Lease Liability in a Sale and Leaseback
Issues Paper

Objective

1 The objectives of the session are to:

(a) Inform members of EFRAG FR TEG and CFSS of the latest decisions made by the IASB regarding the exposure draft *Lease Liability in a Sale and Leaseback*, (the 'ED');

(b) Collect members' input on the prevalence of the matter addressed in the ED in their jurisdictions; and

(c) Consider possible implications for EFRAG's future endorsement advice.

Background

2 In the 2019, the IFRS Interpretations Committee (IFRS IC) received a submission about the accounting for a sale and leaseback transaction with variable payments. In the fact pattern described, the entity (seller-lessee) enters into a sale and leaseback transaction whereby it transfers the asset to another entity (buyer-lessor) and lease back the asset with variable lease payments based on a percentage of the seller-lessee's revenue derived from that asset. The transfer satisfies requirements of IFRS 15 to be accounted for as a sale of an asset. The submitter asked how the seller-lessee measures the right-of-use (RoU) asset arising from the leaseback, whether it is:

(a) Zero because of variable lease payments, based on measurement requirements of IFRS 16:24; or

(b) A proportion of the asset's previous carrying amount, based on requirements in IFRS 16:100(a)).

3 The amount of RoU asset would determine the amount of gain or loss recognised at the date of the transaction.

4 The IFRS IC concluded that IFRS 16 provides an adequate basis for a seller-lessee to determine the accounting for the sale and leaseback transaction at the date of the transaction and published an agenda decision explaining this conclusion. In particular that the requirements applicable to the transaction described in the request were addressed in paragraph 100 of IFRS 16 which provides that '*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…*'.

5 However, the IFRS IC's discussions on this matter highlighted the absence of specific subsequent measurement requirements for sale and leaseback transactions in IFRS 16. Paragraphs 36-38 of IFRS 16 describe how a lessee shall subsequently measure a lease liability. However, these paragraphs were drafted without contemplating the situation in which the measurement of the lease liability might include payments that do not meet the definition of lease payments (i.e. variable lease payments not based on an index or rate). The IFRS IC referred the matter to the IASB.

IASB's Exposure draft

6 At its April 2020 meeting, the IASB decided to propose narrow-scope amendments to IFRS 16 to clarify how a seller-lessee would apply the subsequent measurement requirements in IFRS 16 to a lease liability that arises in a sale and leaseback transaction with variable lease payments. To facilitate this proposed amendment, the Board is also proposing to specify the method a seller-lessee uses in initially measuring the right-of-use asset and liability arising in such transactions.

7 The ED, issued in November 2021, proposes:

(a) To require a seller-lessee to determine the initial measurement of the RoU 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).

8 Applying the ED an entity would:

(a) Initially measure the right-of-use asset arising from a leaseback at the proportion of the previous carrying amount of the asset that relates to the ROU retained by the seller-lessee; and recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor;

(b) Determine the initial measurement of the right-of-use asset and lease liability using the present value of expected lease payments (including all payments regardless of whether they meet the definition of lease payments);

(c) Subsequently measure the lease liability consistently with its initial measurement, that is including all payments regardless of whether they meet the definition of lease payments; and apply the provisions in Paragraphs 36-38 by:

(i) Increasing the carrying amount to reflect interest on the lease liability;

(ii) Reducing the carrying amount to reflect the lease payments made; and

(iii) Remeasuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 39-46, or to reflect revised in-substance fixed lease payments;

(d) Not remeasure the lease liability to reflect any reassessment of future variable lease payments. Instead any difference between the actual variable payments made and those what were expected in the initial measurement of the lease liability are charged to profit or loss when incurred (in agreement with paragraph 38 of IFRS 16);

9 In case of a subsequent lease modifications, a seller-lessee should account for that modification, applying paragraphs 40 and 45 of IFRS 16, by remeasuring the lease liability, discounting the revised expected payments for the lease using a revised discount rate at the date of the modification. It would be inappropriate to remeasure the lease

liability to zero, on the basis that the leaseback payments do not meet the definition of lease payments.

EFRAG's Comment letter

10 EFRAG issued its comment letter in response to the ED on 9 April 2021, in which it assessed that:

(a) The ED provided evidence of a broader conflict of principles existing within IFRS 16 regarding two core principles:

(i) The exclusion of variable lease payments (not based on an index or rate) from the definition of lease payments, and

(ii) The principle that when entering into a sale and leaseback transaction there should not be any gain on the interest retained by the seller-lessee.

(b) EFRAG therefore encouraged the IASB to consider the issue more comprehensively and in a timely manner, possibly as part of the upcoming Post-Implementation review of IFRS 16 or the IASB's project on Variable and Contingent Consideration.

(c) EFRAG could accept that a temporary and faster solution to address the lack of guidance in IFRS 16, pending a more holistic review of the matter. However, EFRAG encouraged the IASB to consider a simplified solution by recognising the profit attributable to the retained interest in the right-of-use asset as a non-lease liability or deferred income rather than a lease liability. This would avoid introducing two different definitions of lease payments depending on whether leases are entered into on a stand-alone basis or via a leaseback.

(d) Finally, EFRAG noted that there were complexities and operational challenges associated with the proposals in the ED, in particular regarding the level of judgement involved in estimating the future variable payments.

IASB's tentative decisions after the consultation on the ED

11 At its December 2021, the IASB decided to proceed with its proposed amendments to IFRS 16, with limited changes to the proposals. More particularly, the IASB tentatively decided to retain the following key proposals in the ED:

(a) To clarify that the leaseback liability is a liability to which IFRS 16 applies

(b) To not change the initial measurement requirements in paragraph 100(a) of IFRS 16 for the right-of-use asset and the gain or loss arising from the sale and leaseback

(c) To clarify that a seller-lessee subsequently measures the right-of-use asset arising from the leaseback applying paragraphs 29-35 of IFRS 16

(d) To include an illustrative example of a sale and leaseback transaction with variable payments.

12 The IASB also tentatively decided to change some of the proposals in the ED:

(a) No longer prescribe how, at the commencement date, a seller-lessee determines the proportion of the previous carrying amount of the asset that relates to the right of use the seller-lessee retains[1].

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[1] Methods to estimate that proportion may include (a) the use of the present value of leaseback payments (at market rates) compared to the fair value of the asset, or (b) the residual value of the asset at the end of the lease term compared to its fair value at the date of the transaction.

(b) Specify, for the purposes of applying paragraphs 36-46 of IFRS 16, that the term 'lease payments' may not be as defined in Appendix A to IFRS 16. Instead, the seller-lessee would apply the term 'lease payments' or 'revised lease payments' in such a manner that it does not recognise any amount of the gain or loss that relates to the right of use retained to the extent that the right of use is retained.

13 The feedback received by the IASB from its consultation showed that:

(a) A large majority of respondents to the IASB (including EFRAG) disagreed with, or expressed conceptual and practical concerns about, the differing treatment of variable lease payments when measuring a leaseback liability compared with the measurement of other lease liabilities.

(b) Many suggested (like EFRAG) that this raises several practical and conceptual challenges and that the IASB reconsiders the accounting for variable lease payments more holistically as part of either the Post-implementation Review (PIR) of IFRS 16 or a project on variable and contingent consideration.

(c) Many supported (like EFRAG) the principle to limit the amount of the gain or loss recognised on a sale and leaseback transaction to only the portion that relates to the rights transferred to the buyer-lessor. However, some respondents also considered that say it was unclear whether variable payments linked to future performance or use of an underlying asset meet the definition of a liability in the Conceptual Framework for Financial Reporting.

14 In addressing the feedback, the IASB considered the following:

(a) The proposals would not create a difference in the measurement of leaseback liabilities and other lease liabilities; the requirements in IFRS 16 already include this difference. The question the proposals aimed to address is how to subsequently measure the liability that arises in the sale and leaseback transaction when the amount of that liability on initial recognition differs from the initial measurement of other lease liabilities.

(b) The conceptual reason, as stated in IFRS 16 basis for conclusion[2], for the decision to exclude variable payments linked to future performance or use of an underlying asset from the definition of lease payments, was on account of concerns about the high level of measurement uncertainty that would result from including them but also 'the high volume of leases held by some lessees'. From its limited outreach with some respondents, the IASB Staff has identified that seller-lessees do not enter into high volumes of sale and leaseback transactions with variable payments.

(c) The wider issue of whether the gain or loss recognised should be limited to the right transferred would go beyond a narrow-scope amendment. Therefore, the IASB suggested to finalise the proposals and look at the wider issue of gain or loss recognition during the post-implementation review of IFRS 16.

(d) The proposals in the ED to prescribe the way to measure the lease liability (using the expected payment methods) aimed at preventing the seller-lessee from recognising a gain or loss on the right of use the seller-lessee retains solely because of a remeasurement. However, feedback received for respondents underlined that, for long term leases in particular , estimating future payments may be challenging.

(i) The IASB considered that it could meet the same goal without prescribing a measurement method for the lease liability by developing requirements that

[2] As explained in paragraph BC169 of IFRS 16.

specifically prohibit a seller-lessee from recognising any amount of the gain or loss that relates to the right of use retained.

(ii) This would allow a seller-lessee to determine the appropriate approach to subsequent measurement for each sale and leaseback transaction, considering for example the level of uncertainty with respect to the leaseback payments to be made. The IASB's decision would permits a seller-lessee to use either an Expected Payments approach or on Imputed Payments approach for subsequent measurement of the lease liability that are further explained in the Appendix 1.

Deferred gain approach

15 The IASB's considered the alternative approaches suggested by some respondents and in particular a deferred gain type approach. The IASB's tentative decisions exclude the possibility to use a deferred gain approach. (see example in Appendix 1 illustrating such approaches).The IASB concluded that deferred gain approach would not provide useful information to users of financial statements about expected future cash flows arising from sale and leaseback transactions. Instead only an approach to subsequent measurement that recognises interest on the leaseback liability separately from depreciation of the right-of-use asset would, in our view, best reflect that the liability that arises from a sale and leaseback transaction is a 'debt-like' liability.

16 In its comment letter, EFRAG did not elaborate on how a deferred gain approach would be implemented and the relating entries. As identified in the feedback received by the IASB, two possible deferred gain approaches (Approach A and Approach B see Appendix 1).

Transition requirements

17 In February 2022, the IASB discussed the transition requirements for the draft amendments and tentatively decided to require seller-lessees to apply the amendments retrospectively in accordance with IAS 8; thereby removing the specific transition requirements that were proposed in the ED.

18 The ED proposed that the amendments are applied retrospectively in accordance with IAS 8 unless if '*retrospective application 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'.*

19 The removal of the specific transition requirements is a consequence of the decision made by the IASB in December 2021 to no longer specify the method by which a seller lessee to determine the proportion of the carrying amount of the asset that relates to the right of use retained (see paragraph 12 (a) above). This is because, on applying the amendments a seller-lessee would no longer be required to restate its accounting at the commencement date of a sale and leaseback transaction occurring before the effective date of the proposed amendments and is no longer required to estimate expected lease payments. Instead, the seller-lessee would be able to use the initial carrying amount of the leaseback liability as previously determined to develop its accounting policy for the subsequent measurement of the leaseback liability.

EFRAG Secretariat's initial views on the effects of the IASB's tentative decisions

20 The EFRAG Secretariat first observes that the IASB has not followed the suggestion made by EFRAG and many EU National Standard Setters to recognise non-lease liability or deferred income rather than a lease liability, in order to avoid introducing two different definitions of lease payments.

21 To illustrate the effects of the different approaches, Appendix 1 provide a numerical example showing the accounting differences between (a) the approach suggested by

EFRAG (and others) in favour of a deferred gain' presentation; and (b) the effects IASB's tentative decisions.

22 The two possible approaches allowed under the IASB's tentative decisions have been considered and are explained in Appendix 1 (expected payments or imputed payments approaches). Regarding the 'deferred gain approach', EFRAG did not elaborate, in its comment letter, on how the approach would be implemented in practice and the relating entries. Appendix 1 therefore considers two possible approaches to 'deferred gain' (Approach A and Approach B see explanations in the appendix) that were suggested by respondents to the IASB's consultation.

23 The EFRAG Secretariat observes that the differences between the approaches can materially affect:

(a) The presentation in the balance sheet on the liability side (Approach A) or both the asset and liability sides (Approach B); and

(b) The subsequent statements of income (both for line items and bottom line) over the lease term as regards in particular the amount of interest expense accrued, variable rent expense/ income and deferred gain or losses lines.

24 The question arises as to how EFRAG should factor in its forthcoming draft endorsement advice:

(a) The effects of the IASB's decisions which are not fully in line with its recommendations regarding the provisions of a simpler short term solution; and

(b) The fact that the forthcoming Post-Implementation of IFRS 16 will provide an opportunity (noted also by some IASB members) to reconsider some of the issues more holistically and possibly reconsider some of the decisions made.

25 The EFRAG Secretariat considers that EFRAG would have to assess the amendments (if finalised) against the endorsement criteria in the IAS Regulation on a standalone basis and regardless of possible improvements arising from the Post-Implementation Review.

Matters to considers in EFRAG's forthcoming endorsement advice

26 If the proposed amendments are finalised, the EFRAG Secretariat identified a least the following questions to address in the forthcoming endorsement advice:

Relevance

27 Does the proposed approach provide useful information to users of financial statements about expected future cash flows arising from sale and leaseback transactions?

Reliability

28 Does the partial recognition of the gain (i.e. limited to the proportion of the gain that relates to the rights transferred to the buyer-lessor) reflects the economic substance of the transaction?

29 Does the inclusion of future variable payments in a 'debt-like' lease liability (with subsequent recognition accrued interest and principal repayments) best reflects the nature of the liability that arises from a sale and leaseback transaction?

Understandability

30 Does the differing treatment of variable lease payments when measuring standalone leases and a leaseback result in information that will be understandable for users?

Comparability

31 Do the proposed amendments bridge an existing gap in IFRS Standards and result in transactions that are economically similar being accounted for similarly and transactions that are economically different being accounted for differently?

32 How does the IASB's Decision to no longer specify the methodology to calculate proportion of the rights retained in the leased asset (resulting in allowing two possible methods i.e. imputed or expected payments) affect comparability?

Cost and Benefits

33 Would the amendments result in application challenges and incremental costs (both on an initial implementation and on an ongoing basis) and would the costs be outweighed by the resulting benefits ?

34 At this stage, EFRAG FR TEG and CFSS are not asked to provide their views on the above question but only to assess whether they consider the questions adequately identify the matters to assess.

Prevalence of the matter in EU jurisdiction

35 In order to assess the prevalence of such transactions in the EU jurisdictions, the EFRAG Secretariat has sent a request for information to EFRAG CFSS members ahead of the March 2022 meeting. Feedback received will be presented at the meeting.

36 In considering the effects of the IASB's tentative decisions, the EFRAG Secretariat observes that the draft amendments, if finalised, will 'only' affect sale and leaseback transactions:

(a) Occurring from 2019 (first application of IFRS 16[3]);

(b) With variable leaseback payments not linked to an index or rate (e.g. variable payments linked to performance or usage of the leased asset); and

(c) For which the seller-lessee's existing accounting policy for the leaseback liability fails to comply with paragraphs 36–46 of IFRS 16 applied in a way that does not result in the recognition of any amount of the gain or loss that relates to the right of use retained.

37 EFRAG will need to gather input on the prevalence and volume of leaseback transactions meeting all of the above conditions.

38 The EFRAG Secretariat also notes that, the proposed amendments only affect the subsequent measurement of the lease liability. This is a consequence of the IASB's tentative decision to remove from the proposals the requirement for a seller-lessee to determine, at the commencement date, the proportion of the previous carrying amount of the asset that relates to the right of use retained by comparing the present value of the expected lease payments to the fair value of the asset sold. Consequently, on applying the amendments a seller-lessee would not need to restate its accounting at the commencement date of a sale and leaseback transaction occurring before the effective date. The seller-lessee would be able to use the initial carrying amount of the leaseback liability (as previously determined) to develop its accounting policy for the subsequent measurement of the leaseback liability.

39 For first-time adopters, the requirements in IFRS 1 *First-time Adoption of International Financial Reporting Standards* on leases mean that a seller-lessee applies the sale and leaseback requirements in IFRS 16 only to sale and leaseback transactions after its date of transition to IFRSs.

[3] The transition requirements in IFRS 16 mean that a seller-lessee applies the sale and leaseback requirements in IFRS 16 only to sale and leaseback transactions that occur after its date of initial application of IFRS 16.

Questions for EFRAG FR TEG and EFRAG CFSS members

40 Does EFRAG FR TEG and EFRAG CFSS members have questions on the project background and summary of recent developments (paragraphs 2 to 19)?

41 Do members have comments on EFRAG Secretariat's initial views on the effects of the IASB's tentative decisions on, EFRAG's forthcoming endorsement advice (paragraphs 20 to 34)?

42 Do EFRAG CFSS members have information to share about the extent to which sales and leaseback transactions with variable rents (not based on an index or rate) are prevalent in their jurisdictions (see also request for early information sent to CFSS members ahead of the meeting) ?

Appendix 1 – Illustrative example

1 The follow paragraphs illustrate the difference between the deferred gain approach (as suggested by EFRAG and other European Standard Setters) and the tentative decisions made by the IASB in its deliberations..

2 The comparison is based on the numerical example developed by the IASB Staff in IASB meeting papers.

Assumptions

3 A seller-lessee enters into a sale and leaseback transaction whereby it transfers an asset (PPE) to Buyer-lessor, and leases that PPE back for five years.

(a) The carrying amount of the PPE is CU1,000 and the purchase price paid by Buyer-lessor for the PPE is CU1,800.

(b) The contract requires Seller-lessee to make annual payments calculated as 7% of Seller-lessee's revenue generated using the building during each of the five years, <u>with an annual minimum payment of CU85</u> in each year.

(c) Seller-lessee's incremental borrowing rate is 3.5% per year. The present value of the expected lease payments (variable and fixed discounted at 3.5% per year) is CU450.

(d) PV value of only minimum guaranteed payments is 385.

(e) Proportion of the PPE that relates to the right of use retained is 25%, calculated as:

CU450 (present value of expected payments for the lease) divided by CU1,800 (fair value of the PPE).

(f) Consequently, the proportion of the PPE that relates to the rights transferred to Buyer-lessor is 75%.

4 Following the decision in December to no longer require that the seller lessee use an expected payment approach to determine the proportion of the rights retained in the leased asset, two possible methods are identified by the IASB that would affect differently the subsequent measurements of the lease liability.

Expected payment method

5 This method assumes that Management is capable of estimating the future variable rents under the leaseback over the lease term. The proportion of right retained is determined by comparing the present value of the estimated future rents with the fair value of the asset transferred under the lease back. Subsequently the seller-lessee remeasure the lease liability at each reporting period by :

(i) increasing the carrying amount to reflect interest on the lease liability;

(ii) reducing the carrying amount to reflect the lease payments made based on the estimated rents ; and

6 For the sake of the illustrative example, the following assumptions are made :

- Estimated rents (including min amount of 85) Y1 = 91, Y2 = 98, Y3 = 102 ; Y4 = 102 ; Y5 =105
- Actual variable rents = Y1 = 92, Y2 = 96, Y3 = 96; Y4 = 102 ; Y5 =105

Imputed payment method

7 Under this method, Management does not estimate future variable rents payments but 'inputs' them. In our example, Management determines that it retains a proportion of 25%[4] of the right in the leased asset and therefore 25% of the selling price of 1800 is recognised as a lease liability (25% of 1800 = 450).

8 Managements subsequently determines periodic payments that discounted at 3,5% equal the value of the lease liability (in our example 450).

9 There are two variations to this approach: (i) the periodic payments are set as equal amounts over the leaseback term; or (ii) the periodic payments may differ based on the expected profile of payments over the leaseback term.

10 For the sake of the illustrative example it has been determined that equal payments of 100 over 5 years discounted at 3,5% equals the amount of the lease liability of 450.

Application of a 'deferred gain approach'

11 In its comment letter, EFRAG did not elaborate on how a deferred gain approach would be implemented and the relating entries. As identified in the feedback received by the IASB, two possible deferred gain approaches

Deferred Gain Approach A[5]:

12 **Approach A** starts with the measurement of the Right-of-use asset . Under the approach the seller-lessee would measure

(i) 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 the seller-lessee retains (consistent with paragraph 100(a) of IFRS 16). In our example the RoU is measured at 25% of the existing PPE of 1000 that is 250.

(ii) The leaseback liability applying the measurement requirements applicable to other lease liabilities (that is excluding variable payments not based on an index or rate);

(iii) and recognise any residual balance as a deferred gain or non-lease liability, amortising it to profit or loss over the leaseback term. (d)

Deferred Gain approach B

13 **Approach B** starts with the measurement of the lease liability and:

(a) Measure the right-of-use asset by reference to the leaseback liability applying the measurement requirements applicable to all leases .

(b) Recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

(c) Recognise as a deferred gain (or loss) the unrecognised amount of the gain (or loss) on sale, amortising it to profit or loss over the term of the leaseback

14 As underlined in the illustrative example presented on next pages, both approaches A and B have their limitations

[4] For instance, by determining the fair value of the RoU asset and comparing it to the fair value of the whole leased asset.

[5] Also referred to as the 'Componentised Liability' approach.

(a) **Under Approach A**, the amount recognised as 'deferred gain' would actually correspond to the present value of future variable lease payments over the lease term and would not actually be representative of real deferred gain or loss.

(b) **Approach B** would actually lead to recognise the deferred gain on the retained Right-of-Use assets on the liability side. But it would modify the current requirements in paragraph 100(a) of IFRS 16 related to the initial measurement of the right-of-use asset (as the proportion of the rights retained in the PPE) arising from a leaseback and would, therefore, move the project outside of the IASB's intended boundary to not change that requirement . For this reason the IASB considered it inappropriate for the purpose of the proposed narrow scope amendments.

15 The following table compares the entries under the different approaches. The illustrative example considers both permutations (A and B) of the deferred gain approach and for the subsequent measurement, both the expected and imputed payments approaches.

Table 1 : Initial recognition of the Sale and Leaseback Transaction (journal entries)

	Deferred gain Approach				**IASB's tentative decisions**		**Comments**
	Approach A		***Approach B***				
	Dt	*Ct*	*Dt*	*Ct*	*Dt*	*Ct*	
Cash	1800		1800		1800		Proceeds from the sale.
RoU asset	250		385		250		For ease of analysis it has been assumed that the percentage of 25% of rights retained is the same whether the expected payment or the imputed payment approaches are used. However it may differ if a method other than the present value of expected lease payments is used to estimate the proportion that relates to the right of use retained) Approach A the right retained in the PPE i.e. 25% of 1000 = 250 Approach B results in RoU being measured as equal to the lease liability (385)
PPE		1000		1000		1000	To derecognise the PPE carrying amount that is being transferred in the Sale and Leaseback transaction.
Lease Liabilities		385		385		450	• **Approach B**: 385 = Present value of minimum rent of CU 85 per year discounted @3,5% over 5 years • IASB : 450 = 25% of 1800 . If expected payment method: 450 corresponds to the Present Value of Present of estimated future rents (including variable + fixed) of Y1 = 91, Y2 = 98, Y3 = 102 ; Y4 = 102 ; Y5 =105; discounted @3,5%.
Deferred gain (or non-lease liability)		65		200			**Approach A**: 65= corresponds to the PV of the variable rent in excess of the minimum rent of 85 discounted @ 3.5% . **Approach B:** 200 = balance amount that includes the 65 amount aforementioned plus the deferred gain on the RoU : amount of RoU recognised (385) Versus 25% of PPE (250)= 135
P&L Gain on sale		600		600		600	Under all approaches the gain recognised is i.e. 75% (1800-1000) = 600
Total	**2050**	**2050**	**2185**	**2185**	**2050**	**2050**	

Table 2 - Subsequent measurements – P&L Year 1

	Deferred Gain approach		**IASB's tentative Decisions**		**Comments**
	Approach A	**Approach B**	**Expected payment approach**	**Imputed payment approach**	
Interest expense	385 X 3,5%=(13)	(13)	450X3,5%= (16)	(16)	The interest expense is higher under the IASB's approach as interest is accrued on total expected rentals (including fixed and variable). Whereas under EFRAG's approach interest is only accrued on the fixed (minimum guaranteed) part of the rents i.e. 85X5= 385..@ 3.5%= 13
Amortisation of RoU	250/5 = (50)	385/5 = (77)	(50)	(50)	Approach A results in similar outcome as the IASB's regarding the amortisation of the RoU. Approach B results in higher RoU amortisation
Def gain (straight line recognition)	65/5= + 13	200/5 = +40	N/A	N/A	Deferred gain recognised over 5 years. Approach B results in increasing the deferred gain amount
Variable rent Expense (-) or Income (+)	(7)	(7)	(1)	+ 8	Under the deferred gain approach in both A and B the rent payment of 92 in Year 1 is analysed as - Payment of interest of 13 - Repayment of Principal of 85-13 = 72 - Variable rent expense of 92-85 = 7 Under the IASB approach (expected payment) rent payment of 92 is analysed as : - Payment of interests for the period : 16 - Repayment of principal : 91 -16 = 75 - Difference between expected and actual rents = 92- 91 = 1 variable rent expense. Under the IASB approach (imputed payment) annual rent payment of 100 is analysed as: - Payment of interest of 16 - Repayment of principal of 100-16 = 84 - Difference between estimated and actual rents (100 versus 92) i.e. 8 goes to P&L as variable rents.(in this case the difference is positive i.e. rent income of 8 is recognised).
Total	**(57)**	**(55)**	**(66)**	**(58)**	