

23 November 2020

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision – Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September 2020 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the applicability of the sale and leaseback requirements in IFRS 16 to a transaction in which an entity sells its equity interest in a subsidiary that holds one asset and leases that asset back.

We agree that the IFRS Interpretations Committee's conclusions as laid out in the agenda decision reflect the requirements of IFRS 10 and IFRS 16 in relation to the specific fact pattern presented therein.

However, we strongly suggest that in addition to this decision the Board takes on a broader project to address the treatment of the sale of corporate wrappers, in particular when, if ever, these should be accounted for as sales of assets rather than subsidiaries. This is because sales of corporate wrappers holding an asset may be in the scope of multiple standards (e.g., IFRS 10 and the IFRS standard applicable to the asset within the subsidiary) that do not address all aspects of derecognition in the same manner. Further, when an asset is sold through a corporate wrapper, applying IFRS 10 based on the legal form of the transaction may result in a different accounting outcome than if the asset had been sold directly despite the fact that in some circumstances the economic substance of both transactions may be the same. The Board addressing this issue will alleviate confusion on how to address conflicting guidance and provide more consistency and comparability for situations where the economic substance is the same but a difference in legal form leads to application of different standards and thus produces different results.

Further, the situation presented in the agenda decision is relatively simple as compared to the more complex transactions encountered in practice. For example, if the fact pattern was changed such that the seller-lessee held a purchase option on the leased asset at the end of the lease term, IFRS 10.B98 would require the asset

to be derecognised and the fair value of the consideration received to be recognised. However, applying IFRS 16.99, the transfer would fail the requirements to be recognised as a sale in IFRS 15 such that IFRS 16 would require the asset to remain on the seller-lessee's statement of financial position. Rather than multiple agenda decisions addressing various other complex situations, a broader Board project would be more efficient and effective.

Furthermore, from the acquirer perspective, IFRS 3 requires that transactions resulting in the acquisition of control of a corporate structure are accounted for differently depending on whether the transaction is the acquisition of a business or asset(s). This concept of distinguishing whether or not a transaction involves a business was also introduced, from a seller's perspective, in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*, though the project has been deferred indefinitely. We believe therefore that the Board should consider whether a symmetry of judgement by the seller and the acquirer of whether a transaction involves transfer of control of a corporate entity or an asset should be maintained. It is that judgement that leads to the current difference in the approach to accounting by the acquirer and seller when assets are purchased/sold through a corporate wrapper whereby the seller is required to treat the transaction as a sale of shares, whilst the acquirer treats it as an acquisition of an asset. The post-implementation review of IFRS 10 may provide an appropriate opportunity for this.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



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