

## Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

### 4.2 LEASES

#### 4.2.1 Accounting requirements

##### Sale and leaseback transactions

4.2.2.86 If an authority (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 4.2.2.87 to 4.2.2.91.

##### Assessing whether the transfer of the asset is a sale

4.2.2.87 An authority shall apply the requirements for determining when a performance obligation is satisfied in Section 2.7 of the Code and IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

##### Transfer of the asset is a sale

4.2.2.88 If the transfer of an asset by the seller-lessee satisfies the requirements of Section 2.7 of the Code and IFRS 15 to be accounted for as a sale of the asset:

- a) the seller-lessee shall 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. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor
- b) the buyer-lessor shall account for the purchase of the asset applying the relevant sections of the Code (eg Sections 4.1, 4.2 and 4.3), and for the lease by applying the lessor accounting requirements in this section of the Code.

4.2.2.89 If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an authority shall make the following adjustments to measure the sale proceeds at fair value:

- a) Any below-market terms shall be accounted for as a prepayment of lease payments.
- b) Any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

4.2.2.90 The authority shall measure any potential adjustment required by paragraph 4.2.2.89 on the basis of the more readily determinable of:

- a) the difference between the fair value of the consideration for the sale and the fair value of the asset
- b) the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

4.2.2.91 After the commencement date, the seller-lessee shall apply paragraphs 4.2.2.52 to 4.2.2.55 of the Code to the right-of-use asset arising from the leaseback and paragraphs 4.2.2.56 to 4.2.2.64 to the lease liability arising from the leaseback. In applying paragraphs 4.2.2.56 to 4.2.2.64, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying the requirements in this paragraph does not prevent the seller-lessee from recognising any gain or loss relating to the partial or full termination of a lease in the surplus or deficit on the provision of services, as required by paragraph 4.2.2.64 a).

##### Transfer of the asset is not a sale

4.2.2.92

If the transfer of an asset by the seller-lessee does not satisfy the requirements of Section 2.7 and IFRS 15 to be accounted for as a sale of the asset:

- a) The seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability applying Chapter 7 of the Code and IFRS 9.
- b) The buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying Chapter 7 of the Code and IFRS 9.