**Issue**

**Accounting for the sale of a real estate entity with a leaseback**

**General fact pattern**

Parent (P) wholly owns 100% of Subsidiary (S). S was established some time ago and only holds a real estate asset which does not constitute a business (as defined in IFRS 3).

P sells 100% of its shares in S to a third party (A) and leases the real estate asset back from S. Under IFRS 10, P loses control over S at the time the shares are transferred. The transfer of the real estate asset would meet the requirements to be accounted for a sale by P (the seller-lessee) and would follow the accounting requirements in paragraph 10o of IFRS 16.

The sales price exceeds the carrying amount of the transferred asset, resulting in a gain from the sale.

**Question**

Does the sale and leaseback guidance in IFRS 16 apply, or does the IFRS 10 guidance relating to the accounting for loss of control of a subsidiary apply?

**Current practice**

We have identified two potential accounting treatments for such a fact pattern.

**View 1**

Proponents of View 1 are of the view that the IFRS 16 sale and leaseback guidance applies since there has been a transfer of an asset from P to S. They believe that IFRS 16 is applicable irrespective of whether the transfer is executed through an asset or share deal, since the substance is the same in this fact pattern.

This View is consistent with IFRS 16 paragraph BC261 which notes that “The IASB observed that, in considering whether a transaction should be accounted for as a sale and leaseback transaction, an entity should consider not only those transactions structured in the form of a legal sale and leaseback, but should also consider other forms of transactions for which the economic effect is the same as a legal sale and leaseback”.

Under IFRS 16, the gain from the sale and leaseback is recognised in accordance with paragraph 100(a), resulting in the seller-lessee recognising the amount of any gain only to the extent that it relates to the rights transferred to the buyer-lessee.

**View 2**

Proponents of View 2, argue that the IFRS 16 sale and leaseback guidance does not apply as this transaction is legally the sale of shares, which should be accounted for in accordance with IFRS 10.

Under IFRS 10, paragraph 25(a), P derecognises the assets and liabilities of S, and recognises the gain associated with the loss of control.

P subsequently follows the lessee guidance in IFRS 16, paragraph 22 to account for the lease it has entered into with S.
**Reasons for the Interpretations Committee to address the issue**

Sale and leaseback accounting is widespread and for those entities affected, the difference in accounting models (i.e., recognising a gain upfront versus spreading it) could be significant. Where the amount of the gain is material, it could significantly affect financial performance both in the period of the sale and leaseback transaction occurs, and in subsequent periods during the term of the lease. We believe that financial reporting would be improved if the applicable accounting model was made clear. This would result in greater comparability amongst entities, would also limit any structuring opportunities designed to achieve a particular accounting outcome. We believe that this issue is narrow in scope and can be resolved in a cost-effective and efficient manner by the IFRIC within the confines of IFRS standards and the Conceptual Framework for Financial Reporting. We are unaware of any current or planned IASB project that will directly address this issue.