

Narrow-scope amendments to IFRS 16: Lease Liability in a Sale and Leaseback

Executive Summary

Project Type	Endorsement and adoption
Project Scope	Narrow-scope
Purpose of the paper	
This paper provides the Board with a draft Project Initiation Plan (PIP) for the project to consider the narrow-scope amendments to IFRS 16 Lease Liability in a Sale and Leaseback (the Amendments), issued by the IASB in September 2022, for adoption for use in the UK.	
Summary of the Issue	
The Amendments were issued by the IASB in September 2022 and have an effective date of 1 January 2024. The UKEB must consider the Amendments for adoption in the UK before UK entities are able to apply them. The draft PIP sets out the proposed approach and timeline for the project to assess the Amendments.	
Decisions for the Board	
The Board is asked whether it approves the draft PIP.	
Recommendation	
The Secretariat recommends that the Board approves the draft PIP.	
Appendices	
Appendix A Draft Project Initiation Plan (PIP)	

Appendix A: Project Initiation Plan

Project Type	Endorsement and adoption
Project Scope	Narrow-scope

Purpose

- A1. This paper sets out the plan to assess whether to adopt¹ the narrow-scope amendments to IFRS 16: Lease Liability in a Sale and Leaseback issued by the IASB in 2022 (the Amendments). The Amendments have an effective date of 1 January 2024, with earlier application permitted by the IASB.
- A2. The IASB's proposals were set out in Exposure Draft ED/2020/4 Lease Liability in a Sale and Leaseback. The UKEB Secretariat submitted its Final Comment Letter (FCL) on the ED to the IASB on 26 March 2021² before the Board's Statutory Functions had been delegated by the Secretary of State³. The Board was therefore not involved in the work on the development of the FCL.
- A3. The UKEB's Statutory Functions mean that it must consider the Amendments against the statutory adoption criteria before their formal adoption for use in the UK. The Amendments cannot be used by UK entities until formal adoption has taken place. The Board's aim would be to ensure adoption is completed in good time to permit UK entities to use the amendments on the effective date of the Amendments of 1 January 2024.

Background

- A4. The IFRS Interpretations Committee (the Committee) was asked to consider the application of paragraph 100(a) of IFRS 16 *Leases* to a sale and leaseback transaction that includes variable lease payments that in turn do not depend on an index or rate.

¹ The UK's statutory requirements for adoption of international accounting standards are set out in The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 no. 685 (the Regulations, or SI 2019/685)

² [Final Comment Letter - Lease Liability in a Sale and Leaseback \(Proposed amendment to IFRS 16\).pdf \(kc-usercontent.com\)](#)

³ The Statutory Functions were delegated by the Secretary of State to the UKEB on 22 May 2021.

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- A5. 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.
- A6. 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. 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.
- A7. The Amendments add subsequent measurement requirements for sale and leaseback transactions to improve the requirements for such transactions in IFRS 16 as part of the IASB's continuous effort to maintain and improve IFRS Accounting Standards and to support consistent application.
- A8. The Amendments were:
- a) narrow in scope under the IASB's Due Process Handbook⁴
 - b) issued and exposed for public comment as the IASB considered they merited consultation and outreach.

⁴ <https://www.ifrs.org/content/dam/ifrs/about-us/legal-and-governance/constitution-docs/due-process-handbook-2020.pdf>. See paragraph 5.16 of the Handbook for criteria on which the IFRS Interpretations Committee decides a standard-setting project should be added to the work plan, either by recommending that the IASB develop a narrow-scope amendment or by deciding to develop an IFRIC Interpretation.

Description of the Amendments to IFRS 16

A9. A brief description of the Amendments to IFRS 16 is shown in the table below.

Narrow-scope amendments to IFRS 16: Lease Liability in a Sale and Leaseback	
Issued for public comment	Exposure Draft ED/2020/4 Lease Liability in a Sale and Leaseback—issued for public comment on 27 November 2020 (comment period ended 29 March 2021) ⁵ .
Title and issue date of final amendment	Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) issued on 22 September 2022.
Origin	See background in paragraphs A4 to A8 above.
What has changed?	<p>The Amendments add new paragraph 102A to IFRS 16 to require the seller-lessee, after the commencement date, to 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).</p> <p>There were no consequential amendments to any other IFRS Accounting Standards.</p>
Transition requirements	<p>The Amendments to IFRS 16 are effective for annual periods beginning on or after 1 January 2024, with early 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>

⁵ [Exposure Draft: Lease Liability in a Sale and Leaseback \(ifrs.org\)](https://www.ifrs.org/standards/updates/exposure-drafts/2020/4-lease-liability-in-a-sale-and-leaseback/)

Exclusions

A10. The Amendments include a new example illustrating the application of the requirements in paragraph 102A and paragraphs 29–46 of IFRS 16 in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The Amendments to IFRS 16 also amended existing Illustrative Example 24 of IFRS 16. However, the UKEB’s project does not address illustrative examples as UK-adopted IAS comprises only the mandatory sections of the standards⁶.

Project plan

A11. The project plan is guided by the following factors:

The Amendments are narrow in scope

A12. The Amendments address concerns about a specific aspect of IFRS 16 without causing significant changes in practice to the application of IFRS 16 (refer to paragraph 8(a) in this paper).

A13. The Amendments will not change the initial measurement requirements of IFRS 16 for the right-of-use asset or the gain or loss arising from the sale and leaseback. The Amendments only change the subsequent measurement of the leaseback liability. In particular, the Amendments are expected to impact only a subset of such liabilities, namely sale and leaseback transactions:

- a) with variable leaseback payments;
- b) for which the seller-lessee’s existing accounting policy is inconsistent with the requirement of the Amendments; and
- c) occurring from the date of initial application of IFRS 16 (1 January 2019 for most seller-lessees).

A14. Further, the Amendments do not change the requirements for leases unrelated to a sale and leaseback transaction.

⁶ 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.

The Amendments have been subject to public consultation

- A15. Although the Amendments were exposed for public comment before the creation of the UKEB⁷, the UKEB Secretariat considered and commented on the IASB's proposals. In addition, through the desk-based review we were able to confirm that:
- a) The IASB considered the comments from UK stakeholders⁸ when discussing the feedback on the ED.
 - b) The IASB considered the suggestions made by UK respondents in developing the final Amendment⁹. In instances when the IASB decided not to take forward some of the suggestions made, it provided the rationale for its decisions (i.e. in the Basis for Conclusions or in IASB staff papers discussing the specific amendment). [Agenda Paper 4](#) of the September 2022 Board meeting 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.

Sale and leaseback transactions with variable leaseback payments are not prevalent in the UK

- A16. We sought feedback on the prevalence in the UK of sale and leaseback transactions with variable lease payments that do not depend on an index or rate from:
- a) Technical Partners September 2022 meeting (meeting takes place under Chatham House rules); and
 - b) UKEB's Accounting Firms & Institutes Advisory Group (AFIAG) November 2022 meeting.
- A17. Both groups reported that they have not come across such transactions in the UK. Therefore, expected outreach will adhere to the minimum stipulated in the [draft] Due Process Handbook.

⁷ As mentioned in this paper the proposals to amend to IFRS 16 were issued in November 2020.

⁸ 8 UK stakeholders responded directly to the IASB. These comprised 2 accounting and audit representative organisations and 6 accounting firms.

⁹ Almost all respondents supported the need to amend IFRS 16 to add subsequent measurement requirements for sale and leaseback transactions with variable lease payments not dependent on an index or rate. Some of the concerns expressed by UK stakeholders in their comment letters to the IASB were similar to the concerns expressed in our FCL in particular in respect of the ED proposal on expected lease payments.

Project milestones

A18. A proportionate approach is proposed, incorporating the mandatory milestones listed in paragraph 6.11 of the UKEB’s [draft] Due Process Handbook (the [draft] Handbook)¹⁰. The table below provides a brief description of the work we have done and/or that we intend to do as part of this project.

Milestone/activity	Brief description	Status
Project Initiation activities		
Technical project added to UKEB technical work plan (mandatory) [Draft Handbook 4.31(d)]	Added to UKEB technical work plan .	Completed
Education session (optional) [Draft Handbook 4.11]	Whilst an education session has not been organised, we provided the Board with an update on the project covering background information on the Exposure Draft (ED) proposals and on the UKEB Final Comment Letter (FCL), including an update on the IASB’s subsequent redeliberations.	Completed at September 2022 Board meeting
Project Initiation Plan (mandatory) [Draft Handbook 6.11]	This paper.	-
Desk-based research [Draft Handbook 6.17]	We have reviewed: <ul style="list-style-type: none"> • The IASB’s work on the Amendments (mainly staff papers, ED feedback, Agenda Decision including discussion with IASB staff) • The Big 4 accounting manuals for any guidance and illustrative examples • The Basis for Conclusions and Dissenting Opinion 	Completed - see Appendix B

¹⁰ The draft Handbook was issued for comment on 21 February 2022 and the Board approved the publication of the revised draft of the Handbook at its October 2022 meeting, subject to changes discussed at the meeting. At the time of preparing this PIP the final Handbook has not yet been published. We do not expect any changes to the revised draft of the Handbook to impact the project milestones.

Milestone/activity	Brief description	Status
	<ul style="list-style-type: none"> • Comment letters on the ED received by the IASB from UK stakeholders including the UKEB • Previous work done by the Secretariat (Feedback Statement, comment letters on our DCL) 	
Other mandatory milestones		
Issue of a DECA (mandatory) [Draft Handbook 6.23–6.26]	The Secretariat will develop a draft Endorsement Criteria Assessment (DECA) to assess whether the Amendments meet the UK’s statutory requirements for adoption.	To be completed. We expect to bring the DECA for discussion to the December 2022 meeting.
Minimum outreach activities (mandatory) [Draft Handbook 6.18 - 6.22]	Once the DECA is published for comment on the UKEB website, the UKEB Secretariat’s consultation activities will be limited to obtaining and considering responses on this DECA.	To be completed. DECA publication for comment expected in December 2022
Consultation period for the DECA [Draft Handbook 6.28]	The DECA will be issued for comment for 90 days.	
Project closure [Draft Handbook 6.30]	The project closure process for endorsing projects will comprise the following mandatory steps. <ul style="list-style-type: none"> • Preparation of an ‘adoption package’ by the Secretariat comprising: the Final Endorsement Criteria Assessment (ECA), Feedback Statement, the Adoption Statement and a Due Process Compliance Statement for the project; and 	

Milestone/activity	Brief description	Status
	<ul style="list-style-type: none"> Voting on the adoption of the Amendments. 	

Resources allocated

- A19. On the basis of the project plan set out above, we consider that a project team consisting of one Project Manager with oversight provided by one Senior Project Director should be sufficient to ensure the project timelines are achievable.
- A20. In addition, we plan to obtain input from the economic team to the extent necessary in developing the contents of the economic impact assessment.¹¹

Setting-up an ad-hoc advisory group is not necessary

- A21. Given the narrow-scope nature of the Amendments and initial feedback, it is not considered necessary to set up an ad-hoc advisory group specific for this project.

Project timeline

- A22. The proposed high-level project timeline is as follows:

Date	Milestones
17 November 2022	Presentation of Project Initiation Plan (PIP) for approval
14 December 2022	Presentation of Draft Endorsement Criteria Assessment (DECA) for approval
DECA consultation period (90 days): 5 January – 5 April 2023	
27 April 2023	Board review of comments received on the DECA
18 May 2023	Consideration of Adoption Package Board members provide a tentative vote
22 June 2023	Due Process Compliance Statement for noting

¹¹ The standardised approach for conducting impact assessments for Narrow Scope Amendments (NSAs) presented to the Board at its October 2022 meeting will not be finalised in time for this project.

Narrow-scope amendments to IFRS 16: *Lease Liability in a Sale and Leaseback* (effective date 1 January 2024) – Proposed timeline

