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Hans Hoogervorst,
Chairman
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

By email: commentletters@ifrs.org

Dear Mr. Hoogervorst,

Exposure Draft ED/2020/4: Lease Liability in a Sale and Leaseback – Proposed amendment to IFRS 16

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2020/4 – Lease Liability in a Sale and Leaseback— Proposed amendment to IFRS 16 ('the ED').

We are supportive of the Board's efforts to provide guidance that would potentially reduce the diversity in practice related to subsequent measurement of balances resulting from a sale-leaseback transaction. However, we do not support the approach contained in the ED and we believe that the standard should not be finalized in the proposed form. We believe that the Board has not articulated a conceptual basis for accounting for a lease liability arising from a sale-leaseback transaction differently from other lease liabilities. If the Board believes that guidance on variable payments is needed, we recommend that the Board develop such guidance as part of a project that would address the accounting for variable payments/contingent consideration on a more comprehensive basis.

Our specific comments to the two questions set out in the Exposure Draft follow.

We would be pleased to respond to any comments the Board or its staff may have about our response. If you have any questions or comments please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 207 601 1842).

Yours faithfully,



Marion Hannon
Global Leader, Quality & Risk
RSM International

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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)

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: (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)); (b) to specify the payments that comprise the expected lease payments for sale and leaseback transactions (paragraph 100A); and (c) to specify how a seller-lessee subsequently measures the lease liability arising in a sale and leaseback transaction (paragraph 102B). Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We do not agree with the proposed approach because it would introduce an inconsistency in the treatment of variable lease payments in that such payments would be included in the calculation of the lease liability arising from a sale-leaseback transaction, but would be excluded from the calculation of other lease liabilities. We do not believe that the Board has articulated a conceptual basis for the difference in treatment.

We do not support the creation of a model for variable lease payments that would apply solely to sale-leaseback transactions. Additionally, we believe that finalization of this proposal would also increase costs for preparers of financial statements, as they would be required to change existing accounting systems, processes and controls to address the proposed requirements.

We also are concerned with the meaningfulness and reliability of the information that would be generated by application of the proposed model. Many sale-leaseback transactions (particularly those involving real estate) have lengthy lease terms. We believe that the proposed requirement to incorporate estimates of variable payments into the calculation of the lease-related balances would introduce significant measurement uncertainty.

We would suggest that, if the Board believes additional guidance is needed on the accounting for variable lease payments, rather than finalize this narrowly focused approach, the Board consider undertaking a project that would address the accounting for variable payments/contingent consideration on a more comprehensive basis.

Question 2—Transition (paragraph C20E of the [Draft] amendment to IFRS 16)

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 Accounting Policies, Changes in Accounting Estimates and Errors 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.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We believe that the concerns expressed in our response to Question 1 above render this question moot. We believe the proposal should not be finalized in its current state and, therefore do not express an opinion to the issue of transition.

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