

Explanatory Statement

Accounting Standard AASB 2022-5 ***Amendments to Australian Accounting Standards –*** ***Lease Liability in a Sale and Leaseback***

November 2022



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2022-5

This Standard makes amendments to AASB 16 *Leases* (February 2016).

These amendments arise from the issuance of International Financial Reporting Standard *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16) by the International Accounting Standards Board (IASB) in September 2022.

Main Features of AASB 2022-5

This Standard amends AASB 16 to add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in AASB 15 *Revenue from Contracts with Customers* to be accounted for as a sale.

AASB 16 already requires a seller-lessee to recognise only the amount of any gain or loss related to the rights transferred to the buyer-lessor. The amendments made by this Standard ensure that a similar approach is applied by also requiring a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that does not recognise any amount of the gain or loss related to the right of use it retains.

Application Date

This Standard applies to annual periods beginning on or after 1 January 2024. Earlier application is permitted.

Marked-up Text

This Standard incorporates marked-up text to clearly identify some or all of the amendments to AASB 16. All amendments are incorporated using clean text into the compilations of the pronouncements when they are prepared, based on the legal commencement date of the amendments.

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 305 *Lease Liability in a Sale and Leaseback* in December 2020, with comments due by 21 February 2021. ED 305 incorporated IASB Exposure Draft ED/2020/4 *Lease Liability in a Sale and Leaseback*. The AASB received feedback on ED 305 via two comment letters and targeted consultation with key stakeholders. Feedback received on ED 305 did not support the proposed amendments to require entities to incorporate estimated variable lease payments that are not based on a rate or index into the measurement of lease liabilities and right-of-use assets arising from sale and leaseback transactions. This was based on the view that the proposals would result in inconsistency in application between general leases and sale and leaseback arrangements, as variable lease payments that are not linked to a rate or an index are not included in the measurement of assets and liabilities arising under general leases. Stakeholders were also concerned that including variable lease payments that are not linked to a rate or index would increase measurement uncertainty. Feedback additionally suggested that making the proposed amendments before the IASB carried out a post-implementation review of IFRS 16 *Leases* may be premature.

The AASB made a submission to the IASB on ED/2020/4 on 29 March 2021, consistent with the feedback received.

The IASB analysed the feedback it received on the proposed amendments and decided to finalise the amendments after making changes. Specifically, the IASB decided not to prescribe specific measurement requirements for the subsequent measurement of lease liabilities arising from sale and leaseback transactions. Instead, the amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback so that it does not recognise any of the gain or loss related to the right of use that it retains. The IASB set an effective date for the amendments of annual periods beginning on or after 1 January 2024, with earlier application permitted. The AASB considered and adopted the amendments made by the IASB to IFRS 16 in finalising AASB 2022-5 and the amendments to AASB 16.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2022-5 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Legislative Features of Accounting Standards

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Copyright

This Standard, like all Accounting Standards promulgated by the AASB, is published with Commonwealth of Australia copyright. Educational, commercial and other publishers are able to request the AASB for permission to reprint all or parts of this Standard, which is given without charge.

Exemption from Sunsetting

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunsetting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemption and Other Matters) Regulation 2015* (Item 18(a)).

The AASB's Standards incorporate Standards set by the International Accounting Standards Board in respect of publicly accountable for-profit entities. The AASB's Standards are exempt from sunsetting because a more stringent review process than sunsetting applies to the Standards. This review process ensures Australia's Accounting Standards regime remains consistent with international Standards. Typically, the AASB Standards are revised at least once within a ten-year period, with most of the Standards subject to revisions much more frequently than that. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunsetting regime would have very limited practical application to AASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 2022-5 ***Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback***

Overview of the Accounting Standard

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Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.