

HKAB’s Comments on IASB Exposure Draft ED/2020/4 Lease Liability in a Sale and Leaseback (*Proposed amendment to IFRS 16*)

IASB Question	HKAB Comments
<p>Question 1—Measurement of the right-of-use asset and lease liability arising in a sale and leaseback transaction (paragraphs 100(a)(i), 100A and 102B of the [Draft] amendment to IFRS 16)</p>	
<p>The [Draft] amendment to IFRS 16 Leases applies to sale and leaseback transactions in which, applying paragraph 99 of IFRS 16, the transfer of the asset satisfies the requirements to be accounted for as a sale of the asset. The [Draft] amendment proposes:</p> <p>(a) to require a seller-lessee to determine the initial measurement of the right-of-use asset by comparing the present value of the expected lease payments, discounted using the rate specified in paragraph 26 of IFRS 16, to the fair value of the asset sold (paragraph 100(a)(i));</p> <p>(b) to specify the payments that comprise the expected lease payments for sale and leaseback transactions (paragraph 100A); and</p> <p>(c) to specify how a seller-lessee subsequently measures the lease liability arising in a sale and leaseback transaction (paragraph 102B).</p> <p>Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.</p>	<p>We agree with the proposal, as it provides explicit treatment for the accounting of sales and leaseback transactions. However, we would like to make suggestions to the IASB on the following:</p> <ol style="list-style-type: none"> 1. Provide more guidance and application examples on the types of cashflow qualified to be variable lease payments. This could enhance the consistency of expected lease payment measurement across right-of-use assets; 2. Provide elaboration of the rationale for below differences between regular leases (as set out in current IFRS 16) and the draft amendments to sales and lease back transactions in this ED: <ol style="list-style-type: none"> a) The variable lease payments of sales and lease back transactions are based on initial forecasts regardless of whether they depend on an index or rate (ED para.100A), whereas those for regular leases rely on the initial value of a variable index or rate (IFRS16.27(b)); a) Except for a change in the lease term or a lease modification, the seller-lessee shall not remeasure the lease liability to reflect a change in future variable lease payments (ED para.102B(d)), whereas if a variable rate changes a regular lease is remeasured (IFRS16.42(b)). 3. Extend IE11 to provide elaboration on below: <ol style="list-style-type: none"> a) Situations where the lease liabilities that is part of sales and lease back transactions would be measured differently from a regular lease, echoing BC2 of the ED that “<i>the right-of-use asset and liability arising from a leaseback could be measured differently from the right-of-use asset and liability arising from a lease that is unrelated to sale and leaseback</i>”; b) How the lease liability that is part of sales and lease back transactions is derived from right-of-use asset according to BC11 of the ED, which is apparently different from Footnote (a) of Example 24 on page 12 of the ED, which states that the lease liability arising from the leaseback equals the present value of the expected lease payments discounted using the implicit interest rate in the lease.

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Question 2—Transition (paragraph C20E of the [Draft] amendment to IFRS 16)	
<p>Paragraph C20E of the [Draft] amendment to IFRS 16 proposes that a seller-lessee apply the [Draft] amendment to IFRS 16 retrospectively in accordance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to sale and leaseback transactions entered into after the date of initial application of IFRS 16. However, if retrospective application to a sale and leaseback transaction that includes variable lease payments is possible only with the use of hindsight, the seller-lessee would determine the expected lease payments for that transaction at the beginning of the annual reporting period in which it first applies the amendment.</p> <p>Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.</p>	<p>We agree with the proposal with no further comments.</p>
Other Comments	
<p>Do you have any comments other than the proposed questions as stated above? Please state here.</p>	<p>We do not have any comments other than the proposed questions as stated above.</p>