

13 May 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 with Variable Payments (IFRS 16 Leases)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2020 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on how to measure a right-of-use asset (RoU asset) arising from a sale and leaseback and thus how to determine the amount of any gain or loss on the transaction.

We agree with the IFRS Interpretations Committee's conclusions regarding the measurement of the RoU asset and the resulting gain or loss for the reasons stated in the tentative agenda decision. Further, we welcome the tentative decision of the IASB, at its 22 April 2020 meeting, to propose limited amendments to IFRS 16 to address the subsequent accounting of the lease liability recognised in a sale and leaseback transaction with variable payments. As part of this project, it would be useful for the Board to consider addressing what appears to be a conflict between IFRS 16 paragraphs BC262 and BC266. Paragraph BC262 conveys the notion that the RoU asset is a different asset from the underlying asset transferred to the buyer-lessor, hence supporting derecognition. However, in measuring the transfer and resulting gain or loss, paragraph BC266 views the RoU asset as a portion of the underlying asset retained. This might be the root cause of the issue of the issue submitted. In addition, we would suggest that the Board considers broadly the scope of this project on subsequent measurement of the liability to encompass, for example, the impact of contract modifications.

Until this project is completed, we would suggest that the Committee does not describe the resulting liability as being a 'lease liability' in its agenda decision. This liability is comprised of variable payments not dependent on an index or rate; such variable payments are excluded from the definition of lease payments in Appendix A of IFRS 16. Accordingly, the liability recognised by the seller-lessee does not appear to meet the definition of a lease liability. Because the subsequent accounting for this liability is not currently addressed in IFRS 16, entities entering into such transactions will need to develop an appropriate accounting policy

applying IAS 8 to implement the conclusion reached by the Committee. Describing as a *lease liability* an amount that is not accounted for subsequently applying the *leasing* Standard may create unnecessary confusion. In addition, we note that Example 24 of the Illustrative Examples accompanying IFRS 16 describes the liability recognised by the seller-lessee as a 'financial liability'. We would encourage the Board to consider whether changes are required to Example 24 as part of its project.

We note that the example proposed in the tentative agenda decision addresses a relatively simplistic situation. In order for the decision to be implemented successfully, it would be useful if the Committee provided guidance on the factors that could be used to determine a reasonable approach to calculate the relative proportions of the asset transferred and retained. It would also be useful if the Committee clarified whether variable payments the lessee pays on behalf of the lessor for real estate taxes and insurance premiums in a triple net lease should be included as part of the present value of expected payments for the lease in determining the proportion of the asset retained in the sale and leaseback transaction. As these payments are for future costs, their inclusion may result in the value attributed to the proportion of the asset retained exceeding the fair value of the underlying asset.

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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