

13 May 2020

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
International Accounting Standards Board
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**Comments on the Tentative Agenda Decision Relating to
IFRS 16 Leases — Sale and Leaseback with Variable Payments**

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (“the Committee”)’s tentative agenda decision relating to IFRS 16 *Leases* — Sale and Leaseback with Variable Payments, proposed in the March 2020 IFRIC Update.
2. There are various perspectives regarding whether a gain or loss should be recognised on the sale of an underlying asset in a sale-and-leaseback transaction, ranging from immediate recognition of the entire gain on the sale of the asset when control is transferred to recognition over the leaseback term to reflect the way in which the significant risks and rewards are transferred. IFRS 16 states that, because the seller-lessee has partly retained rights inherent in the asset subject to the leaseback, recognising the gain that relates to the rights transferred to the buyer-lessor appropriately reflects the economics of the transaction (paragraph BC266). We agree with this approach in IFRS 16 to recognise the gain that relates to the rights transferred to the buyer-lessor.
3. On the other hand, IFRS 16 prescribes that, if the consideration for a lease is a variable payment linked to future performance or use of an underlying asset (hereinafter called the “performance-based variable lease payments”), such payments are excluded from the measurement of lease liabilities. IFRS 16 explains that some think that a lessee’s liability to make variable lease payments does not exist until the

future event requiring the payment occurs and others think that a lessee's obligation to make variable lease payments exists at the commencement date by virtue of the lease contract and receipt of the right-of-use asset (paragraph BC168). However, the Board decided to exclude performance-based variable lease payments from the measurement of lease liabilities, noting that, for some Board members, this decision was made solely for cost-benefit reasons (paragraph BC169).

4. The tentative agenda decision states, without adding any clear explanation:

“The seller-lessee also recognises a lease liability at the date of the transaction, even if all the payments for the lease are variable and do not depend on an index or rate. The initial measurement of the lease liability is a consequence of how the right-of-use asset is measured— and the gain or loss on the sale and leaseback transaction determined—applying paragraph 100(a) of IFRS 16.”

However, as illustrated in the discussion in the previous paragraph regarding performance-based variable lease payments, some hold the view that a lessee's liability to make variable lease payments does not exist until the future event requiring the payment occurs. Accordingly, we note that it is not necessarily obvious that “the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee” set out in the paragraph 100(a) exists.

5. Although we agree with the conclusions in the tentative agenda decision, we do not think those conclusions can be derived directly from IFRS 16. Accordingly, we are of the view that IFRS 16 should be amended in this respect. Specifically, we propose that the following amendments be made to IFRS 16:

- (a) the seller-lessee shall take into account the lease payments, even if they are variable lease payments that do not depend on an index or a rate, when it determines “the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee” set out in the paragraph 100(a) of IFRS 16; and
- (b) accordingly, the seller-lessee shall recognise a lease liability on the transaction date, even if the payments for the lease are variable payments that do not depend on an index or a rate.
- (c) IFRS 16 should include application guidance regarding how to measure lease liabilities for leases with variable lease payments that do not depend on an index or a rate.

- (d) IFRS 16 should include disclosure requirements regarding lease liabilities for leases with variable lease payments that do not depend on an index or a rate. This is because, while such liabilities would be included in the maturity analysis, it is unclear what to disclose given that their nature is unclear.
6. We hope that our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read "A. Kogasaka". The signature is fluid and cursive, with the first letter "A" being particularly large and stylized.

Atsushi Kogasaka

Chair

Accounting Standards Board of Japan