

UKEB FEEDBACK STATEMENT

IASB ED/2020/4 Lease Liability in a Sale and Leaseback –
Proposed amendment to IFRS 16

28 April 2021

Following the UK's exit from the European Union, the Department for Business, Energy and Industrial Strategy (BEIS) is setting up the UK Endorsement Board (UKEB) to fulfil statutory functions of influencing the development and subsequent adoption of International Accounting Standards for use in the UK. The UKEB Secretariat has begun influencing activities in preparation for the delegation of those statutory functions to the UKEB.

This feedback statement forms part of those influencing activities. The views expressed by the UKEB Secretariat in this feedback statement are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards to be provided to the Secretary of State or the UKEB, once powers have been delegated.

Contents

Purpose	4
Background	5
IASB's main proposals	6
UKEB Secretariat comment letter	7
Project approach	8
IASB's main proposals, stakeholder views and UKEB Secretariat position	9

Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB Secretariat's outreach activities on the IASB's ED/2020/4 *Lease Liability in a Sale and Leaseback – Proposed amendment to IFRS 16* and explains how the UKEB Secretariat's comment letter addressed those views.



Background to the IASB's Exposure Draft

The IFRS Interpretations Committee (the Committee) received a request about a sale and leaseback transaction that includes variable lease payments. The request asked how the seller-lessee measures the right-of-use asset arising from the leaseback and, thus, determines any gain or loss to recognise at the date of the transaction. The Committee concluded that IFRS 16 provides an adequate basis for a seller-lessee to determine the accounting for the sale and leaseback transaction at the date of the transaction and published an agenda decision explaining this conclusion.

However, the Committee's discussions on this matter highlighted the absence of specific subsequent measurement requirements for sale and leaseback transactions in IFRS 16 and the possibility that this leads to inconsistent treatment being applied by seller-lessees. The Committee referred this issue to the IASB.

The IASB proposed a narrow scope amendment to IFRS 16 to improve the requirements for sale and leaseback transactions, without changing the principles for the sale and leaseback requirements in IFRS 16 or the accounting for leases unrelated to sale and leaseback transactions. The proposed amendment to IFRS 16 is limited to (i) adding subsequent measurement requirements for sale and leaseback transactions and (ii) specifying the method for initially measuring the right-of-use asset and liability arising in such transactions.



Overview – the IASB’s main proposals

1. Initial measurement

The ED proposes the seller-lessee initially measure the right-of-use asset arising from the transaction at the portion of the previous carrying amount retained for use. This portion is determined by comparing the fair value of the asset sold to the present value of expected lease payments. The lease liability is calculated as the present value of expected lease payments.

2. Expected lease payments

The ED specifies which payments comprise expected lease payments. This includes “variable lease payments”, which are defined more broadly than the existing definition in IFRS16.

3. Subsequent measurement

The ED specifies that the right-of-use asset be accounted for under paragraphs 29-35 of IFRS 16. New requirements for accounting for the lease liability are then specified which increase the liability to reflect interest, reduce the liability to reflect payments and specify the treatment for remeasurement and shortfalls.

4. Retrospective application

The IASB propose retrospective application.

UKEB Secretariat's comment letter

The UKEB Secretariat's comment letter expressed the following views on IASB's main proposals:

Overall view.

The UKEB Secretariat supported the proposals in general, noting they provided clarity on measurement requirements for an area not addressed in the current standard.

1. IASB proposal: initial measurement.

The use of present value and fair value are consistent with existing requirements of IFRS 16 and familiar to preparers and users. The information required for this approach was considered readily available to preparers. It was agreed that any gain on sale should only be recognised on the portion of the asset sold, though noted there were a number of ways this could be achieved. A number of suggestions to clarify the drafting were made.

2. IASB proposal: expected payments.

Creating a definition of Variable Lease Payment inconsistent with that defined in IFRS 16 creates the risk of inconsistency in financial reporting. Two alternate solutions to remove this inconsistency while ensuring the gain on sale still reflected economic substance of the transaction were proposed to IASB.

3. IASB proposal: subsequent measurement.

The UKEB Secretariat agreed with the proposals and noted it was helpful to have clarity on the circumstances in which a lease liability would be remeasured. A number of suggestions to clarify the drafting were made.

4. IASB proposal: retrospective application

The UKEB Secretariat generally caution against retrospective application of narrow scope amendments. It is felt the shorter consultation period does not allow sufficient evidence to be gathered to form a robust view of the cost/benefit of the proposal. However in this instance, IFRS 16 was only introduced in 2019 and therefore the records related to the transactions were likely to be readily available. On this basis the proposed retrospective application was supported.

Project approach

The IASB's ED/2020/4 *Lease Liability in a Sale and Leaseback* was a proposed narrow scope amendment to IFRS16 *Leases*. The UKEB Secretariat undertook public consultation on a draft comment letter from 4 February – 1 March 2021. Two responses from stakeholders were received during the consultation period. A final comment letter was then submitted to IASB.

UKEB Secretariat's comment letter

IASB proposals, stakeholder views, and UKEB Secretariat position

IASB proposals	Stakeholder views	UKEB Secretariat draft position	UKEB Secretariat final position
Initial measurement	Mixed. One stakeholder did not support the model proposed in the ED, albeit for reasons primarily related to the Expected Payments proposal below. One stakeholder did not object and confirmed the necessary information should be readily available. Stakeholders provided suggestions to improve the clarity of drafting.	Support	Support, but provided detailed suggestions to improve the clarity of drafting.
Expected payments	Mixed. One stakeholder did not think a new definition had been created. The other thought the proposed model did contradict the IFRS 16 definition, did not support the model in the ED, and suggested an alternative unearned income approach to reduce diversity for variable lease payments.	Did not support. Provided alternate solutions to IASB to avoid the risks associated with the use of two different definitions of Variable Lease Payment in IFRS 16/ the ED.	
Subsequent measurement	Mixed. One stakeholder did not support the model proposed in the ED, albeit for reasons that primarily relate to the Expected Payments proposal above. Stakeholders provided suggestions to improve the clarity of drafting.	Support.	Support, but provided detailed suggestions to improve the clarity of drafting.
Retrospective application	Mixed. One stakeholder supported retrospective application and one stakeholder did not.	Support, but highlighted this decision was driven by the fact IFRS16 is relatively new and therefore the necessary information should be readily available.	

Disclaimer

This feedback statement has been produced in order to set out the UKEB Secretariat's response to stakeholder comments received on the IASB's *Lease Liability in a Sale and Leaseback – Proposed Amendment to IFRS16 ED/2020/4* and should not be relied upon for any other purpose. The views expressed in this feedback statement are those of the UK Endorsement Board Secretariat 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 or the Secretary of State.

Contact Us

UK Endorsement Board

8th Floor | 125 London Wall | London | EC2Y
5AS | United Kingdom

Contact@endorsement-board.uk

Web: www.endorsement-board.uk