sale and leaseback is a lease liability, the above illustrates that the initial measurement of the sale and leaseback liability looks and feels like a financial liability – the fair value of the proceeds attributed to the portion of the asset retained that has to be repaid.

Componentising the journal entries

The single journal entry can cause confusion. I suggest including guidance on the individual component entries:

Dr Right-of-use asset	CU 375	
Cr PPE		CU 375
Transfer of rights retained from PPE to leased assets		
Dr Cash	CU 200	
Cr PPE		CU 125
Cr Gain on rights transferred		CU 75
Recognition of disposal of rights transferred		
Dr Cash	CU 600	
Cr (Lease) Liability		CU 600
Secured 'borrowing' for the rights transferred		

Conflict with IFRS 16 Illustrative Example 24

I included the following in my submission on IFRIC Tentative Agenda Decision - Sale and Leaseback with Variable Payments (IFRS 16):

IFRS 16 Illustrative Example 24 classifies the resultant liability on a sale and leaseback as a financial liability. While the example is slightly different, because it includes an above fair value component, a substantial portion of the liability (\$1,259,200 out of \$1,459,200) relates to the TAD lease liability.

While it is not clear whether Example 24 was an error not picked up during drafting, or a deliberate decision, the Example does state that the liability is a financial liability. Preparers may already have an existing accounting policy that is based on the liability being a financial liability.

While staff identified some examples of sale and leasebacks that classified the liability as a lease liability, the extracts of the financial statements were not provided for analysis. I am very surprised that all examples were classified as a lease liability, given the description in Example 24. I can envisage that preparers may have labelled the liability as a lease liability but used financial liability accounting from day 2, given the lack of guidance on how to account for the liability under IFRS 16.

Yours sincerely,

David Hardidge

<https://www.linkedin.com/in/davidhardidge/>



RÉPUBLIQUE
FRANÇAISE

*Liberté
Égalité
Fraternité*



AUTORITÉ
DES NORMES COMPTABLES

Paris, 20 November 2020

Patrick de Cambourg

Phone : 01 53 44 28 53
Mail. : patrick.de-cambourg@anc.gouv.fr
Internet : www.anc.gouv.fr

Mrs Sue Lloyd
Chair of the IFRS Interpretations Committee
7 Westferry Circus, Canary Wharf
London, E14 4HD
United Kingdom

PDC n° 39

Subject: Tentative Agenda Decision – Sale and Leaseback of an Asset in Single-Asset Entity (IFRS 10 and IFRS 16)

Dear Mrs Lloyd,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the IFRS Interpretations Committee's (Committee) Tentative Agenda Decision (TAD) published in September 2020 regarding 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 one asset and leases that asset back.

We agree with the Committee's conclusion that, in the very specific fact pattern described in the submission, the gain that the entity recognises reflects the requirements in paragraph 100(a) of IFRS 16. Nonetheless, we disagree with the Committee's tentative analysis of the requirements in IFRS Standards. In our view, this analysis is incomplete because it disregards some relevant requirements in IFRS 10 *Consolidated Financial Statements* and thus, insufficiently explains how those requirements interplay with the requirements in IFRS 16. We think the Committee's tentative analysis results in the requirements in IFRS 16 overriding those in IFRS 10 without providing any evidence of any such hierarchy between IFRS Standards. Furthermore, we think the Committee should consider whether its analysis is consistent with the requirements in other IFRS Standards and the approach the Committee previously retained to similar fact patterns. We are usually supportive of the Committee outlining the applicable requirements in IFRS Standards and then considering whether those requirements result in information that is useful. However, in the case of this TAD, we think the Committee may wish to reach a conclusion that provides a faithful representation of the transaction at the expense of a fair and comprehensive reading of the existing requirements. Accordingly, we think the Committee should revise its analysis and, if it were unable to do so, assess whether it should recommend standard-setting to the IASB (Board).

We also question the helpfulness of publishing an agenda decision considering a fact pattern that, in our view, is not widespread. We are aware of the prevalence of fact patterns that have much more complex features than the transaction described in the submission. We think the Committee's tentative analysis is unlikely to help entities understand how the principles and requirements in IFRS Standards would apply in those circumstances—we think that applying the thought process underpinning the TAD to less narrowly-defined fact patterns may be difficult. We acknowledge that the Committee limited its analysis to the fact pattern described in the submission but think the Committee should consider undertaking outreach to understand the transactions that do, or are expected to, occur in practice and assess whether its analysis could have unintended consequences on how entities account for those transactions.

- **The Committee's technical analysis**

We appreciate the Committee's objective to conclude that the gain that the entity recognises on the transaction as described in the submission reflects the requirements in paragraph 100(a) of IFRS 16—this is consistent with the Board's observations in paragraph BC261 of IFRS 16. However we think that the Committee's analysis of existing requirements as outlined in the TAD is insufficient to reach that conclusion.

- ***The Committee's analysis does not consider all relevant requirements in IFRS Standards***

We note that the TAD itself skirts around relevant requirements in IFRS Standards. The TAD specifies that '*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*'. We agree with the Committee's analysis but note that the Committee did not outline that paragraph B98(d) (and paragraph 25(c)) also requires to recognise '*any resulting difference [having applied the requirements in paragraphs B98(a)–(c)] as a gain or loss in profit or loss attributable to the parent*'. In our view, the TAD ignores the existence of this gain or loss. The Committee's analysis seems to rely on the assumption that *all* the requirements in IFRS 16 for sale and leaseback transactions apply to the fact pattern whereas only *some* of the requirements in IFRS 10 for the loss of control of the subsidiary apply—in other words the TAD seems to 'cherry pick' the requirements in IFRS 10 that are compatible with those in IFRS 16. In our view, this approach undermines the robustness of the Committee's analysis and results in an unconvincing conclusion.

We disagree with the analysis developed in [Agenda Paper 2](#) for the September 2020 Committee's meeting but think it had the merits of clearly outlining the approach that, in reality, underpins the TAD, ie that the entity (a) first applies the requirements in IFRS 10 and then (b) those in IFRS 16 and, by doing so, 'overrides' the gain or loss initially recognised applying IFRS 10 so as to recognise a gain that reflects the requirements in paragraph 100(a) of IFRS 16. We acknowledge that presenting the thought process in this way might not have been consensual but we think this would clearly have articulated how the Committee had reached its conclusion.

In addition, we think that the TAD cannot be read in isolation, ie ignoring the drafting of some other requirements that apply to similar transactions. The TAD concludes that the gain the entity recognises on the transaction reflects the requirements in IFRS 16—in other words, the entity recognises a gain that does *not* reflect the requirements in IFRS 10. We note that for some sale and lease back transactions, the requirements in relevant IFRS Standards explicitly state that IFRS 16 takes precedence with regard to the recognition of the gain or loss over any other requirement. In contrast, IFRS 10 does not include any such reference to IFRS 16 when the entity initially controls the asset through a subsidiary. For example, we note that:

- paragraph 68 of IAS 16 *Property, Plant and Equipment* states that '*the gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless IFRS 16 Leases requires otherwise on a sale and leaseback)...*' (emphasis added)
- paragraph 69 of IAS 40 *Investment Property* states that '*gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless IFRS 16 requires otherwise on a sale and leaseback) in the period of the retirement or disposal*' (emphasis added).

Having in mind these specific requirements in IAS 16 and IAS 40 and the lack of similar requirements in IFRS 10, we question the robustness of the Committee's conclusion.

- ***The Committee's analysis is inconsistent with the analysis applied to similar transactions***

In September 2014, the Board published the amendments to IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures* '*Sale or contribution of assets between an investor and its associate or joint venture*'¹. As explained

¹ The Board deferred the effective date of those amendments in December 2015.

in paragraphs BC190A–190C of those amendments, the Board decided to undertake standard-setting further to a request to the Committee seeking clarifications about how an entity applies IFRS Standards when it contributes business (through a subsidiary) to a joint-venture or an associate in exchange for an equity interest in that joint venture or associate. The Committee and the Board noted the conflicting requirements between IFRS 10 and IAS 28². This is because, applying the requirements in IAS 28, the gain or loss recognised resulting from the contribution of a non-monetary asset to a joint venture or an associate in exchange for an equity interest in that joint venture or associate is restricted to the extent of the interests attributable to the unrelated investors in the joint venture or associate. However, IFRS 10 requires a full gain or loss recognition on the loss of control of the subsidiary.

We note similarities between the fact pattern that the Committee and the Board considered in 2014 and the fact pattern described in the TAD—ie the entity loses control of a subsidiary and receives, in exchange, non-cash consideration (right of use in the TAD and equity instruments in the fact pattern above) with two differing sets of requirements applying to the gain or loss the entity recognises as a result of that exchange. Absent any explicit indication about which requirements should prevail for the transaction described in the submission, we do not understand why the Committee would conclude that the requirements in IFRS 16 apply in the fact pattern described in the TAD whereas it concluded, along with the Board, that there was a conflict between IFRS 10 and IAS 28 when accounting for a sale or contribution of assets between an investor and its associate or joint venture. Should the Committee decide to confirm its analysis, we recommend the Committee explain how it could reach different conclusions on a matter that is *in substance* alike.

We also note that the Committee considered a similar transaction at its September 2017 and January 2018 meetings. In its [Agenda Decision](#), the Committee considered how an entity accounts for a transaction in which it contributes property, plant and equipment to a newly formed associate in exchange for shares in the associate. In question C in this Agenda Decision, the Committee was asked how an investor determines the gain or loss on contributing PPE—this is because paragraphs 68 of IAS 16 and paragraph 28 of IAS 28 have differing requirements in relation to how an entity determines that gain or loss. We understand that the Committee did not conclude on which requirements an entity applies in those circumstances.

In the light of the above, we are surprised to read that the Committee could reach a conclusion for the sale and lease back transaction described in the submission whereas it was unable to reach any such conclusion for similar fact patterns. Accordingly, we recommend that the Committee consider how its conclusion reconcile with the approach retained for the matters described above.

Pending standard-setting, we think that an alternative analysis may consist in acknowledging there are conflicting requirements in IFRS 10 and IFRS 16 applying to the gain that the entity recognises. In those circumstances, an entity would apply the requirements in paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable as described in paragraphs 10(a) and 10(b) of IAS 8. *In the very specific case described in the submission*, we think an entity would conclude that applying the requirements in paragraph 100(a) in IFRS 16 to the gain is *the* accounting policy that results in information that is relevant and reliable—in particular because these requirements would result in information that reflects the substance of the transaction as described in paragraph 10(b)(ii) of IAS 8.

- **The fact pattern that the Committee considered**

The question submitted to the Committee refers to a very narrow and, to the best of our knowledge, unusual fact pattern. Such sale and leaseback transactions involving a corporate wrapper do occur but we are unaware of any transaction that would present the characteristics described in the TAD. According to our constituents, similar transactions that already occurred, or are currently under consideration, are significantly more complex. We also understand that a growing number of entities contemplate entering such transactions in the context of asset-

² The submission initially referred to an inconsistency between IAS 27 (as revised in 2008) and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*. However, IFRS 10 replaced IAS 27 (as revised in 2008) and the relevant requirements in SIC-13 were incorporated into paragraphs 28 and 30 of IAS 28 (as amended in 2011). Accordingly, the Board decided to amend only IFRS 10 and IAS 28 (as amended in 2011).

optimisation strategies. Those transactions have one or several of the following variations:

- the entity does not own 100% of the equity in the subsidiary prior to the loss of control—ie there are non-controlling interests before the transaction,
- the entity retains a non-controlling interest in the subsidiary after the transaction,
- the subsidiary holds several assets and only some of those assets are leased back to the entity,
- the subsidiary is already the party to a lease arrangement with other entities in the consolidation group,
- the subsidiary has recognised deferred and current tax assets or liabilities, and
- the subsidiary has liabilities to external parties, in particular financing related to the acquisition of the real estate asset.

In contrast, in the fact pattern described in TAD:

- the entity owns 100% of the equity in the subsidiary and sells all its equity interest to a third party, and
- the subsidiary owns a single asset and has incurred no liabilities.

The TAD does not provide any insight into how the requirements in IFRS 10 and IFRS 16 would apply or not apply in the more complex circumstances described above.

We note that the Committee did not request the staff to perform any outreach. We think such outreach would help assess whether the transaction described in the submission is prevalent and thus, whether the publication of an agenda decision would be helpful and, from a due process perspective, necessary. This would also help the Committee assess whether the analysis applied to the fact pattern described in the submission could have unintended consequences on the way entities account for other similar, but more complex, transactions. Accordingly, we recommend outreach be performed before finalising the TAD.

Should you need any further information, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Patrick de Cambourg". The signature is written in a cursive style with a long, sweeping tail on the letter "g".

Patrick de Cambourg

Mrs Sue Lloyd

IFRS Interpretations Committee Chair

*Columbus Building,
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom*

La Défense, 23 November 2020

**Tentative Agenda Decision – Sale and Leaseback of an Asset in Single-Asset Entity
(IFRS 10 and IFRS 16)**

Dear Sue,

MAZARS is pleased to comment on the abovementioned IFRS Interpretations Committee Tentative Agenda Decision, published in the September 2020 *IFRIC Update*.

We are of the opinion that the fact pattern described in the submission (sale of all the equity interests in a 100% owned subsidiary that holds only one building and incurs no liability, and subsequent lease back of the building) is economically the same as the sale of the asset, and its subsequent rental. Therefore, we would expect that the accounting outcome of this transaction does not differ depending on whether the transaction is structured through the sale of the equity interest in the subsidiary or through the direct sale of the asset.

However, the conclusion above is only based on the '*substance over form*' principle, and we are unsure that other current requirements in IFRS Standards are sufficient to support the Committee's tentative conclusion that paragraph 100(a) of IFRS 16 shall apply.

In its tentative agenda decision, the Committee describes the accounting consequences of the paragraphs of IFRS 10 and IFRS 16 that should apply to the sale and leaseback transaction:

- Derecognition of the building held by the subsidiary according to paragraphs 25 and B97-B99 of IFRS 10 relating to the accounting for the loss of control of a subsidiary, and
- Recognition of 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 recognition of only the amount of any gain that relates to the rights transferred to the buyer- lessor, according to paragraph 100(a) of IFRS 16.

By doing that, the Committee ignores part of IFRS 10 requirements, and in particular that of paragraph B98(d) that requires, after having applied the requirements in paragraphs B98(a)–(c), to recognise '*any resulting difference as a gain or loss in profit or loss attributable to the parent*'.

The Committee does not explain why it has disregarded this paragraph, and therefore does not analyse how IFRS 10 requirements interplay with the requirements in IFRS 16 *Leases*.

Consequently, in its analysis, the Committee seems to consider that all the requirements in IFRS 16 for sale and leaseback transactions apply to the fact pattern whereas only some of the requirements in IFRS 10 would apply. In other words, the Committee's analysis is based on the assumption that IFRS 16 requirements override those in IFRS 10 without providing any evidence of any such hierarchy between the two standards (unlike IAS 16 and IAS 40 where it is explicitly stated that IFRS 16 provisions on sale and leaseback override the requirements of paragraphs 68 of IAS 16 and 69 of IAS 40 relating to the recognition of profit or loss on disposal).

In the past, the Committee and the Board have already dealt with a conflict between paragraph B98(d) of IFRS 10 (which requires the full recognition of gain or loss on derecognition of the assets and liabilities of the former subsidiary) and paragraph 28 of IAS 28 (which requires partial recognition of the gain or loss resulting from downstream transactions between the entity and its associate or joint venture). The outcome has been the publication in September 2014 of the amendments to IFRS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture*, evidencing at that time that the resolution of a conflict between the provisions of two standards requires standard setting.

Accordingly, we think the Committee should revise its analysis, and include consideration of paragraph B98(d) of IFRS 10 and its interactions with paragraph 100(a) of IFRS 16. If the Committee is unable, on that new basis, to reach a conclusion on the fact pattern described in the submission, it should assess whether to recommend standard setting to the Board.

We also question the helpfulness of an agenda decision considering a fact pattern that is very narrow and unusual. We have no doubt that the fact pattern described in tentative agenda decision exists (i.e. the entity owns 100% of the equity in the subsidiary and sells all its equity interest to a third party, and the subsidiary owns a single asset and has incurred no liability), but we are convinced that it is not widespread and that most lookalike transactions are more complex by having one or more of the following features:

- the entity does not own 100% of the equity in the subsidiary before disposal;
- the entity does not sell all its equity interest and retain a non-controlling interest in the subsidiary after the transaction;
- the subsidiary holds more than one asset, and only one of those assets is leased back;
- the subsidiary is already party to a lease arrangement with the entity (or any other subsidiary), and that lease arrangement is not modified following the sale of the subsidiary; and
- the subsidiary has liabilities to third parties, including financing related to the acquisition or construction of the real estate asset.

The tentative agenda decision does not provide any insight on how the requirements in IFRS 10 and IFRS 16 would apply in the more complex – and more widespread – circumstances described above. We think the Committee should broaden its analysis to those more complex cases and, if it is unable to conclude on these cases, it should assess whether to recommend standard setting to the Board.

mazars

Should you have any questions regarding our comments on the tentative agenda decisions, please do not hesitate to contact Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully,



Michel Barbet-Massin

Financial Reporting Advisory



Edouard Fossat



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No. 15 of 1965)

PLOT 16, IDOWU TAYLOR STREET, VICTORIA
ISLAND,
P.O BOX1580, MARINA, LAGOS, NIGERIA

Tel: 09053847510-1

Email: info.ican@ican.org.ng, rce@ican.org.ng

Website: www.icanig.org

Registrar/Chief Executive

AHMED M. KUMSHE (PROF.), FCA

November 21, 2020

ICAN/ED/R&T/NOV21/2020

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Dear Sir,

**Re: Tentative Agenda Decision—Sale and Leaseback of an Asset in a Single Asset Entity
(IFRS 10 and IFRS 16)**

Please find below our comments on the above-named Exposure Draft.

We agree with the Board on the Tentative Agenda Decision and believe that provisions in existing standards are adequate to address the question.

However, we would like the Board to consider whether the practical application of paragraph 100 of IFRS 16, could result in various methods of measuring the right of use assets arising from the leaseback. Specifically, in compliance with paragraph 100, is it not possible that different users could adopt other basis other than the method articulated in the worked example to calculate the proportion of the previous carrying amount and still be in compliance with paragraph 100?

In this regard, we would appreciate if the Board could give more illustrative examples that include permissible computations in applying paragraph 100.

We thank the Foundation for giving us the opportunity to contribute to the Exposure Draft and we are available should there be need for further clarifications.

Yours faithfully,

For: Registrar/Chief Executive

BUkaegbu

Ben Ukaegbu, PhD, ACA
Deputy Registrar, Technical Services