



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

4 November 2020

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: Tentative Agenda Decision - Sale and Leaseback of an Asset in a Single-Asset Entity

Dear Ms. Lloyd, *Sue*

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Auditing and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the IFRS Interpretations Committee (IFRS IC) tentative agenda decision, *Sale and Leaseback of an Asset in a Single-Asset Entity* (TAD).

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

We appreciate the IFRS IC addressing this topic to support preparers in their application of International Financial Reporting Standard (IFRS) 10, *Consolidated Financial Statements* and IFRS 16, *Leases* to the fact pattern submitted. The specific fact pattern considered by the IFRS IC involves a single-asset entity (often referred to as an asset held within a "corporate wrapper") wherein the owner ("seller-lessee") sells 100% of the legal entity and leases back the asset.

To be clear, in the specific fact pattern considered, we do not disagree with the *outcome* of the IFRS IC's deliberations. We do, however, have concerns about whether the TAD could be



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

enforced in all similar circumstances and the scope of the TAD. We also have broader observations about IFRS 10 and IFRS 16 that the IASB may want to consider.

We have organized our comments into three categories: enforceability of the TAD, scope of the TAD, and potential post-implementation review considerations.

Enforceability of the TAD

Committee 1 members agree that the fact pattern addressed by the TAD, in which a single asset entity is sold to another party with a subsequent leaseback of that asset, is economically the same as selling the asset and leasing it back. For that reason, we believe the accounting outcomes for these two transactions should be similar, and thus we agree with the *outcome* described in the TAD. While we believe the sequential accounting analysis described in the TAD represents one acceptable alternative application of IFRS standards to the fact pattern, without further explanation, we struggle to conclude that it is the only acceptable alternative given the guidance that exists in the authoritative standards (i.e., IFRS 10).

As acknowledged by IFRS IC Agenda Paper 2 from the September 2020 IFRS IC meeting, the guidance on accounting for the loss of control in a subsidiary in IFRS 10 differs from the gain recognition guidance in IFRS 16 when a seller-lessee derecognizes an asset that it leases back. The Agenda Paper describes an overlay or sequential approach whereby a preparer would first apply IFRS 10 to calculate the *initial* gain or loss upon deconsolidation of the subsidiary and then overlays IFRS 16. The subsequent overlay of IFRS 16 results in a deferral of a portion of the gain which, of course, results in an accounting outcome that is identical to the accounting prescribed by applying IFRS 16 alone.

The agenda paper noted that there are other transactions for which a similar interaction between two different accounting standards occurs. Specifically, it noted that similar guidance regarding gain or loss recognition upon derecognition of assets exists in International Accounting Standard (IAS) 16, *Property, Plant and Equipment*, and IAS 40, *Investment Property* (IAS 40), and that in the case of a sale and leaseback transaction, IFRS 16 effectively reverses a portion of the gain or loss otherwise prescribed by the derecognition guidance in those standards. However, we observe that the guidance in paragraphs IAS 16.68 and IAS 40.69 make clear that the derecognition guidance applies “unless IFRS 16...requires otherwise on a sale and leaseback”. Thus, IAS 16 and IAS 40 contain guidance that specifically negates the otherwise applicable



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

derecognition guidance in those standards when the derecognition event is a sale-leaseback transaction. Neither IFRS 10 nor IFRS 16 include a similar statement.

Further, the Agenda Paper notes that IAS 28, *Investments in Associates and Joint Ventures*, requires an elimination of any gain or loss related to its own interest in an associate that might otherwise be required by IAS 16 upon contribution of property, plant and equipment to that associate. While we acknowledge that neither IAS 16 nor IAS 28 specifically provides reference to the other to clearly negate the derecognition guidance in IAS 16, we note that the guidance in paragraph IAS 28.28 specifically refers to relevant transactions as including “contributions of assets from the investor to its associate.” We also note, however, that a similar question to that in the TAD existed regarding whether contributions of single-asset entities to an associate should follow the derecognition guidance in IFRS 10 or the guidance in IAS 28 on elimination of gains or losses related to an investor’s own interest in an associate. In response to the potential conflict, the Board determined that it needed to amend IFRS 10 to include paragraph B99A to specify that in such a situation, that profit should be eliminated. However, the Board found it necessary to indefinitely defer that amendment so that the Board could consider additional issues regarding the application of the equity method.

As noted above, we can agree with the *outcome* of the TAD for this fact pattern. However, some might see the sequential or overlay approach described in the TAD as amounting to an override of the explicit guidance in paragraph IFRS 10.B98(d) to recognize the entire gain upon deconsolidation of a subsidiary in profit or loss since a portion of the gain related to the leaseback would be deferred under the TAD. Therefore, we believe that a final agenda decision will need to explicitly address this question and will also need to explain how this is not changing the requirements of IFRS 10 since, in accordance with paragraph 8.4 of the *Due Process Handbook*, “Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards.”

Scope of the TAD

We appreciate that the TAD is specific to the fact pattern presented. However, it is unclear whether and how the TAD might be applied to other sale-leaseback transactions involving the sale of a subsidiary. For example, the transaction described in the TAD notes that the building



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

that is transferred does not meet the definition of a business.¹ It is not clear whether the accounting outcome would be the same if the building, or a set of assets, did meet the definition of a business, and one or more assets were leased back from the acquirer.

Based on the TAD and the analysis in the Agenda Paper it would seem that the same analysis could be applied to the deconsolidation of a business with a leaseback of an asset. However, when the Board addressed the topic *Sale or contribution of assets between an investor and its associate or joint venture—amendments to IFRS 10 and IAS 28*, the Board concluded that the current requirements in IAS 28 for the partial gain or loss recognition for transactions between an investor and its associate or joint venture should only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business.² Given the conclusion that full gain or loss should be recognized upon the deconsolidation of a business, even when contributed to an associate, we believe the IFRS IC should clarify whether the TAD should be applied upon deconsolidation of a business followed by a leaseback of an asset transferred in the sale of that business or if, instead, the full gain or loss on the deconsolidation should be recognized similar to the conclusions reached in the amendments to IFRS 10 and IAS 28.

We also note that there are other similar fact patterns that might be within the scope of the TAD but for which the calculation of the gain or loss may not be obvious. For example, it is unclear how to calculate the gain or loss if the entity sold less than 100% of its interest in the subsidiary such that it retained a noncontrolling interest and leased back the building. Likewise, it is unclear how the TAD might be applied if the legal entity held multiple assets and one or more, but not all, of the assets were leased back.

Post-Implementation Review Considerations

We believe that some of the issues addressed in the TAD relate to broader topics that should be analyzed as part of the post-implementation reviews (PIRs) of IFRS 10 and, eventually, IFRS 16.

¹ We further note that while it is less likely to be the case in light of the IASB's amendment to IFRS 3, *Definition of a Business*, paragraph IAS 40.14A acknowledges that an investment property could constitute a business.

² As noted above, we acknowledge that the Board has indefinitely deferred the effective date of the amendment, however in doing so the Board continued to permit earlier application of the amendment because the "Board did not wish to prohibit the application of better financial reporting" (IFRS 10.BC1900).



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

Specifically with respect to IFRS 10, we observe that a number of questions have arisen around assets in a legal entity, or corporate wrapper, including questions about the accounting when the assets in a corporate wrapper do and do not constitute a business. For example, as noted earlier, questions arose regarding the interaction of IFRS 10 and IAS 28 from the contribution of interests in a legal entity to an associate. Further, as noted in the Agenda Paper, in June 2019 the IFRS IC received a request about a transaction involving the sale of a parent's equity interest in a subsidiary that held only a real estate asset that was transferred to a customer in the ordinary course of business, and whether that transaction should be accounted for in accordance with IFRS 10 or IFRS 15.

The current request further demonstrates the challenges of applying the guidance in IFRS 10 to transactions in which assets held in a corporate wrapper are transferred inside that legal entity. As evidenced by the various agenda requests, there are a number of questions in practice evolving from the form of a transaction. We believe the Board should consider these types of transactions as part of its current IFRS 10 PIR process.

With regard to IFRS 16, members are of the view that the Board should start its PIR as early as possible within the timeframe prescribed by the *Due Process Handbook*. Members encourage the Board to engage with constituents, including regulators, that have been addressing application challenges with IFRS 16 and can provide information that can feed into the Board's initial identification and assessment of matters to be examined.

We also note that other questions have arisen about the application of the sale and leaseback guidance in IFRS 16. Some members believe that these questions are arising, at least in part, because the partial sale model for sale-leasebacks in IFRS 16 is inconsistent with the guidance addressing the transfer of control of assets in other standards, including IFRS 10 and IFRS 15, which do not include a partial gain concept. These members also observe that the deferred gain which results from this application appears to some to be inconsistent with the Framework since it can affect the measurement of the related liability or result in a separate liability for the amount of the deferred gain.³ We believe that as part of the PIR of IFRS 16, consideration should be

³ These members also observe that the accounting for sale-leaseback transactions is one of the nonconverged aspects of IFRS 16 and FASB Topic 842, *Leases*.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

given to reconciling the derecognition guidance in IFRS 16 for sale and leaseback transactions with the derecognition guidance in other standards and in the Framework.

We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

Makoto Sonoda

Chair
Committee on Issuer, Accounting, Audit and Disclosure
International Organization of Securities Commissions