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Comments on the Exposure Draft *Lease Liability in a Sale and Leaseback*
（Proposed amendment to IFRS 16）

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcome the opportunity to provide our comments on the International Accounting Standards Board ("IASB")'s Exposure Draft *Lease Liability in a Sale and Leaseback* (Proposed amendments to IFRS 16) (the "ED"), issued in November 2020.

2. If the IASB maintains the treatment of recognizing a gain or loss on a sale and leaseback specified in paragraph 100 of IFRS 16 *leases* ("IFRS 16") and decides to apply the same accounting treatment for both fixed and variable lease payments, all variable lease payments must be included in the expected lease payments to calculate the amount of the gain or loss and the (lease) liability. This means that the IASB will adopt a concept of lease payments for leasebacks that is different from normal leases (which would not include variable lease payments) as a result of prioritizing the determination of the appropriate gain or loss on a sale and leaseback. While this is not ideal, we think it is unavoidable if the IASB were to prioritize the determination of the appropriate gain or loss on a sale and leaseback.

3. Liabilities arising from leasebacks are determined based on components of lease payments that are different from normal leases and, therefore, do not meet the definition of a lease liability. Accordingly, liabilities arising from leasebacks should

not be treated as a "lease liabilities", but accounted for and disclosed as liabilities with a different nature.

4. For our other comments on the specific questions to the ED, please refer to the Appendix of this letter.

5. We hope 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,

Atsushi Kogasaka
Chair
Accounting Standards Board of Japan

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.

Initial measurement of the right-of-use asset and the liability arising from a leaseback

1. As described in the main part of this letter, we are of the view that, from the perspective of recognising the appropriate gain or loss, it is better to avoid using different accounting for fixed lease payments and for variable lease payments that do not depend on an index or rate. Therefore, we are of a view that it is unavoidable to include variable lease payments that do not depend on an index or rate in the expected lease payments in the initial measurement of liabilities arising from leasebacks.

2. To initially measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee, it is necessary to apportion the previous carrying amount of the asset using the ratio of the appropriate value of the right-of-use asset retained (numerator) to the appropriate value of the asset sold (denominator). To

appropriately measure the value of the right-of-use asset (numerator) with reference to the consideration for the leaseback at the commencement date and to initially measure the (lease) liabilities arising from the leaseback based on the right-of-use asset thus measured, we agree with the following proposals in the ED:

- To include variable lease payments that do not depend on an index or rate in the expected lease payments.
- For variable lease payments that depend on an index or rate, to reflect future changes in payments resulting from changes in the reference index or rate in the expected lease payments.

3. However, we are concerned that the IASB has not fully considered the fact that forecasting changes in an index or a rate requires macroeconomic information that may not be readily available to all entities, as explained in paragraph BC166 of IFRS 16. When forecasting changes in an index or a rate requires macroeconomic information that may not be readily available, we propose permitting an entity not to reflect changes in payments resulting from forecasting changes in the reference index or rate for variable lease payments in the expected lease payments.

Subsequent measurement of the liability arising from a leaseback that reflects changes in future variable lease payments

4. When liabilities arising from leasebacks include variable lease payments (regardless of whether they depend on an index or a rate), the gain or loss on the sale and leaseback at the commencement date depends on highly uncertain estimates. In cases where the initially estimated variable lease payments and the subsequent outcome are significantly different, we are concerned that some may question whether the recognition of the initial gain or loss on a sale and leaseback at the commencement date was appropriate.

5. Revisions to future variable lease payments would be accounted for prospectively if the change in an accounting estimate affects future periods (paragraph 36 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and thus the recognized gain or loss on a sale and leaseback at the commencement date will not be adjusted retrospectively. Accordingly, the concerns described in the preceding paragraph can only be addressed through disclosures.

6. However, the disclosure requirements related to sale and leaseback (paragraphs 59 and B52 of IFRS 16) do not require information about the assumptions the seller-

lessee makes about the future. Accordingly, we propose adding guidance that would require additional disclosures regarding the important assumptions made in measuring the present value of the expected lease payments.

7. We are of the view that paragraph BC30 of ED does not explain why there would be no significant benefit in requiring seller-lessees to remeasure the liabilities arising from leasebacks. We propose that the IASB should clarify why it has concluded that there is no significant benefit.

Separate presentation and disclosure

8. As described in the main part of this letter, liabilities arising from leasebacks are determined based on components of lease payments that are different from normal leases and, therefore, do not meet the definition of a lease liability. Accordingly, liabilities arising from leasebacks should not be treated as "lease liabilities", but accounted for and disclosed as liabilities with a different nature.

Maturity analysis disclosures

9. As described in the preceding paragraph of this letter, we suggest that the seller-lessee shall present liabilities arising from a leaseback separately from liabilities arising from normal leases. Similarly, we suggest that the seller-lessee shall disclose the maturity analysis separately.

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.

10. IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") does not include relief to the retrospective application of the requirements for sale and leaseback transactions under IFRS 16. We are concerned that the cost of estimating expected lease payments at the commencement date for sale and leaseback transactions will exceed the benefits (paragraph BC26 of IFRS 1). Therefore, we propose providing exemptions similar to the transitional requirements in the ED for first-time adopters. Specifically, we propose adding the following exemption to IFRS 1:

    A first-time adopter (the seller-lessee) may elect not to apply the requirements in paragraphs 98-103 of IFRS16 to sale and leaseback transactions entered into before the date of transition to IFRSs. In such circumstances, the first-time adopter (the seller-lessee) shall apply paragraph D35 of IFRS 1 to the transfer of the asset and paragraph D9B of IFRS 1 to recognise the right-of-use assets and the lease liabilities.