

29 March 2021

Hans Hoogervorst  
Chair  
International Accounting Standards Board  
7 Westferry Circus, Canary Wharf  
London E14 4HD  
United Kingdom

Via online submission: [www.ifrs.org](http://www.ifrs.org)

Dear Hans

**Submission on Exposure Draft ED 305: Lease Liability in a Sale and Leaseback –  
Proposed amendments to IFRS 16**

As the representatives of over 280,000 professional accountants in Australia, New Zealand and around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Exposure Draft (ED).

CPA Australia and CA ANZ appreciate the intention behind these proposals that seek to address a gap in the requirements in IFRS 16 *Leases* (IFRS 16) when accounting for leases involving sale and leaseback transactions that include variable lease payments (not based on an index or rate). However, we do not believe it is appropriate to introduce an amendment to IFRS 16 at this stage when preparers, auditors and others are still dealing with the first time implementation challenges associated with IFRS 16.

Although we acknowledge there is a gap in the requirements in IFRS 16, we have some concerns with the proposed approach to address this gap. These concerns are set out in the **Attachment** to this letter, in our responses to the specific questions raised. We suggest the IASB undertakes further research and outreach to address these concerns.

We also believe there are other gaps in the standard that are equally pertinent (e.g. lease incentives) where further guidance may need to be developed and included. We appreciate that it is important for the IASB to provide guidance where there is a definite need for it. However, it is not clear to us why this particular matter should take precedence at this stage. In our view, the IASB should collate all the issues and concerns that have been identified by preparers, auditors and other stakeholders over the initial implementation period of IFRS 16 and address these collectively as part of the post-implementation review of the Standard.

We note that the IFRS Interpretations Committee (IFRIC) has already published an Agenda Decision that effectively addresses this matter and we believe this should provide adequate guidance to entities in the short term. Accordingly, we recommend that the International Accounting Standards Board (IASB) considers the matter of accounting for leases involving sale and leaseback transactions that include variable lease payments when it undertakes the post-implementation review of IFRS 16 in due course.

We provide our detailed responses to the questions raised in the ED in the **Attachment** to this letter. If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au) or Amir Ghandar (CA ANZ) [amir.ghandar@charteredaccountantsanz.com](mailto:amir.ghandar@charteredaccountantsanz.com).

Your sincerely

**Dr Gary Pflugrath CPA**  
Executive General Manager, Policy and  
Advocacy  
CPA Australia

**Simon Grant FCA**  
Group Executive – Advocacy and International  
Chartered Accountants Australia and New  
Zealand

## Attachment

**Question 1—Measurement of the right-of-use asset and lease liability arising in a sale and leaseback transaction (paragraphs 100(a)(i), 100A and 102B of the [Draft] amendment to IFRS 16)**

The [Draft] amendment to IFRS 16 *Leases* applies to sale and leaseback transactions in which, applying paragraph 99 of IFRS 16, the transfer of the asset satisfies the requirements to be accounted for as a sale of the asset. The [Draft] amendment proposes:

- (a) to require a seller-lessee to determine the initial measurement of the right-of-use asset by comparing the present value of the expected lease payments, discounted using the rate specified in paragraph 26 of IFRS 16, to the fair value of the asset sold (paragraph 100(a)(i));
- (b) to specify the payments that comprise the expected lease payments for sale and leaseback transactions (paragraph 100A); and
- (c) to specify how a seller-lessee subsequently measures the lease liability arising in a sale and leaseback transaction (paragraph 102B).

**Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.**

For the reasons stated in our cover letter and below, we recommend that the IASB addresses the issues relating to sale leaseback arrangements raised in the ED as part of the post-implementation review of IFRS 16.

We accept that the IASB has identified a gap in the requirements and guidance surrounding the accounting for leases arising from sale and leaseback transactions that include variable lease payments (not based on an index or rate). We also appreciate the IASB's concerns that by excluding variable lease payments (not based on an index or rate) the seller-lessee would have recognised a gain or loss on the portion of the asset they retain as a right-of-use asset.

However, in seeking to address the issue, the IASB is proposing to introduce a rules-based change, which overrides the original principle established in IFRS 16 that variable payments (not based on an index or rate) should not be included in lease payments. The justification for the IASB's position is set out in paragraph BC19 of the ED and notes that the seller-lessee would be able to reasonably estimate the expected lease payments including variable payments because they have a better understanding of the fair value of the underlying asset and expected lease payments. However, we also note the observation in paragraph BC19(c) of the ED that seller-lessees generally do not have high volumes of sale and leaseback transactions that include variable lease payments. Furthermore, seller-lessees will still need to exercise a level of judgement in estimating future lease payments that include variable payments, which is further exacerbated by the current economic uncertainties associated with the global pandemic that could impact current expectations of future economic performance. Given this observation, we

believe the IASB should undertake further research into the matter before it seeks to introduce a rules-based change to the recently implemented IFRS 16.

For lease payments that include variable payments that depend on an index or rate, IFRS 16 requires remeasurement of the lease liability for any future changes in variable payments resulting from a change in an index or rate used to determine those payments. However, the ED proposes (paragraph 102B(c)) that the lease liability should not be remeasured if the seller-lessee's expectations of future variable lease payments were to change. Paragraph BC30 articulates the Board's view that *"there would be no significant benefit in requiring the seller-lessees to remeasure the lease liability if the seller-lessee's expectation of future variable payments were to change"*. We do not believe sufficient justification has been provided by the IASB as to why it has decided, in this instance, to depart from the original remeasurement requirements of the lease liability relating to variable payments.

Many of our stakeholders have implemented IFRS 16 for the first full reporting period recently and are still in the process of assimilating the reporting and economic ramifications of the major changes brought about by the changed accounting requirements of IFRS 16. We are concerned that without a full post implementation review, separate amendments to IFRS 16 at this stage will add to the cost burden for many entities. Also, as stated in our cover letter, it is not clear to us why this particular matter has been identified as an important gap to be addressed, when in our view, there are equally important gaps such as the lack of guidance around the accounting for lease incentives that also needs to be addressed.

For the reasons stated above, we recommend the IASB does not proceed with the proposed amendments to IFRS 16 at this stage, but instead undertakes further research into the matter with a view to addressing it as part of its post-implementation review of IFRS 16. Since the IFRS Interpretations Committee (IFRIC) has already published an Agenda Decision that effectively addresses this matter, we believe this should provide adequate guidance to entities in the short term.

**Question 2—Transition (paragraph C20E of the [Draft] amendment to IFRS 16)**

**Paragraph C20E of the [Draft] amendment to IFRS 16 proposes that a seller-lessee apply the [Draft] amendment to IFRS 16 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to sale and leaseback transactions entered into after the date of initial application of IFRS 16. However, if retrospective application to a sale and leaseback transaction that includes variable lease payments is possible only with the use of hindsight, the seller-lessee would determine the expected lease payments for that transaction at the beginning of the annual reporting period in which it first applies the amendment.**

**Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.**

As stated in the cover letter and our response to Question 1 above, we do not support the IASB proceeding with these proposals at this stage. Therefore, we do not support the transition provisions proposed.