



## iGAAP in Focus

### Financial reporting

## IASB amends IFRS 16 *Leases* to add subsequent measurement requirements for lease liabilities arising from sale and leaseback transactions

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This iGAAP in Focus outlines the amendments to IFRS 16 *Leases* titled *Lease Liability in a Sale and Leaseback*, published by the International Accounting Standards Board (IASB) in September 2022.

- The IASB published amendments to IFRS 16 that require a seller-lessee to subsequently measure lease liabilities arising from a sale and leaseback transaction in a way that does not result in recognition of a gain or loss that relates to the right of use it retains
- The amendments are effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted
- A seller-lessee applies the amendment 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 (i.e. from the beginning of the annual reporting period in which the entity first applied IFRS 16)

#### Background

The IFRS Interpretations Committee received a submission about the application of IFRS 16 to a sale and leaseback transaction with variable payments that do not depend on an index or rate. After discussing the issue, the Committee concluded that it would be beneficial to amend IFRS 16 to specify how a seller-lessee should apply the subsequent measurement requirements in IFRS 16 to the lease liability that arises in the sale and leaseback transaction. The IASB followed that recommendation and published amendments to IFRS 16.

#### The amendments

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale.

The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease.

For more information please see the following websites:

[www.iasplus.com](http://www.iasplus.com)

[www.deloitte.com](http://www.deloitte.com)

Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

#### Observation

ED/2020/4 *Lease Liability in a Sale and Leaseback* proposed that a seller-lessee initially measures the right-of-use asset and lease liability arising from a leaseback using the present value of expected lease payments at the commencement date. Respondents raised conceptual and practical concerns about that proposal. The IASB therefore decided not to prescribe specific measurement requirements for lease liabilities arising from a leaseback.

As part of the amendments, the IASB amended an Illustrative Example in IFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying IFRS 15, is a lease liability.

#### Effective date and transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact.

A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

#### Further information

If you have any questions about the amendments to IFRS 16, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

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