

# *Lease Liability in a Sale and Leaseback—* Narrow-scope Amendments to IFRS 16—Adoption package

## Executive Summary

<b>Project Type</b>	Endorsement
<b>Project Scope</b>	Narrow-scope
<b>Purpose of the paper</b>	
<p>This paper requests the Board’s approval of the individual documents included as part of the ‘adoption package’ for the project to assess <i>Lease Liability in a Sale and Leaseback—Amendments to IFRS 16</i> (the Amendments) for adoption.</p> <p>The Amendments have an effective date of 1 January 2024 with earlier application permitted.</p> <p>The documents included as part of the adoption package are:</p> <ul style="list-style-type: none"><li>• A final Endorsement Criteria Assessment (ECA);</li><li>• A Feedback Statement;</li><li>• A draft Due Process Compliance Statement;</li><li>• A draft Adoption Statement for the Amendments; and</li><li>• The text of the UK-adopted international accounting standard (Amendments to IFRS 16).</li></ul>	
<b>Summary of the Issue</b>	
<p>The UK Endorsement Board (UKEB) was not involved in the work on the development of the Final Comment Letter (FCL) as the UKEB Secretariat submitted its FCL on the ED to the IASB on 26 March 2021, before the Board’s statutory functions had been delegated by the Secretary of State. A PIP for the endorsement project was approved at the November 2022 Board meeting. All UKEB work and outreach on the Amendments has now been completed and the results incorporated in the adoption package presented to the Board at this meeting.</p> <p>Following the tentative vote on the adoption of the Amendments at this meeting, the vote will be formalised by Board members signing the voting form that will be made available to them after this meeting.</p>	

### Decisions for the Board

1. Subject to any changes identified at this meeting, does the Board approve:
  - a) the final amended ECA (Appendix A)?
  - b) the Feedback Statement (Appendix B)?
  - a) the draft Due Process Compliance Statement (Appendix C)?
2. Does the Board tentatively approve the adoption of the Amendments to IFRS 16 for use in the UK?

### Recommendation

We recommend the Board approves the relevant documents in the adoption package and tentatively approves the adoption of the Amendments to IFRS 16.

### Appendices

- Appendix A Final Endorsement Criteria Assessment (ECA)
- Appendix B Feedback Statement
- Appendix C [Draft] Due Process Compliance Statement
- Appendix D [Draft] Adoption Statement of *Lease Liability in a Sale and Leaseback*—Amendments to IFRS 16
- Appendix E *Annex to the Adoption Statement: Text of the UK-adopted international accounting standard (Amendments to IFRS 16)*

## Introduction

1. The IASB issues narrow-scope amendments to international accounting standards as part of its continuous effort to maintain and improve IFRS and to support its consistent application. Proposals for amendments often arise from questions submitted to the IFRS Interpretations Committee.
2. The IASB's proposals were set out in Exposure Draft ED/2020/4 *Lease Liability in a Sale and Leaseback* (the ED). The UKEB Secretariat submitted its Final Comment Letter (FCL) on the ED to the IASB on 26 March 2021<sup>1</sup> before the Board's statutory functions had been delegated by the Secretary of State<sup>2</sup>. The Board was therefore not involved in the work on the development of the FCL. However, the IASB considered the comments in the UKEB Secretariat FCL, and those made by UK respondents directly to the IASB, during its discussion of the stakeholder feedback on the ED<sup>3</sup>.
3. The IASB published *Lease Liability in a Sale and Leaseback—Amendments to IFRS 16* (the Amendments) in September 2022. The Amendments have an effective date of 1 January 2024 with earlier application permitted.

## Endorsement of the Amendments

4. The Amendments, which are narrow in scope, were issued and exposed for public comment as the IASB considered they merited consultation and outreach.

## Exclusions

5. The Amendments include a new example (Example 25 of IFRS 16) illustrating the application of the requirements in paragraph 102A and in paragraphs 29–46 of IFRS 16 to a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The Amendments also amend existing Illustrative Example 24 of IFRS 16.
6. These amendments to the IFRS 16 Illustrative Examples have not been included as part of the UKEB's endorsement project as UK-adopted international accounting standards comprise only the mandatory<sup>4</sup> sections of standards.

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<sup>1</sup> [Final Comment Letter - Lease Liability in a Sale and Leaseback \(Proposed amendment to IFRS 16\).pdf \(k-usercontent.com\)](#)

<sup>2</sup> The Statutory Functions were delegated by the Secretary of State to the UKEB on 22 May 2021.

<sup>3</sup> Our desk-based research indicated that the suggestions made by UK respondents had been considered by the IASB when developing the final Amendments. Refer to [Agenda paper 4](#) of the September 2022 Board meeting which summarises the main proposals in the ED, the UKEB Secretariat response in its FCL, and the actions taken by the IASB in finalising the Amendments.

<sup>4</sup> Mandatory pronouncements are IFRS Standards, IAS Standards, Interpretations and mandatory application guidance. Non-mandatory guidance includes bases for conclusions, dissenting opinions, implementation

However, we have reviewed Illustrative Examples 24 and 25 and have not identified any inconsistencies with the Amendments.

## UKEB endorsement project work

7. The UKEB approved a Project Initiation Plan (PIP) for the endorsement project at its November 2022 Board meeting. At its December 2022 meeting, the Board approved the Draft Endorsement Criteria Assessment (DECA) for the Amendments for stakeholder consultation. The DECA set out the UKEB's provisional assessment of whether the Amendments met the UK's statutory requirements for adoption. The DECA was published on 5 January 2023 and was open for comment until 5 April 2023.
8. Six formal responses were received from stakeholders comprising accounting firms, accounting and audit representative organisations and preparers. All respondents were supportive of the adoption of the Amendments.
9. Details of the stakeholder comments are included in the Feedback Statement at Appendix B. The Secretariat does not consider that any amendments need to be reflected in the ECA as a result of the stakeholder responses to the DECA. The only changes made to the text of the DECA relate to minor editorial amendments, and are shown as tracked changes in the document presented to the Board today.
10. A draft Due Process Compliance Statement (DPCS) is included at Appendix C and sets out the process followed during this endorsement project and its compliance with UKEB due process. A final DPCS will be presented for noting at the May 2023 Board meeting.
11. The Secretariat has now completed its assessment of the Amendments for adoption for use in the UK from the effective date of 1 January 2024.

### Questions for the Board – ECA, Feedback Statement and DPCS

1. Do Board members have any comments on:
  - a) the final amended ECA (Appendix A)?
  - b) the Feedback Statement (Appendix B)?
  - c) the draft Due Process Compliance Statement (Appendix C)?

## Project closure

12. In accordance with UKEB's Due Process Handbook, the project closure process for endorsement projects comprises the following steps<sup>5</sup>:
- a) preparation of an 'adoption package' for the Amendments; and
  - b) voting on the adoption of the amended standard.

## Adoption package

13. The individual documents included in the adoption package<sup>6</sup> for the Amendments are:
- a) final amended ECA (Appendix A);
  - b) the Feedback Statement (Appendix B);
  - c) the Due Process Compliance Statement (Appendix C);
  - d) Adoption Statement for the Amendment (Appendix D); and
  - e) The text of the UK-adopted international accounting standard (Amendments to IFRS 16) (Appendix E).

## Closure documents for approval

14. In addition to the documents referred to in paragraphs 7 to 11 above, the Board is asked to approve the following documents intended for publication on the UKEB website:
- a) Appendix D: draft Adoption Statement for the Amendments.
  - b) Appendix E: Annex to the Adoption Statement: Text of the UK-adopted international accounting standard (Amendments to IFRS 16).

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<sup>5</sup> Paragraph 6.30 of the Handbook.

<sup>6</sup> This in accordance with paragraph 6.31 of the Handbook.

## Voting on the adoption of the Amendments

15. Decisions on the adoption of a standard or amendment are made at public Board meetings and follow the requirements of paragraphs 5.2–5.5 in Section 5 of the UKEB’s Terms of Reference (ToR)<sup>7</sup>.
16. At this public meeting Board members are asked to provide a tentative vote on the adoption of the Amendments based on the discussion of the adoption package. This vote will be indicative only and will be formalised via members signing the formal voting form that will be made available to them after the meeting.
17. Voting forms will be sent during the week commencing 1 May and Board members will be requested to submit their voting form within a week. Paragraph 5.3 of the Board’s Terms of Reference requires that the outcome will be made public within 3 working days of that formal vote.

### Question for the Board – Voting on the adoption of the Amendments

2. Does the Board tentatively approve the adoption of the Amendments to IFRS 16 for use in the UK?

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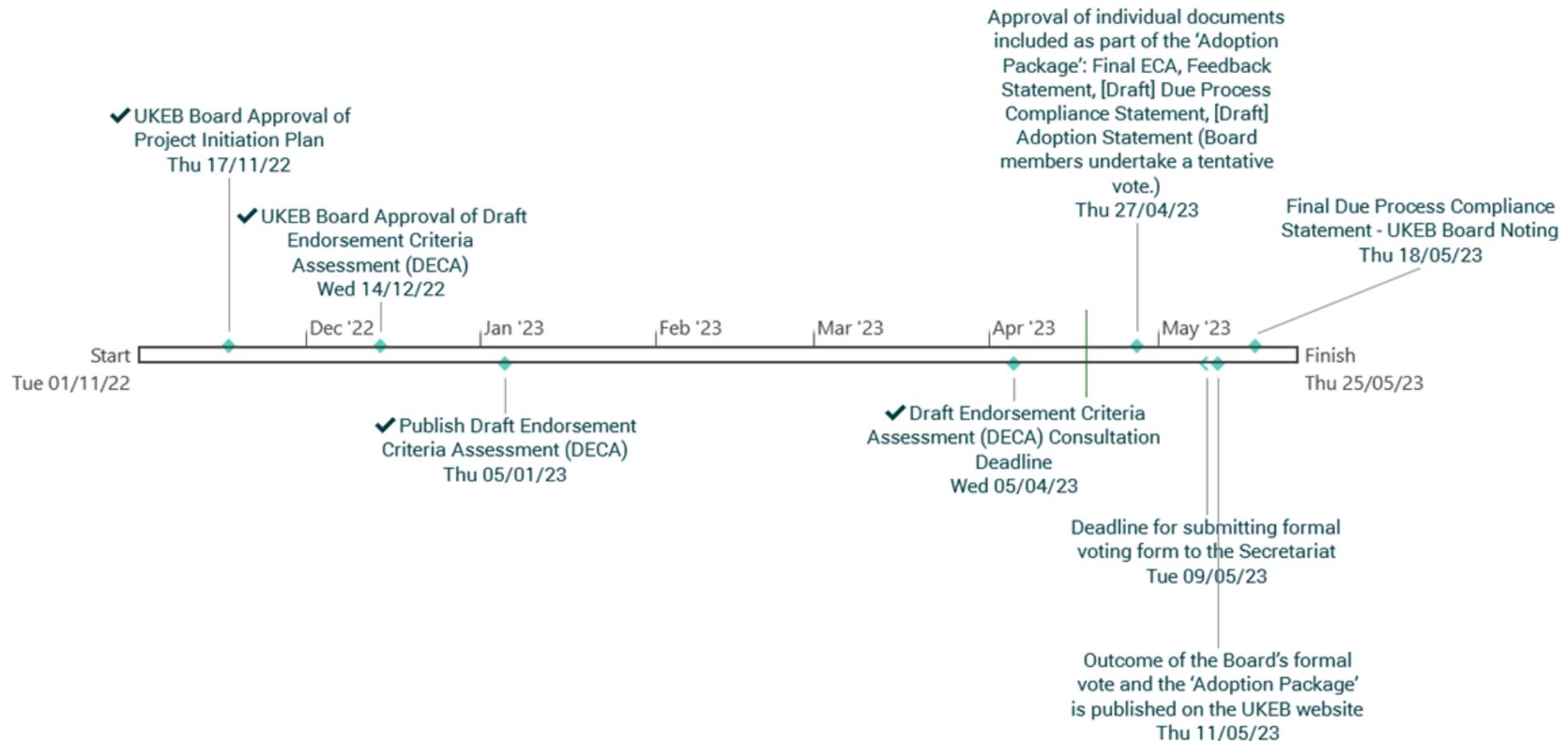
<sup>7</sup> Paragraph 5.2 of the ToR requires an affirmative written vote of at least two-thirds of all of the appointed Board members for the adoption of a new or amended standard. The UKEB Terms of Reference can be found [here](#).

## Project milestones and next steps

18. The project milestones including next steps are set out in the table below and in the diagram on the next page:

Expected date	Milestones	
14 December 2022	Board approval of Draft Endorsement Criteria Assessment (DECA)	<b>Completed</b>
<b><i>DECA Consultation period (90 days): 5 January 2023 – 5 April 2023</i></b>		
27 April 2023	<p>Approval of documents included as part of the adoption package:</p> <ul style="list-style-type: none"> <li>• Final ECA</li> <li>• Feedback Statement</li> <li>• [Draft] Due Process Compliance Statement</li> <li>• [Draft] Adoption Statement for the Amendments</li> <li>• The text of the UK-adopted international accounting standard (Amendments to IFRS 16)</li> </ul> <p>Board members provide a tentative vote.</p>	<b>This meeting</b>
2 May 2023 (expected date)	Voting form is sent to Board members	<i>To be completed</i>
9 May 2023 (expected date)	Deadline for submitting vote	<i>To be completed</i>
11 May 2023 (expected date)	Publication of adoption decision	<i>To be completed</i>
18 May 2023	Final Due Process Compliance Statement for noting	<i>To be completed</i>

# Narrow-scope Amendments *Lease Liability in a Sale and Leaseback*—Amendments to IFRS 16—Plan



**Draft** Endorsement Criteria  
*Assessment of Lease Liability in a  
Sale and Leaseback—Amendments  
to IFRS 16*

April **January** 2023



For Board Approval

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For Board Approval

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# Introduction

## Purpose

1. The purpose of this ~~Draft~~ Endorsement Criteria Assessment (~~DECA~~) is to determine whether *Lease Liability in a Sale and Leaseback*—Amendments to IFRS 16 (the Amendments), issued by the International Accounting Standards Board (IASB) in September 2022, meet the UK’s statutory requirements for adoption. The Amendments have an effective date of 1 January 2024 with earlier application permitted.
2. The IASB’s proposals were set out in Exposure Draft ED/2020/4 *Lease Liability in a Sale and Leaseback* (the ED). The UKEB Secretariat submitted its Final Comment Letter (FCL) on the ED to the IASB on 26 March 2021<sup>1</sup> before the Board’s statutory functions had been delegated by the Secretary of State<sup>2</sup>. The Board was therefore not involved in ~~the work on~~ the development of the FCL. However, the IASB considered the comments in the UKEB Secretariat FCL, and those made by UK respondents directly to the IASB, during its discussion of the stakeholder feedback on the ED.

## Background to the Amendments

3. The Amendments add subsequent measurement requirements for sale and leaseback transactions<sup>3</sup> to improve the requirements for such transactions in IFRS 16 *Leases* as part of the IASB’s continuous effort to maintain and improve international accounting standards and to support their consistent application.
4. The Amendments, ~~which~~ are narrow in scope,<sup>4</sup> ~~and~~ were issued and exposed for public comment as the IASB considered they merited consultation and outreach.
5. Section 2 in this ~~DECA~~ provides a brief description of the Amendments.

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<sup>1</sup> [Final Comment Letter - Lease Liability in a Sale and Leaseback \(Proposed amendment to IFRS 16\).pdf \(kc-usercontent.com\)](#)

<sup>2</sup> The Statutory Functions were delegated by the Secretary of State to the UKEB on 22 May 2021.

<sup>3</sup> All references to sale and leaseback transactions in this ~~DECA~~ are only to those in which the transfer satisfies the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale.

<sup>4</sup> ~~The Amendments meet the criteria in paragraph 5.16 of the IASB and IFRS Interpretations Committee Due Process Handbook.~~

## Exclusions from the adoption assessment

6. The Amendments include a new example (Example 25 of IFRS 16) illustrating the application of the requirements in paragraph 102A and in paragraphs 29–46 of IFRS 16 to a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The Amendments also amend existing Illustrative Example 24 of IFRS 16.
7. These amendments to the [IFRS 16](#) Illustrative Examples have not been included as part of the UKEB's assessment as UK-adopted international accounting standards comprise only the mandatory<sup>5</sup> sections of standards. However, we have reviewed Illustrative Examples 24 and 25 and have not identified any inconsistencies with the Amendments.

## Structure of the assessment

8. We have presented our analysis in the following sections:
  - a) **Section 1**: describes UK statutory requirements for adoption of new or amended international accounting standards; and
  - b) **Section 2**: discusses how the Amendments meet the criteria in Section 1.

## Do the Amendments lead to a significant change in accounting practice?

9. A standard adopted by the UKEB under Regulation 6 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 (SI 2019/685) that it considers is likely to lead to a 'significant change in accounting practice', is subject to the requirements in paragraph 3 of Regulation 11 of SI 2019/685 that the UKEB:
  - a) "carry out a review of the impact of the adoption of the standard; and
  - b) publish a report setting out the conclusions of the review no later than 5 years after the date on which the standard takes effect (being the first day of the first financial year in respect of which it must be used)".

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<sup>5</sup> Mandatory pronouncements are IFRS Standards, IAS Standards, Interpretations and mandatory application guidance. Non-mandatory guidance includes bases for conclusions, dissenting opinions, implementation guidance and illustrative examples, together with the IFRS practice statements. This categorisation is set out in the Introduction to the IASB yearly Bound Volumes.

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10. **Section 2** of this DECA discusses whether the Amendments lead to a significant change in accounting practice and concludes that they do not.

For Board Approval

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# I. Section I: UK statutory requirements for adoption

## UK statutory requirements

- 1.1 Paragraph 1 of Regulation 7 of SI 2019/685 requires that an international accounting standard only be adopted if:
- a) “the standard<sup>6</sup> is not contrary to either of the following principles—
    - i. an undertaking’s accounts must give a true and fair view of the undertaking’s assets, liabilities, financial position and profit or loss;
    - ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;
  - b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and
  - c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.”
- 1.2 The ~~ECA~~<sup>is DECA</sup> assesses the criteria above in the following order:
- a) Whether the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management (Regulation 7(1)(c)).
  - b) Whether the Amendments are not contrary to the principle that an entity’s accounts must give a true and fair view (Regulation 7(1)(a)).

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<sup>6</sup> The term “standard” includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (SIC-IFRIC interpretations) issued or adopted by the International Accounting Standards Board (IASB). This ~~DECA~~ relates to amendments to those standards.

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- c) Whether use of the Amendments is likely to be conducive to the long term public good in the UK (Regulation 7(1)(b)). Regulation 7(2) of SI 2019/685 includes specific areas to consider for this assessment. They are:
- i. whether the Amendments are likely to improve the quality of financial reporting;
  - ii. the costs and benefits that are likely to result from use of the Amendments; and
  - iii. whether the Amendments are likely to have an adverse effect on the economy of the UK, including on economic growth.

## Relevance, Reliability, Understandability and Comparability<sup>7</sup>

- 1.3 Information is **relevant** if it is capable of making a difference in the decision-making of users or in their assessment of the stewardship of management. The information may aid predictions of the future, confirm or change evaluations of the past, or both.
- 1.4 Financial information is **reliable** if, within the bounds of materiality, it:
- a) can be depended on by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;
  - b) is complete; and
  - c) is free from material error and bias.
- 1.5 Financial information should be readily **understandable** by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence.
- 1.6 Information is **comparable** if it enables users to identify and understand similarities in, and differences among, items. Information about an entity should be comparable with similar information about other entities and with similar information about the same entity for another period.
- 1.7 In conducting our overall assessment against the technical accounting criteria we are required to adopt an absolute, rather than a relative, approach. This means that this assessment is an absolute one against the criteria (do the Amendments provide information that is understandable, relevant, reliable and comparable?) rather than a relative one (do the Amendments provide information that is more understandable, relevant, reliable and comparable than current, or any other, accounting?). When an assessment of any individual aspect or requirement of the

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<sup>7</sup> These descriptions are based on the qualitative characteristics of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in April 2001. These qualitative characteristics became part of the criteria for endorsement and adoption of IFRS in the EU's IAS Regulation (1606/2002), and, subsequently, in SI 2019/685.

Amendments uses comparative language (e.g. ‘enhances comparability’), this does not mean that our objective is to reflect a real comparison in relative terms. Instead, our objective is to explain that any individual aspect or requirement of the Amendments has the potential to “enhance” one or more of the qualitative characteristics. The overall assessment of the Amendments against the technical accounting criteria is an absolute one. Consideration of whether the Amendments are likely to improve the quality of financial reporting is separate from this assessment and is included within the UK long term public good assessment in Section 2.

## True and fair view assessment

1.8 As noted above, the first adoption criterion set out in Regulation 7(1) of SI 2019/685 requires that an international accounting standard can be adopted only if:

“the standard is not contrary to either of the following principles—

- i. an undertaking’s accounts must give a true and fair view of the undertaking’s assets, liabilities, financial position and profit or loss;
- ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; [...].”

1.9 For the sake of brevity, we refer to our assessment against this endorsement criterion as ‘the true and fair view assessment’ and to the principles set out in Regulation 7(1)(a) as the ‘true and fair principle’. However, these abbreviated expressions do not imply that our assessment has considered anything other than the full terms of the endorsement criterion set out above.

1.10 The duty of the UKEB under Regulation 7(1)(a) is to determine generically, before a standard is applied to a set of accounts, whether that standard is ‘not contrary’ to the true and fair principle. In other words, it is an ex-ante assessment. We have therefore considered whether the Amendments contain any requirement that would prevent accounts prepared using the Amendments from giving a true and fair view.

1.11 Our approach is to determine whether the Amendments are not contrary to the true and fair principle in respect of any of the specific items identified in Regulation 7(1)(a) (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. A holistic approach has been taken to this assessment, considering the impact of the Amendments taken as a whole, including their interaction with other UK-adopted international accounting standards.

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- 1.12 For the purposes of our assessment, we consider the requirement in IAS 1 for financial statements to ‘present fairly the financial position, financial performance and cash flows of an entity’<sup>8</sup> to be equivalent to the Companies Act 2006 requirement for accounts to give a true and fair view.
- 1.13 Our assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, which requires directors to be satisfied that a specific set of accounts gives a true and fair view of an undertaking’s or group’s assets, liabilities, financial position and profit or loss.

### **[Draft Adoption decision]**

- 1.14 **[Section 2** of this DECA discusses how the Amendments meet the statutory endorsement criteria set out in this **Section 1**.
- 1.15 On the basis of these assessments, the UKEB concludes that the Amendments meet the statutory endorsement criteria. The UKEB is therefore of the view that it will adopt the Amendments for use in the UK.]

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<sup>8</sup> Paragraph 15 of IAS 1 *Presentation of Financial Statements*.

## 2. Section 2: Description and assessment of the Amendments

<b>Title and issue date of <u>the final Amendments</u></b>	<i>Lease Liability in a Sale and Leaseback</i> – Amendments to IFRS 16 issued on 22 September 2022.
<b>Origin</b>	<p>The IFRS Interpretations Committee (the Committee) was asked to consider the application of paragraph 100(a) of IFRS 16 to a sale and leaseback transaction that includes variable lease payments that in turn do not depend on an index or rate.</p> <p>The request asked how the seller-lessee should measure the right-of-use asset arising from the leaseback and, thus, determine any gain or loss to be recognised at the date of the transaction.</p> <p>The Committee concluded that IFRS 16 provides an adequate basis for determining the accounting for the sale and leaseback at the date of the transaction. However, it observed that IFRS 16 does not include specific requirements for the subsequent measurement of sale and leaseback transactions.</p> <p>Therefore, the Committee referred this issue to the IASB and the Amendments are the outcome of the IASB’s standard-setting project to fill the gap in IFRS 16.</p>
<b>What has changed?</b>	<p>The Amendments add new paragraph 102A to IFRS 16 to require the seller-lessee to apply paragraphs 29–35 to subsequently measure the right-of-use asset arising from the leaseback and paragraphs 36–46 to the lease liability arising from the leaseback. In applying paragraphs 36–46, the seller-lessee shall determine ‘lease payments’ or ‘revised lease payments’ in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying the requirements in paragraph 102A does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease as required by paragraph 46(a).</p> <p>There were no consequential amendments to any other international accounting standards.</p>
<b>Transition requirements</b>	<p>The Amendments are effective for annual periods beginning on or after 1 January 2024, with earlier application permitted. If a seller-lessee applies the Amendments for an earlier period, it shall disclose that fact.</p>

	<p>The Amendments should be applied retrospectively in accordance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to sale and leaseback transactions entered into after the date of initial application. The date of initial application is the beginning of the annual reporting period in which an entity first applies IFRS 16.</p>
<b>Technical criteria assessment</b>	
<b>Relevance and reliability</b>	<p>The Committee concluded that a seller-lessee recognises a liability at the date of the sale and leaseback transaction, even if all the payments for the lease are variable and do not depend on an index or rate (i.e. are linked to future performance or use of an underlying asset). The initial measurement of the liability is a consequence of how the right-of-use asset, and the gain or loss on the transaction, are measured. However, lease payments as defined in Appendix A of IFRS 16 exclude variable lease payments that do not depend on an index or rate. Prior to the Amendments, IFRS 16 did not include specific requirements for the subsequent measurement of sale and leaseback transactions. In the case of sale and leaseback transactions involving variable lease payments that do not depend on an index or rate, there is therefore a risk that the subsequent measurement of the lease liability could exclude such variable payments, giving rise to an inconsistency with the initial measurement. In particular, if there is a modification in the contract or a change in lease term, the necessary remeasurement could result in the seller-lessee recognising a gain or loss on the right-of-use it retained.</p> <p>The Amendments address this risk by requiring a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right-of-use it retains. This treatment appropriately reflects the economics of a sale and leaseback transaction because the seller-lessee has transferred only its interest in the asset at the end of the leaseback and has retained the right to use the asset for the period of the lease. Preventing the recognition of remeasurement gains in the absence of any transaction will result in relevant and reliable information.</p> <p>The Amendments do not prescribe how, at the commencement date, a seller-lessee determines the proportion of the previous carrying amount of the asset that relates to the right of use the seller-lessee retains (and therefore the initial measurement of the resulting lease liability). This allows a seller-lessee to determine the most appropriate approach for each sale and leaseback transaction, based on the specific facts and circumstances (for example, the level of uncertainty regarding the amount of leaseback payments to be made). In addition, an entity is required</p>

	<p>to disclose its material accounting policies<sup>9</sup>. This approach is likely to lead to accounting treatments that appropriately reflect the economics of the transaction and hence provide relevant and reliable information<sup>10</sup>.</p> <p>A seller-lessee is required to apply the Amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application of IFRS 16, resulting in relevant and reliable information also for the comparative period.</p>
<b>Understandability</b>	<p>The Amendments will result in accounting that fairly reflects the economic substance of sale and leaseback transactions with variable lease payments by preventing the recognition of remeasurement gains in the absence of any transaction. Consequently, it will provide useful information to users of accounts about transactions covered by the Amendments, increasing the understandability of the accounts.</p> <p>The Amendments will also ensure the subsequent measurement of the lease liability is consistent with its initial measurement as well as with the subsequent measurement of lease liabilities unrelated to a sale and leaseback transaction, thereby enhancing understandability of the accounts.</p>
<b>Comparability</b>	<p>Initial feedback indicates that sale and leaseback transactions with variable lease payments that do not depend on an index or rate are rare in the UK<sup>11</sup>. However, when they occur such transactions may be material and the leaseback terms could be long. It is therefore important for users of accounts that seller-lessees apply IFRS 16 consistently to those transactions. The Amendments fill a gap in IFRS 16 and therefore have the potential to reduce any diversity of practice, and prevent such diversity arising in future, promoting consistency and comparability of accounts.</p> <p>The Amendments do not prescribe a method for determining the proportion of the previous carrying amount of the asset that relates to the right of use the seller-lessee retains. Prescribing a single method could bring further comparability to the measurement of the right-of-use asset and leaseback liability.</p>

<sup>9</sup> See IAS 1 paragraph 122.

<sup>10</sup> The requirements of IAS 8 paragraph 10 require a seller-lessee to develop and apply an accounting policy that results in information that is relevant and reliable.

<sup>11</sup> It is possible that UK entities might have overseas operations that enter into such transactions. However, the IASB performed a search in June 2021 to obtain further evidence about the volume of material sale and leaseback transactions with variable payments. Their search identified one seller-lessee that disclosed two sale and leaseback transactions for which the leaseback payments are based entirely on a percentage of its revenue generated using the underlying asset.

	<p>However, this could increase comparability at the cost of impairing relevance and reliability—by not prescribing a method, entities will be able to apply a method based on their specific facts and circumstances which better reflects the economics and thus results in more relevant information. Further, this situation (the lack of a prescribed method) already exists under IFRS 16.</p> <p>Retrospective application of the Amendments, as required by the transitional requirements, will enhance comparability.</p>
<b>Conclusion</b>	<p>Overall, we conclude that the Amendments meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.</p>
<b>Amendments <del>are</del> not contrary to the true and fair view requirement</b>	
<b>Description</b>	<p>The previous section of this DECA concludes that the Amendments meet the technical accounting criteria, including that of reliability. Reliability includes the notion of faithful representation of the economic substance of transactions and events. The technical accounting criteria assessment therefore underpins the overall true and fair view assessment.</p> <p>The Amendments do not change the requirements for leases unrelated to a sale and leaseback transaction. Additionally, the Amendments do not change the initial measurement of the right-of-use asset and the leaseback liability in IFRS 16. They merely extend and adapt the existing subsequent measurement requirements in IFRS 16 for all leases to sale and leaseback transactions. Consequently, the Amendments are narrow in scope and do not introduce new principles.</p>
<b>Conclusion</b>	<p>Our assessment has not identified any requirement of the Amendments, either alone or in conjunction with international accounting standards adopted for use in the UK, that would prevent individual or group accounts prepared using the Amendments from giving a true and fair view of the undertaking's or group's assets, liabilities, financial position and profit or loss. We are satisfied, therefore, that the circumstances in which the application of the Amendments would result in accounts which did not give a true and fair view would be extremely rare.</p> <p>Overall, we conclude that the Amendments are not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.</p>

UK long term public good	
<b>Description of entities that will be impacted</b>	<p>The Amendments will, in principle, affect all companies that apply UK-adopted international accounting standards. There are currently approximately 1,500 entities with equity listed in the London Stock Exchange (Main Market and AIM) that prepare their accounts in accordance with UK-adopted international accounting standards<sup>12</sup>. In addition, UK law allows unlisted companies the option to use UK-adopted international accounting standards and approximately 14,000 companies currently take up this option<sup>13</sup>.</p> <p>However, based on feedback from auditors<sup>14</sup>, the type of transaction covered by the Amendments, i.e. sale and leaseback transactions that include variable leaseback payments that do not depend on an index or rate, <del>is</del>are rare in the UK.</p>
<b>Do the <del>a</del>Amendments improve financial reporting?</b>	<p>The Amendments will improve the quality of financial reporting because:</p> <ul style="list-style-type: none"> <li>• They prevent a seller-lessee from recognising a gain on the right of use it retains solely because of a subsequent remeasurement and thereby avoid distortions in the income statement.</li> <li>• They will reduce potential diversity in practice by specifying requirements in respect of an issue not currently addressed by IFRS 16, i.e. subsequent measurement of the right-of-use asset and lease liabilities in sale and leaseback transactions.</li> </ul>
<b>Costs for preparers and users</b>	<p>When considering the cost for preparers we took into consideration feedback which indicated that sale and leaseback transactions affected by the Amendments (those entered into since the implementation of IFRS 16 that include variable leaseback payments that do not depend on an index or rate) are rare in the UK. However, the possibility exists that such transactions occur in the UK and may occur in the future.</p> <p><u>Preparers:</u> Given that the Amendments are narrow in scope, we estimated preparers' adoption costs by conducting a qualitative assessment of the costs likely to be borne by preparers. We assessed whether preparers would face costs related to:</p> <ul style="list-style-type: none"> <li>• familiarisation;</li> <li>• design of data collection processes;</li> <li>• IT system changes;</li> </ul>

<sup>12</sup> Estimate based on LSEG and Reuters-Eikon data.

<sup>13</sup> Estimate based on FAME, Companies Watch and proprietary data.

<sup>14</sup> Feedback from UKEB's Accounting Firms & Institutes Advisory Group (AFIAG).

	<ul style="list-style-type: none"> <li>• governance processes;</li> <li>• external audit; and</li> <li>• other costs.</li> </ul> <p>We note the Amendments do not require the seller-lessee to estimate expected lease payments<sup>15</sup> which could be a costly exercise. Instead, the seller-lessee could use an alternative method that is more straightforward when developing its accounting policy for determining 'lease payments' as required by paragraph 102A of the Amendments.</p> <p>We believe that preparers, if they enter into transactions covered by the Amendments, will face some <b>one-off familiarisation costs</b> related to the implementation of the Amendments. We expect these costs to be minimal because of the low frequency of such transactions.</p> <p>It is not expected that entities will incur significant additional costs related to the <b>design of data collection processes</b> or related to <b>IT system changes</b>. Given that transactions covered by the Amendments are likely to be one-off transactions, it is likely that key elements of the accounting information required by the Amendments will be manually derived. Other information is likely to be generated as part of the system already implemented when applying IFRS 16. The cost of applying the Amendments will be further limited as the Amendments are not required to be applied to sale and leaseback transactions entered into before the beginning of the annual reporting period in which the entity first applied IFRS 16 (1 January 2019 for most seller-lessees).</p> <p>We expect other costs (i.e. <b>governance processes, external audit costs and other</b>) to be minimal or nil, in particular since relevant transactions are expected to be rare in the UK.</p> <p>Based on our assessment, we expect preparers' implementation costs to be nil or minimal (if they enter into transactions covered by the Amendments).</p> <p><u>Users</u>: We do not expect implementation costs for users because the transactions covered by the Amendments are rare.</p>
<p><b>Benefits for preparers and users</b></p>	<p><u>Preparers</u>: because the transactions covered by the Amendments are rare in the UK, we expect the benefits for preparers to be minimal.</p> <p>However, when the transactions covered by the Amendments occur, they may be material and with a long duration. Therefore, the Amendments could provide an overall benefit to preparers who</p>

<sup>15</sup> See paragraph BC294A of the Basis for Conclusions to the Amendments.

	<p>enter into such transactions by providing clarity on the accounting requirements.</p> <p><u>Users:</u> similarly, because the transactions covered by the Amendments are rare in the UK, we expect the benefits for users to be minimal.</p> <p>However, as a general consideration users will benefit from greater comparability of financial reporting amongst different entities as the Amendments fill a gap in IFRS 16 and therefore have the potential to reduce any diversity of practice. By preventing the recognition of remeasurement gains in the absence of any transaction, the Amendments benefit users in terms of providing them relevant and reliable information for their analysis.</p>
<p><b>Whether the Amendments are likely to have an adverse effect on UK economy</b></p>	<p>The Amendments are limited in scope and will generally bring improved financial reporting as they fill a gap in current requirements for sale and leaseback transactions. The Amendments are likely to be conducive to the UK long term public good in that improved financial reporting better reflects the economics of transactions, thereby improving transparency.</p> <p>We have not identified any factors that would indicate that the Amendments would lead to changes that are detrimental to the UK economy. In addition, we do not expect the accounting under the Amendments to negatively affect economic behaviour in relation to sale and leaseback <u>transactions</u> with variable payments not linked to an index or rate.</p> <p>As a result, the Amendments are not likely to have an adverse effect on the UK economy, including on economic growth.</p>
<p><b>Conclusion</b></p>	<p>Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.</p>

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## Do the Amendments lead to a significant change in accounting practice?

- 2.1 As explained in paragraph 9 in the Introduction to this DECA, the UKEB is required to assess whether or not the Amendments are likely to lead to a 'significant change in accounting practice' and therefore meet the criteria for a post-implementation review.
- 2.2 The Amendments do not change the initial measurement of the right-of-use asset or the leaseback liability in IFRS 16. Instead, the Amendments merely adapt existing subsequent measurement principles in IFRS 16 for all leases to sale and leaseback transactions.
- 2.3 Whilst the above change will in principle be applicable to all companies that use UK-adopted international accounting standards to produce their accounts, based on the above analysis the number of entities that will be impacted is expected to be negligible. As a result, the UKEB concludes that the Amendments are not likely to lead to a significant change in accounting practice and do not meet the criteria for a post-implementation review under Regulation 11 in SI 2019/685.

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# FEEDBACK STATEMENT

*Lease Liability in a Sale and Leaseback*—Amendments to  
IFRS 16

Endorsement Criteria Assessment (ECA)

April 2022

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

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# Purpose of this feedback statement

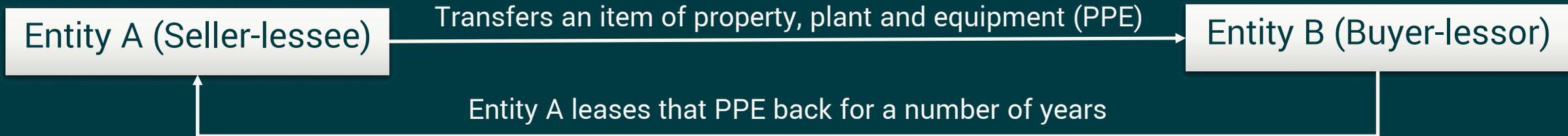
This feedback statement presents the views of UK stakeholders received during the UKEB's public consultation on the draft Endorsement Criteria Assessment (ECA) of *Lease Liability in a Sale and Leaseback*—Amendments to IFRS 16 and where relevant explains how the UKEB has addressed those views in the final ECA.



# Description of the Amendments to IFRS 16

A brief description of the Amendments is presented below:

## *Lease Liability in a Sale and Leaseback—Amendments to IFRS 16*



The Amendments add requirements in IFRS 16 *Leases* on how to subsequently account for sale and leaseback transactions that include variable leaseback payments that do not depend on an index or rate (i.e. variable lease payments linked to future performance or use of an underlying asset).

# Background to the endorsement project

The IASB issues amendments to international accounting standards to maintain and improve IFRS Accounting Standards.

In September 2022 the IASB finalised and published *Lease Liability in a Sale and Leaseback—Amendments to IFRS 16*.

The Amendments have an effective date of 1 January 2024 with earlier application permitted.

The UKEB Secretariat submitted its Final Comment Letter (FCL) on the IASB's Exposure Draft on 26 March 2021, before the Board's statutory functions had been delegated by the Secretary of State. The Board was therefore not involved in the development of the FCL.

However, the IASB considered the comments in our FCL and made by UK respondents directly to the IASB when finalising the Amendments.

For the project to consider the Amendments for adoption, the UKEB

- Approved the Project Initiation Plan at its November 2022 meeting.
- Approved the Draft Endorsement Criteria Assessment (DECA) at its December 2022 meeting.

Due to the narrow-scope nature of the Amendments, the UKEB's consultation activities were focused on obtaining responses to the DECA.

# UKEB public consultation on the draft ECA

- The DECA was published for consultation for 90 days, between 5 January 2023 and 5 April 2023.
- During the consultation period, the UKEB and its Secretariat promoted awareness of the DECA and encouraged stakeholders to respond through News Alerts and advertising through the usual channels. We also sent the link to the DECA to members of UKEB Advisory Groups for them to share with relevant contacts in their organisation and wider network.
- A total of six formal responses was received by the UKEB from stakeholders.
- All stakeholder comments were considered in reaching the UKEB's final assessment of the Amendments. Stakeholder submissions received were made public on the UKEB website.

Stakeholder type	Number of responses
Accounting firms	4
Accounting and audit representative organisations	1
Preparers of accounts	1
<b>Total</b>	<b>6</b>

# Overall assessment

Respondents to the DECA concur with the UKEB's assessment based on the adoption criteria in paragraph 1 of Regulation 7 SI 2019/685 and are fully supportive of the adoption of the Amendments.



# Detailed assessment—Comments from respondents

<b><i>Lease Liability in a Sale and Leaseback—Amendments to IFRS 16</i></b>		
<b>UKEB tentative assessment</b>	<b>Stakeholder views</b>	<b>UKEB final assessment</b>
<b>Technical criteria assessment</b>		
The DECA tentatively concluded that the Amendments met the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by Regulation 7(1) of SI 2019/685.	All respondents were supportive of the UKEB’s tentative conclusion.	Consistent with tentative assessment.
<b>True and fair view assessment</b>		
The DECA tentatively concluded that the Amendments were not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.	All respondents were supportive of the UKEB’s tentative conclusion.	Consistent with tentative assessment.

# Detailed assessment—Comments from respondents

<b><i>Lease Liability in a Sale and Leaseback—Amendments to IFRS 16</i></b>		
<b>UKEB tentative assessment</b>	<b>Stakeholder views</b>	<b>UKEB final assessment</b>
<b>UK long term public good</b>		
<p>The DECA tentatively concluded that, having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, the Amendments were likely to be conducive to the long term public good in the UK as required by SI 2019/685.</p>	<p>All respondents were supportive of the UKEB’s tentative conclusion. All respondents also agreed with the UKEB’s assessment that sale and leaseback transactions affected by the Amendments are rare in the UK.</p> <p>One respondent considered that a reassessment of the existing requirements for sale and leaseback transactions, including the accounting for variable payments as consideration in an asset acquisition, is needed as part of the Post-implementation Review of IFRS 16.</p>	<p>Consistent with tentative assessment.</p>

# Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on the Draft Endorsement Criteria Assessment of *Lease Liability in a Sale and Leaseback*—Amendments to IFRS 16 and should not be relied upon for any other purpose.

The views expressed in this feedback statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

## Contact Us

UK Endorsement Board

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# Due Process Compliance Statement: *Lease Liability in a Sale and Leaseback*— Narrow-scope Amendments to IFRS 16

Title of the Amendment	Issue dates
<b>Lease Liability in a Sale and Leaseback Amendments to IFRS 16</b>	<ul style="list-style-type: none"> <li>Exposure Draft ED/2020/4 published on 30/11/2020</li> <li>Final amendment published: 22/09/2022</li> </ul>

**General UKEB requirements:** The UKEB adopts international accounting standards for use within the UK, in accordance with SI 2019/685, and applies its own processes before it decides whether to adopt a new or amended international accounting standard.

Endorsement process			
Step	Mandatory/ optional <sup>1</sup>	Metrics or evidence	UKEB Secretariat comments
<b>Work plan</b> [Handbook 4.30(d)]			
<b>Technical project added to UKEB technical work plan</b>	Mandatory	Project is included in the UKEB published technical work plan.	<b>Complete:</b> The Amendments were included in the <a href="#">UKEB technical work plan published in October 2022</a> .
<b>Project preparation</b> [Handbook 6.12-6.16]			
<b>Project Initiation Plan (PIP)</b>	Mandatory	PIP draft with project outline (background, scope, project objective) and approach for endorsement and adoption	<b>Complete:</b> taking a proportionate approach, the Secretariat included mandatory milestones for the project and considered, as appropriate, other milestones and activities.  The PIP was approved at the 17 November 2022 Board meeting.

<sup>1</sup> In accordance with the [Due Process Handbook](#).

Endorsement process			
Step	Mandatory/ optional <sup>1</sup>	Metrics or evidence	UKEB Secretariat comments
		(key milestones and timing) proportionate to the project	
	Mandatory	Outreach plan for stakeholders and communication approach outlined	<b>Complete:</b> Due to the narrow-scope nature of the Amendments, consultation activities were focused solely on obtaining responses to the Draft Endorsement Criteria Assessment (DECA) (as posted on the UKEB website).
	Mandatory	Resources allocated	<b>Complete:</b> One project manager supported and overseen by one senior project director, with communications and economics team support.
	Mandatory	Assessment of whether to set up an ad-hoc advisory group	<b>Complete:</b> Assessed. Taking a proportionate approach, an ad-hoc advisory group was not considered necessary due to the narrow-scope nature of the Amendments.
	Mandatory	UKEB Board public meeting held to approve PIP	<b>Complete:</b> PIP approved at 17 November 2022 Board meeting.
	Optional	UKEB education or initial assessment	<b>Complete:</b> Whilst an education session was not organised, the Board was provided with an update on the project at the <a href="#">September 2022</a> Board meeting covering background information on the Exposure Draft (ED) proposals and on the UKEB Final Comment Letter (FCL), including an update on the

Endorsement process			
Step	Mandatory/ optional <sup>1</sup>	Metrics or evidence	UKEB Secretariat comments
			IASB's subsequent redeliberations.
Communications			
<b>Public board meetings</b> [Handbook 4.10]	Mandatory	UKEB Board public meetings held to discuss technical project	<p><b>Complete:</b> The Secretariat gave an update to the Board at the September 2022 meeting.</p> <p>17 November 2022: the Board approved the <a href="#">PIP</a>.</p> <p>14 December 2022: the Board reviewed and approved the <a href="#">DECA</a> for consultation.</p> <p><b>To take place:</b> 27 April 2023: Approval of the Adoption Package consisting of:</p> <ul style="list-style-type: none"> <li>• Final Endorsement Criteria Assessment (ECA)</li> <li>• Feedback Statement</li> <li>• [Draft] Due Process Compliance Statement</li> <li>• [Draft] Adoption Statement for the Amendments</li> </ul>
<b>Secretariat papers</b> [Handbook 4.20]	Mandatory	Board meeting papers posted and publicly available on a timely basis.	<p><b>Complete:</b> The UKEB meeting papers were published on the UKEB website one week before the relevant public meetings and subscribers notified via UKEB News Alerts.</p> <p>Meeting minutes and recordings were made publicly available via the UKEB website. Subscribers were notified via UKEB News Alerts.</p>
<b>Project website</b> [Handbook 4.25(b)]	Mandatory	Project website contains a project description	<p><b>Complete:</b> The project <a href="#">webpage</a> was created in September 2022. It is updated regularly with project status and additional materials.</p>

Endorsement process			
Step	Mandatory/ optional <sup>1</sup>	Metrics or evidence	UKEB Secretariat comments
		with up-to-date information on the project.	
	Mandatory	Update UKEB website	<b>Complete:</b> Project webpage updated regularly, and News Alerts issued to subscribers with latest status and documents.
<b>Alerts</b> [Handbook 4.24]	Mandatory	Evidence that subscriber alerts have occurred	<b>Complete:</b> Subscribers were alerted via email 5 days before each Board meeting with links to the agenda, papers and the option to dial in to observe the discussion.  A News Alert was also issued, alerting subscribers to the DECA publication.
	Mandatory	Project email address	A general UKEB email address was used for outreach and correspondence purposes throughout the duration of the project.

Endorsement process			
Step	Mandatory/ optional <sup>1</sup>	Metrics or evidence	UKEB Secretariat comments
<b>Desk-based research [Handbook 6.17]</b>			
	Optional	Identify relevant research sources and documents	<p><b>Complete:</b> the Secretariat has reviewed:</p> <ul style="list-style-type: none"> <li>• The IASB’s work on the Amendments (mainly staff papers, IFRIC Agenda Decision including discussion with IASB staff)</li> <li>• The Big 4 accounting manuals and separate publications on the Amendments for any guidance and illustrative examples</li> <li>• The IASB’s Basis for Conclusions and Dissenting Opinion</li> <li>• Comment letters on the ED received by the IASB from UK stakeholders including the UKEB</li> <li>• Previous work done by the Secretariat (Feedback Statement, comment letters on our DCL)</li> </ul>
<b>Outreach activities [Handbook 6.18-6.22]</b>			
<b>Consult with a representative range of stakeholders before adoption</b>	Mandatory	Evidence of consultation	<p>Due to the narrow-scope nature of the Amendments, consultation activities were focused on obtaining responses to the Draft Endorsement Criteria Assessment (DECA). The UKEB received six comment letters.</p> <p>Comment letters are available on the UKEB website.</p>

Endorsement process			
Step	Mandatory/ optional <sup>1</sup>	Metrics or evidence	UKEB Secretariat comments
<b>Draft Endorsement Criteria Assessment (DECA) [Handbook 6.23-6.29]</b>			
	Mandatory	UKEB sets comment period for response on DECA (generally not less than 90 days)	<b>Complete:</b> At 17 November 2022 Board meeting the Board decided that the comment period for public consultation should be 90 days and approved the overall project plan.  The DECA was published for consultation on 5 January 2023 (comment period deadline 5 April 2023).
	Mandatory	Review and approval at UKEB public meeting	<b>Complete:</b> Approved at 14 December 2022 Board meeting.
	Mandatory	DECA posted on website for public consultation	<b>Complete:</b> The Secretariat published the approved <a href="#">DECA</a> and <a href="#">Invitation to Comment</a> on the UKEB website for a 90-day consultation period from 5 January 2023 to 5 April 2022.
	Mandatory	News Alert to announce publication	<b>Complete:</b> News Alert posted on 5 January 2023 calling for comments and link to the DECA was sent out to UKEB advisory groups.
<b>Project closure [Handbook 6.30-6.48]</b>			
<b>Final Endorsement Criteria Assessment (ECA)</b>	Mandatory	Public responses on DECA assessed and posted on website	<b>Complete:</b> The UKEB received six comment letters which were published on the UKEB website.  All responses were assessed, reflected as appropriate in the ECA and summarised in the feedback statement.

Endorsement process			
Step	Mandatory/ optional <sup>1</sup>	Metrics or evidence	UKEB Secretariat comments
	Mandatory	Final ECA approved by UKEB in public meeting	<b>To take place:</b> A draft of the ECA will be presented for approval to the Board at its April 2023 public meeting.
	Mandatory	Publish final ECA on UKEB website	<b>To take place</b> following finalisation.
Feedback statement	Mandatory	Feedback statement approved by UKEB in public meeting	<b>To take place:</b> A feedback statement will be presented for approval to the Board at its April 2023 public meeting.
	Mandatory	Feedback statement posted on UKEB Website	<b>To take place</b> in May 2023, following finalisation.
	Mandatory	News Alert published to announce publication	<b>To take place</b> following posting to website.
Due Process Compliance Statement (DPCS)	Mandatory	Due Process Compliance Statement approved by UKEB in public meeting	<b>To take place:</b> A [draft] DPCS will be presented for approval to the Board at its April 2023 public meeting. A final DPCS will be presented for noting at the Board's May 2023 meeting.
	Mandatory	Due Process Compliance Statement posted on UKEB Website	<b>To take place</b> subsequent to the May 2023 Board meeting.

Endorsement process			
Step	Mandatory/ optional <sup>1</sup>	Metrics or evidence	UKEB Secretariat comments
Adoption Statement	Mandatory	Adoption statements approved by UKEB in public meeting	<b>To take place:</b> Adoption statement for the Amendments will be presented for approval to the Board at its April 2023 public meeting.
	Mandatory	Adoption statements posted on UKEB Website	<b>To take place</b> in May 2023, dependent on the UKEB's adoption decision.
	Mandatory	News Alert published to announce publication	<b>To take place</b> following posting to website.
Voting on adoption of the Amendments	Mandatory	Tentative vote	<b>To take place</b> at the April Board meeting based on the discussion of the 'adoption package', which includes a final draft ECA, a feedback statement, a DPCS, draft adoption statement for the Amendments; and the text of the UK-adopted international accounting standard (Amendments to IFRS 16).
	Mandatory	Evidence of written vote (in paper or electronic form).	<b>To take place:</b> Adoption statement and voting forms will be sent to the Board for voting (accompanied by the text of the Amendments to be adopted) on 2/5/23 (written forms due by 9/5/23). Vote will be formalised via Board members signing the formal voting forms for the Amendments.
	Mandatory	News Alert published to announce the	<b>To take place</b> once UKEB's voting process is finalised.

<b>Endorsement process</b>			
<b>Step</b>	<b>Mandatory/ optional<sup>1</sup></b>	<b>Metrics or evidence</b>	<b>UKEB Secretariat comments</b>
		outcome of the vote within 3 working days of the formal vote	

<b>Conclusion</b>
<p>This document sets out the main due process activities performed as part of the UKEB's project to endorse the Amendments.</p> <p>In the Secretariat's opinion, overall, this project complies with the applicable due process steps, as set out in the Handbook at the time of writing.</p>

# Adoption Statement

## Adoption of *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16)

1. The UK Endorsement Board is designated under regulation 2(1) of The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609<sup>1</sup> (“the Delegating Regulations”) for the purpose of enabling it to exercise functions of the Secretary of State under Chapter 3 of Part 2 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685<sup>2</sup> (“the Regulations”).
2. The UK Endorsement Board, in exercise of the powers conferred by regulation 6(1) of the Regulations, adopts the following amendment to international accounting standards published in September 2022 by the International Accounting Standards Board (IASB), for use within the United Kingdom:
  - a) *Lease Liability in a Sale and Leaseback*—Amendments to IFRS 16
3. In accordance with regulation 7(1) of the Regulations, the UK Endorsement Board is of the view that:
  - a) the standard<sup>3</sup> is not contrary to either of the following principles—
    - i. an undertaking’s accounts must give a true and fair view of the undertaking’s assets, liabilities, financial position and profit or loss;
    - ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;
  - b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and
  - c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

<sup>1</sup> Accessible here: <https://www.legislation.gov.uk/ukxi/2021/609/contents/made>

<sup>2</sup> Accessible here: <https://www.legislation.gov.uk/ukxi/2019/685/contents>

<sup>3</sup> The term “standard” includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (SIC-IFRIC interpretations) issued or adopted by the International Accounting Standards Board (IASB). The term ‘standard’ excludes Practice Statements. This Adoption Statement relates to amendments to those standards.

4. In accordance with regulation 8 of the Regulations, the UK Endorsement Board is of the view that adequate consultation with persons representative of those with an interest in the quality and availability of accounts, including users and preparers of accounts, has been undertaken before the adoption decision.
5. The adopted amendment to international accounting standards in paragraph 2:
  - a) must be used for financial years beginning on or after 1 January 2024;
  - b) may be used for financial years beginning before 1 January 2024.
6. The text of the adopted amendments to international accounting standards is set out in the annex to this statement.

# Approval by the UKEB Board

## Adoption of *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16)

*Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16) published by the IASB in September 2022 was approved for adoption by [ ] members of the UK Endorsement Board.

Pauline Wallace	Chair
Amir Amel-Zadeh	
Michael Ashley	
Philip Aspin	
Kathryn Cearns	
Katherine Coates	
Robin Cohen	
Edward Knapp	
Paul Lee	
Giles Mullins	
Liz Murrall	
Sandra Thompson	
Michael Wells	

[Date]



# UK-adopted international accounting standards

## Lease Liability in a Sale and Leaseback Amendments to IFRS 16

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## ***Lease Liability in a Sale and Leaseback - Amendments to IFRS 16***

### **Amendments to IFRS 16 *Leases***

Paragraphs 102A, C1D and C20E are added and paragraph C2 is amended. A new heading is added before paragraph C20E. New text is underlined, and deleted text is struck through.

### **Sale and leaseback transactions**

...

#### **Assessing whether the transfer of the asset is a sale**

...

#### **Transfer of the asset is a sale**

102A After the commencement date, the seller-lessee shall apply paragraphs 29–35 to the right-of-use asset arising from the leaseback and paragraphs 36–46 to the lease liability arising from the leaseback. In applying paragraphs 36–46, the seller-lessee shall determine ‘lease payments’ or ‘revised lease payments’ in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying the requirements in this paragraph does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease as required by paragraph 46(a).

...

## Appendix C Effective date and transition

### Effective date

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...

C1D *Lease Liability in a Sale and Leaseback*, issued in September 2022, amended paragraph C2 and added paragraphs 102A and C20E. A seller-lessee shall apply these amendments for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies these amendments for an earlier period, it shall disclose that fact.

### Transition

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C2 For the purposes of the requirements in paragraphs C1 – C20E C19, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

...

#### **Lease liability in a sale and leaseback**

C20E A seller-lessee shall apply *Lease Liability in a Sale and Leaseback* (see paragraph C1D) retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application.