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Our ref: RJ-IASB 497 B
Date: Amsterdam, 25th of March 2021
Re: Comments in response to ED/2020/4 'Lease Liability in a Sale and Leaseback'

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on the Exposure Draft /2020/4 'Lease Liability in a Sale and Leaseback' (ED).

We generally agree with the comments provided by EFRAG, however, we do have some additional observations and suggestions as set out below.

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.

We disagree with this proposal. The DASB considers the difference in the initial measurement of a lease liability arising from a leaseback with variable payments versus one arising from a 'generic' lease with variable payments difficult to justify conceptually.

An alternative approach we would like to see explored by the IASB, that would prevent such a difference, is where the result on the sale (economically not yet realised) is accounted for as deferred income with appropriate amortisation over the lease term. In this approach, assuming there are only variable payments under the lease, no lease liability and right-of-use asset is recognised based on the generic approach of the Standard. The DASB believes that this keeps the accounting for all leases with variable payments consistent, would be relatively easy to apply and still result in a seller-lessee recognising a gain only to the proportion of the rights it has transferred to the buyer-lessor. This approach would also alleviate the concern we express below.

The ED seems to imply that a leaseback with variable lease payments has the same economics as a leaseback with fixed lease payments, and therefore in both situations this should reflect a part of the interest retained in the asset (paragraph BC10).

However, variability in payments may effectively transfer economic risks and rewards, e.g., when lease payments depend on future revenues generated with the 2 asset by the lessee. The extent of the transfer of risks and rewards may differ among factors that determine the variable lease payments. Therefore, the DASB is not convinced that the estimate of variable lease payments would generally reflect the interest retained in the asset (or the portion of the result not economically realised) in all circumstances. We suggest that this element is to be further elaborated on by the IASB.

The DASB observes further that in the ED the initial estimate of the variable lease payments is not remeasured at subsequent reporting dates to reflect a reassessment of future variable lease payments.

The DASB is not convinced that such an approach leads to relevant information for users as the lease liability presented in subsequent periods will be based on the assumptions on initial application. This effectively means that on subsequent reporting dates the lease liability presented will not be a reflection of the expected cash outflows. This may also lead to counter-intuitive outcomes, for example a scenario where lease payments are a percentage of sales and due to a significant economic decline (forecasted) sales and therefore lease payments will be significantly lower as originally assumed. Without further addressing this issue in detail, this could lead to an impairment of the right-of-use asset without a change to the corresponding lease liability; the reduced payments will only be reflected in the income statement in future periods.

Another drawback of the proposal that the DASB wants to highlight is the fact that two separate models for the measurement of lease liabilities may require preparers to provide additional disclosures to ensure that users understand that the lease liabilities presented have two economically distinct (expected) cash flows. This may not necessarily be in line with the IASB's intention not to proliferate the size of disclosures in totality.

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.

Although we disagree with the proposals as such, for the reasons set out in our response to question 1, the DASB notes that, should the IASB proceed, the ED does not address the situation of future first-time adopters of IFRSs. First time adopters may face serious complications from the requirement to apply full retrospective application of the proposal in the ED. We encourage the IASB to address this situation in any final Standard.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,

Gerard van Santen
Chairman Dutch Accounting Standards Board