

IFRS Developments

IASB amends IFRS 16 for lease liability measurement in a sale and leaseback transaction

What you need to know

- ▶ The IASB has amended IFRS 16 to specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognise any amount of the gain or loss that relates to the right of use retained
- ▶ The amendment does not change the accounting for leases unrelated to sale and leaseback transactions
- ▶ The amendment applies to annual reporting periods beginning on or after 1 January 2024 and can be applied earlier

Highlights

On 22 September 2022, the International Accounting Standards Board (the IASB or Board) issued *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16) (the amendment). The amendment to IFRS 16 *Leases* specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

A sale and leaseback transaction involves the transfer of an asset by an entity (the seller-lessee) to another entity (the buyer-lessor) and the leaseback of the same asset by the seller-lessee.

The amendment is intended to improve the requirements for sale and leaseback transactions in IFRS 16. It does not change the accounting for leases unrelated to sale and leaseback transactions.

The amendment applies retrospectively to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

Background

In a sale and leaseback transaction, the seller-lessee assesses whether the transfer of the asset satisfies the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale. If it is accounted for as a sale, paragraph 100(a) of IFRS 16 requires the seller-lessee to measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee.

However, IFRS 16 did not specify the measurement of the liability that arises in a sale and leaseback transaction. This has been addressed in the amendment.

Amendment to IFRS 16

After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller-lessee determines 'lease payments' or 'revised lease payments' in such 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 these requirements 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) of IFRS 16.

The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Effective date and transition

A seller-lessee applies the amendment to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted and that fact must be disclosed.

A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application (i.e., the amendment does not apply to sale and leaseback transactions entered into prior to the date of initial application). The date of initial application is the beginning of the annual reporting period in which an entity first applied IFRS 16.

Illustrative examples to IFRS 16

The Illustrative Examples to IFRS 16 have also been amended. Example 24 now illustrates a sale and leaseback transaction with fixed payments and above-market terms. A new Example 25 illustrates a sale and leaseback transaction with variable lease payments that do not depend on an index or rate.

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How we see it

The amendment may represent a significant change in accounting policy for entities that enter into sale and leaseback transactions with variable payments that do not depend on an index or rate. Entities will need to determine an accounting policy in accordance with IAS 8 for the 'lease payments' in these types of transaction.