

## Accounting Standards Board of Japan (ASBJ)

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### **Comments on the Tentative Agenda Decision Relating to IFRS 10 Consolidated Financial Statements and IFRS 16 Leases — Sale and Leaseback of an Asset in a Single-Asset Entity**

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (“the Interpretation Committee”)’s tentative agenda decision relating to “IFRS 10 *Consolidated Financial Statements* and IFRS 16 *Leases — Sale and Leaseback of an Asset in a Single-Asset Entity*” in the September 2020 IFRIC Update.

#### **Accounting of sale and leaseback transactions**

2. Our understanding is that, in order to reflect the economics of the transaction, IFRS 16 prescribes that a sale-and-leaseback transaction be accounted for together as if it were a single financial transaction, rather than two separate transactions (that is, the sale and the leaseback). In addition, IFRS 16 sets out 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 legal form of a sale-and-leaseback, but should also consider other forms of transactions for which the economic effects are the same as a legal sale-and-leaseback (paragraph BC261). While there may be various views regarding when a gain should be recognised on the sale of an underlying asset in a sale-and-leaseback transaction, we agree with the approach in IFRS 16.

3. On the other hand, the tentative agenda decision states that, in the transaction described in the submission where the transfer of the asset (building), which is the subject of the leaseback to a third party, is made through the sale of the equity interest in the subsidiary that holds the asset, the entity:
  - a. loses control of the subsidiary. Accordingly, the loss of control requirements in IFRS 10 apply to this part of the transaction.
  - b. transfers the building to a third party (through the sale of the equity interest in the subsidiary) and leases the building back. The transaction is therefore a sale-and-leaseback transaction as described in paragraph 98 of IFRS 16, to which the sale-and-leaseback requirements in IFRS 16 apply.
4. We, however, disagree with the proposal in the tentative agenda decision where the accounting for the sale of the entity's equity interest (IFRS 10) is overlaid with a sale-and-leaseback transaction in accordance with IFRS 16, for the following reasons:
  - In the light of the assumptions provided in the tentative agenda decision, it can be viewed that the economic substance is a sale-and-leaseback of real estate and, accordingly, it would be appropriate to apply to the transaction IFRS 16 only. If existing IFRS Standards do not allow such accounting, the IASB should consider amending IFRS Standards so that the relationship between IFRS 10 and IFRS 16 is clarified, instead of resolving the issue by issuing an agenda decision.
  - In June 2019 the Interpretations Committee received a submission about the sale of a single asset entity containing real estate. The IASB subsequently discussed a possible narrow-scope amendment to IFRS Standards to address this submission; however, in June 2020 the IASB eventually decided not to amend the IFRS Standards in relation to the application of IFRS 10 and IFRS 15, but to consider the feedback it obtains as part of its Post-implementation Review of IFRS 10. Under such circumstances, describing in the tentative agenda decision the conclusion that the transaction will not be within the scope of IFRS 15 without a clear rationale may result in unintended consequences in the context of applying IFRS 10 and IFRS 15.

#### **Assumptions provided in the agenda decision**

5. The tentative agenda decision provides certain assumptions, such as the only asset the subsidiary holds is the building and the building the subsidiary holds does not meet the definition of a business. These assumptions apparently come directly from

the submission that was sent to the Interpretation Committee by the submitter. In this context, the IASB should consider the following:

- If the assumptions provided in the submission are used in this tentative agenda decision without any changes, which is the case for this tentative agenda decision, we are concerned that this tentative agenda decision may discourage appropriate judgement that is otherwise required for other transactions. Considering that the revision of the Due Process Handbook essentially made agenda decisions authoritative guidance, we think that the assumptions provided in agenda decisions should be wider and more generic in nature.
  - For issues that are likely to be controversial, such as this issue, judgement should be required based on the facts and circumstances. If the agenda decision is to become explanatory material that is intended to be applied under IFRS Standards, the agenda decision should emphasise that judgement based on the facts and circumstances is required.
6. We hope that our comments are helpful for the Interpretation Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,



Atsushi Kogasaka

Chair

Accounting Standards Board of Japan