An abstract graphic on the left side of the slide. It features a central red circle surrounded by several concentric rings in blue and orange. These rings are overlaid on a grid of white lines, including solid, dashed, and dotted lines, creating a complex geometric pattern.

19 November 2020
FASB | IASB Joint Education Meeting

Update on IFRS 16 *Leases*

FASB Agenda ref 12B
IASB Agenda ref 12B

Patrina Buchanan

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Structure of the paper

Recent application questions discussed by the IFRS Interpretations Committee

Narrow-scope standard-setting related to sale and leaseback transactions

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Recent application questions discussed

Recent application questions discussed by the IFRS Interpretations Committee

Completed Agenda Decisions

Lease Term on Cancellable leases

How to determine the enforceable period and lease term? Is the useful life of leasehold improvements limited to the lease term?

Definition of a Lease—Decision-making Rights

Does a customer have the right to direct the use of a ship when many of the decisions about use are predetermined in the contract?

Sale and leaseback with variable payments

Slides 6-7

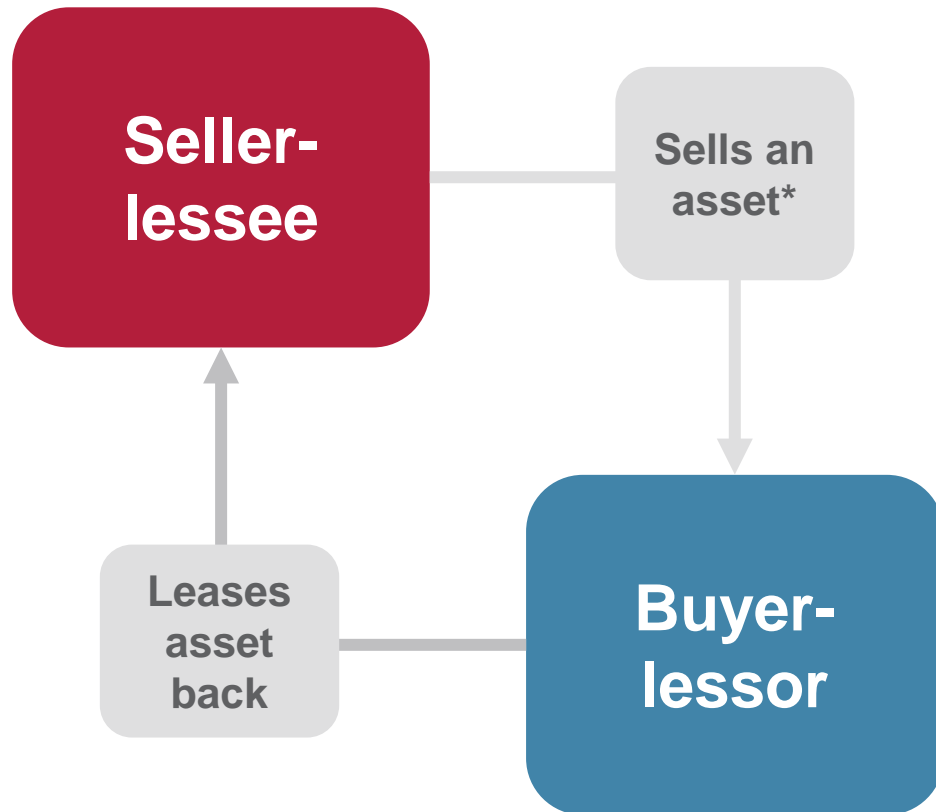
Tentative Agenda Decisions

Sale and leaseback of Asset in Single-asset Entity

Does IFRS 16 apply to a transaction in which an entity sells its equity interest in a subsidiary that holds one asset and leases that asset back?

Sale and leaseback transactions

Accounting for sale and leaseback transactions



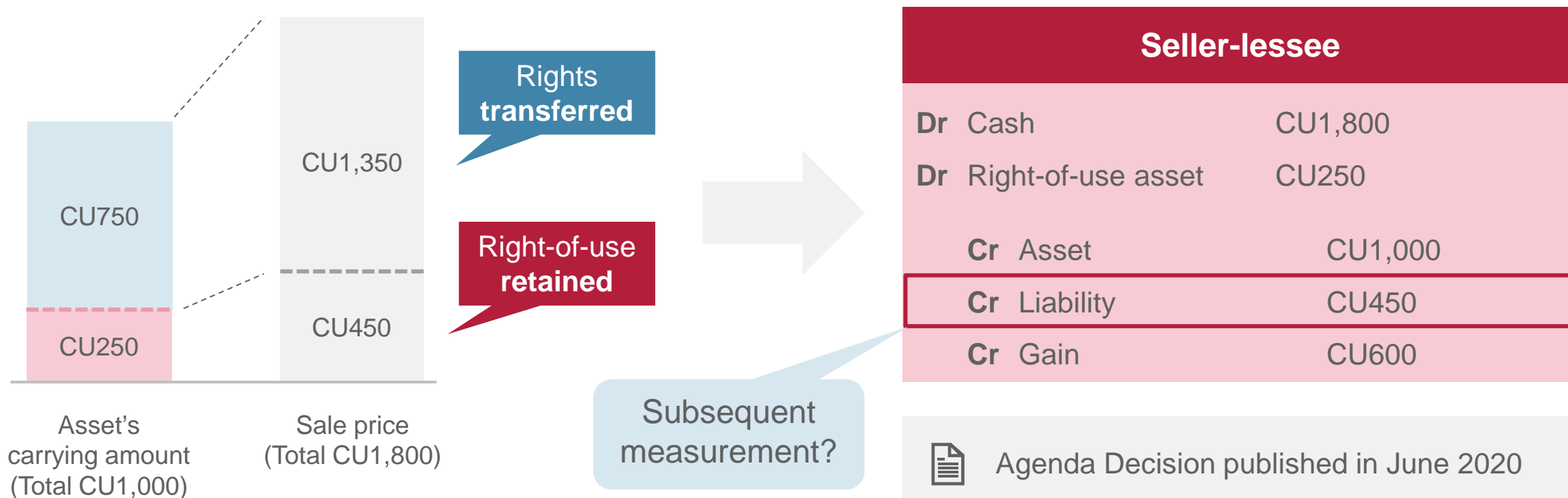
Seller-lessee

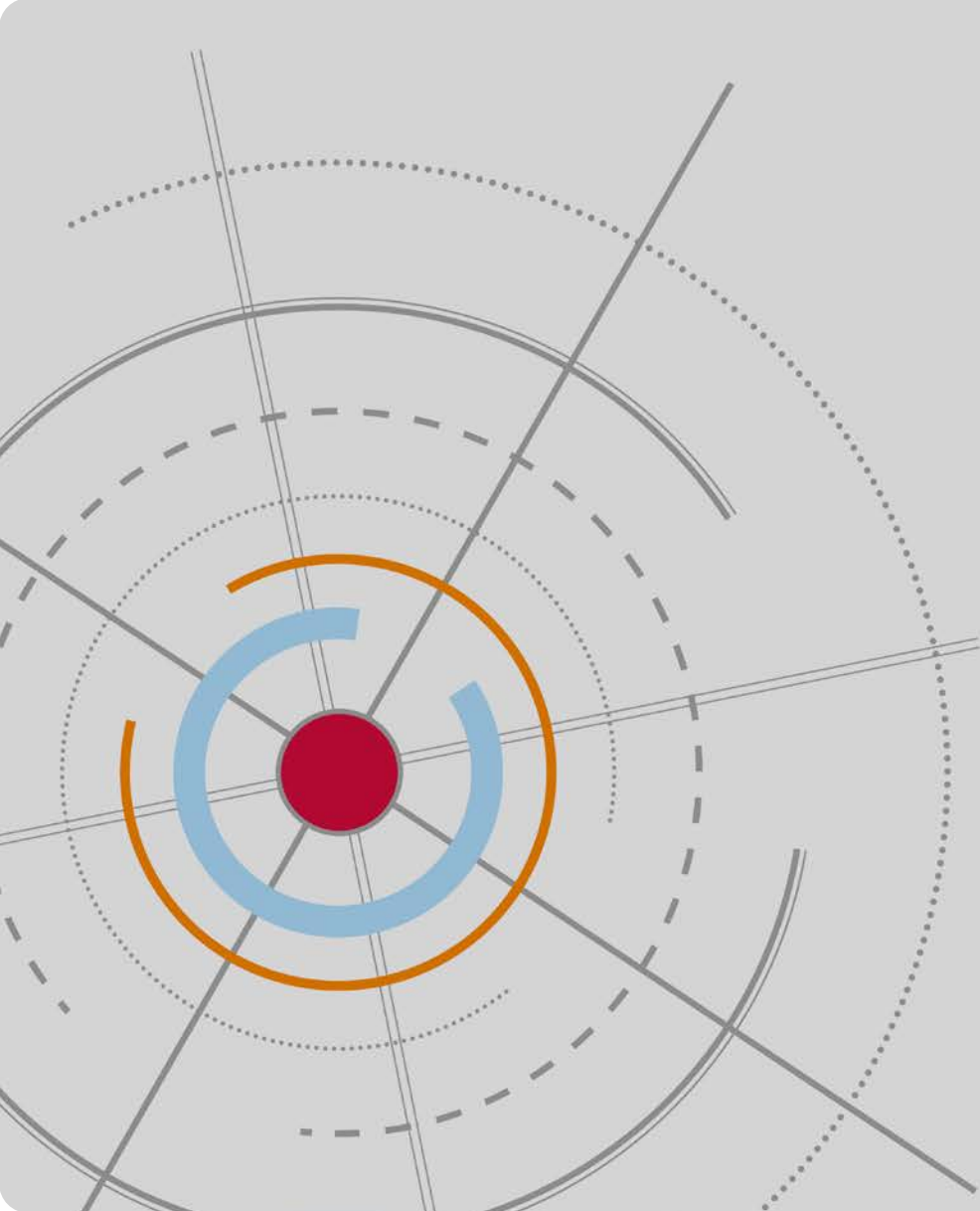
1. Derecognise the asset
2. Recognise the ROU asset (*proportion of the previous carrying amount*)
3. Recognise gain or loss (*to the extent of rights transferred*)

* The transaction satisfies the requirements in IFRS 15 to be accounted for as a sale

Sale and leaseback with variable payments

How does a **seller-lessee** measure the ROU asset and gain, if payments for the leaseback are variable and do not meet the definition of lease payments (*eg the payments are linked to sales*)?





Narrow-scope standard-setting related to sale and leaseback transactions

Lease Liability in a Sale and Leaseback

Proposed Amendment to IFRS 16

How does a **seller-lessee** subsequently measure the liability that arises in a sale and leaseback transaction?

Proposals

- specify method for **initial measurement** of ROU asset and lease liability
- specify **subsequent measurement** of lease liability
- include example illustrating the accounting (*at the transaction date and subsequently*)

No changes to the underlying principles in IFRS 16

Next steps



Publish Exposure Draft in Q4 2020

Questions for the Boards (agenda papers 12A and 12B)

- Is there any additional information Board members would like about the activities undertaken?
- Do Board members have any comments on those activities?



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