

Invitation to Comment:

Draft Comment Letter–IASB’s ED/2020/4 *Lease Liability in a Sale and Leaseback (Proposed Amendment to IFRS 16)*

Deadline for completion of this Invitation to Comment:

Close of business 1 March 2021

Please submit to: Contact@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the draft comment letter on the IASB’s ED/2020/4 *Lease Liability in a Sale and Leaseback (Proposed Amendment to IFRS 16)*.

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts that apply IFRS.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return to Contact@endorsement-board.uk by close of business on 1 March 2021.

Brief responses providing views on individual questions are welcome, as well as comprehensive responses to all questions.

The UK Endorsement Board

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 Invitation to Comment forms part

of those influencing activities and is intended to contribute to the International Accounting Standards Board's (IASB) due process. The views expressed by the UKEB secretariat in this document 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.

Privacy and other policies

The data collected through submitting this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and endorsing IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)¹.

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Questions

1. Do you support our view that the information necessary for the estimation of fair values and future lease payments is likely to be readily available, either from the information used to price and approve the sale and leaseback transaction or from other sources? (Draft comment letter, appendix 1, paragraph A4). Please explain why or why not.

Yes, we support the UK Endorsement Board's (UKEB) view that the necessary information for the estimation of fair values and future lease payments is most likely to be available from the information used to price and approve the overall transaction.

¹ These policies can be accessed from the footer in the UKEB website here: <https://www.endorsement-board.uk>

2. Do you agree the definition of variable Lease Payment should be aligned for both the main standard IFRS 16 and for sale and leaseback purposes (p100A of the ED)? (Draft comment letter, appendix 1, paragraph A7). Please explain why or why not.

No, we do not really follow the UKEB's line of thinking. In our view, we do not think that the ED has created a new definition of variable Lease Payment. We note that the definition set out in Appendix A of IFRS 16 applies in all cases. The difference in the ED is the types of variable Lease Payments that are included in the measurement of the lease liability.

3. In Draft Comment Letter, appendix 1, paragraphs A10-A11 we describe two methods to align the definition and their consequences. We prefer that the definition in the ED be aligned to the existing definition in IFRS 16 as described in paragraph A10. Do you agree? Please explain why or why not.

No, we believe that having 2 different categories of liabilities would not contribute to the understandability of the financial statements. If such an approach were followed, additional guidance would be required to determine which accounting standard(s) the suggested liability would be in the scope of in subsequent periods.

4. Do you agree that retrospective application is appropriate for this ED. (Draft comment letter, appendix 1, paragraph A9). Please explain why or why not.

No, we believe that when accounting for variable lease payments retrospectively it will often be very hard to avoid the use of hindsight. Making the judgement of whether hindsight is being used or not is also going to be challenging in practice. Therefore, we recommend that the Board considers requiring prospective application of the amendments.

5. Do you have any other comments?

We believe that the way the amendment is currently drafted is potentially overly complex and as such could unintentionally lead to some confusion. We suggest that both the wording is simplified and there is less cross referencing to other parts of the Standard. For example, 102B(c) states that 'The seller-lessee shall subsequently measure the lease liability arising from the leaseback by... remeasuring the carrying amount as specified in paragraph 36(c), except in the circumstances described in paragraph 42(b).' [emphasis added].

We find the proposed wording of paragraph 102(b) confusing. In this context, the contractual payments for the lease and the expected lease payments will often be the same, in which case this comparison will result in a difference of zero. As a result, the revised wording does not seem to appropriately capture situations in which the contractual (and expected) payments are “off-market.” We recommend the wording is revised so that it refers to the difference between the present value of expected lease payments reflecting the contractual terms of the lease and the present value of the expected lease payments determined from the market perspective, assuming this is the IASB’s intention.

Paragraph 102B also states that:

‘The seller-lessee shall subsequently measure the lease liability arising from the leaseback by: ...

(b) reducing the carrying amount to reflect the expected lease payments for the reporting period as determined at the commencement date, or if applicable the revised expected lease payments for the reporting period as determined at the date of remeasurement’.

We believe this statement assumes that the expected lease payments can, to some extent, be subsequently remeasured. We recommend that the IASB considers adding more explanation here, particularly what is meant by the date of remeasurement and provide an example of a situation that should lead to remeasurement. For instance, does it mean all the remeasurement situations addressed by IFRS 16? Or alternatively, if limited to specific situations, those situations should be explicitly stated, explaining that unless it is a situation as stated, remeasurement would not apply.

We believe the proposed illustrative example is very helpful. However, we encourage the IASB to also develop an example that deals with payments with off-market terms. This should explain how paragraph 102B(d) would work in practice, for both initial recognition and subsequent accounting. We also recommend that the Board considers adding disclosures regarding payments being on or off-market and judgements involved in assessing these as variable lease payments.

Paragraph 102B(c) refers to paragraph 40(a) but not 40(b). We are assuming this is because a sale and leaseback transaction that includes a call option would not qualify as a sale under IFRS 15, however we believe it would be useful to explain this reference at least in the Basis for Conclusions to avoid any confusion arising.

Thank you for completing this Invitation to Comment