



Snapshot

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Amendments to MFRS 16 'Leases' on Lease Liability in a Sale and Leaseback



(1) What is the issue?

In a sale and leaseback transaction, one entity (the seller-lessee) transfers an asset to another party (the buyer-lessor) and leases back the right to use of that same asset. The amendments deal with situations where the transfer of the asset by the seller-lessee satisfies the control test of MFRS 15 "Revenue from Contracts with Customers" to be accounted for as a sale of the asset, however the lease payments do not meet the definition of the lease payments in MFRS 16 'Leases', e.g. lease payments are variable based on the usage of the asset or sales made by the lessee.



(2) The seller-lessee accounting

(a) Initial measurement

The amendments specify that for the purpose of lease liability initial measurement, the seller-lessee shall determine the "lease payments" or "revised lease payments" in a way that the seller-lessee should only recognise the amount of the gain or loss that relates to the right of use it has lost control, but not the portion of the asset it leases back. The seller-lessee should:

- measure the right-of-use ("ROU") asset arising from the leaseback at the proportion of the carrying amount of the previously owned underlying asset;
- recognise any gain or loss that relates to the rights transferred to the buyer-lessor which is a consequence of its measurement of the ROU asset arising from the leaseback; and
- recognise a lease liability arising from the leaseback.

The amendments however do not provide any guidance on how lease liability arising from the leaseback should be measured. One possible approach as explained in the [June 2020 IFRS Interpretations Committee¹ Agenda Decision](#) is that the seller-lessee shall estimate the expected payments for the lease (including those that are variable that do not depend on an index or rate), which is a different from the definitions of lease payments in IFRS 16 / MFRS 16.

¹ The IFRS Interpretations Committee (Interpretations Committee) is the interpretative body of the International Accounting Standards Board (IASB). It works with the IASB in supporting the application of IFRS standards.



(2) The seller-lessee accounting (cont')

(b) Subsequent measurement

The amendments do not prescribe a particular method of subsequent measurement. Accordingly, the seller-lessee should develop an accounting policy for determining 'lease payments' in a way that it would not recognise any amount of the gain that relates to the right of use it retains.

The amendments include a numerical example illustrating 2 approaches how a lease liability could be subsequently measured where there are variable payments that do not depend on an index or rate. The seller-lessee could determine 'lease payments' reflecting either the expected lease payments at the commencement date or equal periodic payments over the lease term such that, when discounted using its incremental borrowing rate, it will result in the carrying amount of the lease liability at the commencement date.



(3) What is the impact and for whom?

The amendments are expected to affect the initial and subsequent measurement of lease liabilities arising from sale and leaseback transactions:

- (1) with variable lease payments that do not depend on an index or a rate;
- (2) entered into after the date when the seller-lessee initially applied MFRS 16; and
- (3) for which the seller-lessee's accounting policy differs from the requirements specified in these amendments.



(4) When does it apply?

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.



(5) What are the transition requirements?

The amendments are to be applied retrospectively in accordance with MFRS 108 "Accounting Policies, Changes in Accounting Estimates and Errors" to sale and leaseback transactions that were entered into after the date when the seller-lessee initially applied MFRS 16. For example, an seller-lessee that applied MFRS 16 from 1 January 2019 would apply the amendments to sale and leaseback transactions that were entered into after 1 January 2019.

Do you need further information on this topic?

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