

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FR Board or EFRAG FR TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FR Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Lease Liability in a Sale and Leaseback Issues Paper

Objective

- 1 The objective of the session is to inform members of EFRAG FR TEG and CFSS of the latest decisions made by the IASB regarding the exposure draft *Lease Liability in a Sale and Leaseback*, (the 'ED') and consider work steps toward EFRAG's draft endorsement advice.

Background

- 2 At their March 2022 meeting, EFRAG CFSS-FR TEG received an update on the IASB's tentative decisions on this project and a presentation of the differences between these decisions and EFRAG's recommendations as expressed in its Comment Letter. Please refer, for more information about the history of the project, to [agenda paper 12.1 of the March 2022 meeting](#)).
- 3 It was noted that the IASB considered but had not followed the main suggestion made by EFRAG and many EU National Standard Setters to recognise a non-lease liability or deferred income rather than a lease liability, in order to avoid introducing two different definitions of lease payments.
- 4 More particularly, the IASB has tentatively decided to retain the following key proposals in the ED:
 - (a) The leaseback liability arising from a sale and leaseback transactions with variable payments not based on an index or rate is a lease liability to which IFRS 16 applies;
 - (b) The initial measurement requirements in paragraph 100(a) of IFRS 16 apply for the recognition of the right-of-use asset and the gain or loss arising from the sale and leaseback;
 - (c) The seller-lessee subsequently measures the right-of-use asset arising from the leaseback applying paragraphs 29-35 of IFRS 16.
- 5 At its February 2022 meeting, the IASB confirmed that the Amendments did not require re-exposure. Members confirmed they were satisfied that they had complied with applicable due process requirements and had undertaken sufficient consultation and analysis to begin the balloting process for the Amendments.
- 6 The publication of the Amendments is expected in September 2022. They would be applicable Amendments for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

Input provided by EFRAG CFSS-TEG at previous meeting

- 7 EFRAG CFSS-TEG provided the following input at the March 2022 meeting:
- (a) Some members expressed disappointment that the IASB had not incorporated the feedback they received while finalising the Amendments as proposed.
 - (b) Some suggested that the IASB should further consult with constituents or wait until after the Post-Implementation Review of IFRS 16¹ to finalise the Amendments. Some members suggested having the topic discussed again at the ASAF meeting in July. However, in subsequent contacts with the IASB staff, it was confirmed that the IASB did not intend to rediscuss the matter as the IASB had concluded that its due process had been complete and had granted the IASB Staff permission to start the balloting process.
 - (c) Some noted that the type of transactions covered by the proposed Amendments were not prevalent in their jurisdictions. Some suggested that input about the prevalence of such transactions in the EU could be sought after by reaching out to real-estate, hospitality and retail industry.
 - (d) Some noted that although such transactions may not be prevalent, they might concern significant amounts of highly structured transactions when they occur. There were advantages to solve problems before they become prevalent when changing past accounting practices may arise.

Envisaged work plan for EFRAG

- 8 Based on the assumption that the Amendments will be issued by the end of September 2022, the EFRAG Secretariat expects to be able to present a first draft of EFRAG's draft endorsement advice at the October EFRAG FR TEG meeting.
- 9 As noted by members, one of the elements for EFRAG's evaluation will be the assessment of the prevalence of the types of transactions covered by the Amendments in the EU.
- 10 From the early input received so far, EFRAG understands that, even if the type of transactions covered by the Amendments are not deemed to be frequent, they might concern, when they occur, large leases transactions and therefore be significant.
- 11 As suggested by EFRAG CFSS-FR TEG members, EFRAG will also reach out to organisation in Real-Estate (EPRA...), Hospitality and Retail sectors to enquire about the prevalence of such transactions.
- 12 Furthermore, the EFRAG Secretariat has already sent a request for information to EFRAG CFSS members ahead of the March 2022 meeting. Feedback was received only from a handful of countries. To collect input in a more structured way, EFRAG will issue a short survey asking members:
- (a) Whether sale and leaseback transactions with variable lease payments not linked to an index or rate (e.g., variable payments linked to performance or usage of the leased asset); are frequent in their jurisdiction?
 - (b) When they occur do they concern significant-amounts of variable lease payments?
 - (c) In which industries such transactions could be observed in the past/ and in which they are expected to be relevant in the future?

¹ The IASB is expected to discuss when to start the Post-Implementation Review of IFRS 16 at a meeting in the second half of 2022.

- 13 EFRAG’s consultation on its Draft Endorsement Advice will also contain questions to constituents about the prevalence of such transactions.
- 14 EFRAG will also reach out to Users’ organisations (including its own User Panel – with which a discussion is scheduled on 7 July 2022) to discuss the usefulness of the information resulting from the Amendments. The discussion with the User Panel will focus on the information resulting from the application of the Amendments and be based on illustrative examples showing the effects of the proposals on the financial statements of entities.

Questions for EFRAG FR TEG and EFRAG CFSS members

- 15 Does EFRAG FR TEG and EFRAG CFSS members have questions on the project summary presented in paragraphs 2 to 7?
- 16 Do members have suggestions for EFRAG’s tentative work plan, for example other activities to conduct or sector/organisations to reach out to...) as presented in paragraphs 14?