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EFRAG
Attn. Mr Jean-Paul Gauzès,
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Our ref	: RJ-EFRAG 604
Direct dial	: Tel.: (+31) 20 301 0259
Date	: Amsterdam, 22 February 2021
Re	: Comments on EFRAG draft comment letter in response to ED/2020/4 'Lease Liability in a Sale and Leaseback'

Dear members of the EFRAG Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on your draft comment letter dated 22 December 2020 in response to the Exposure Draft 'Lease Liability in a Sale and Leaseback' (ED).

Although we generally understand EFRAG's draft response to the ED, we do have some additional observations and suggestions as set out below we believe EFRAG should consider for inclusion in their response to the IASB:

- The DASB considers the difference in the initial measurement of a lease liability arising from a leaseback versus one arising from a 'generic' lease 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 in the third bullet.
- The IASB's exposure draft and EFRAG's comment letter seem 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

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 to include in your comment letter 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.
- The DASB notes that the ED, nor EFRAG's draft comment, addresses 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 would encourage EFRAG to include in their comment letter that this would need to be addressed in the final Standard.
- While we agree with the call by EFRAG to the IASB to reconsider the matter more broadly possibly as part of the future Post Implementation Review of IFRS 16, we do believe the determination of the lease liability in a sale and leaseback as proposed in the ED should not prejudice the outcome of this broader consideration.

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