
SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL)

Lease Liability in a Sale and Leaseback

(Amendments to SFRS(I) 16)

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

AMENDMENTS TO SFRS(I) 16:
LEASE LIABILITY IN A SALE AND LEASEBACK

CONTENTS	<i>from page</i>
AMENDMENTS TO SFRS(I) 16 LEASES	3
AMENDMENTS TO THE ILLUSTRATIVE EXAMPLES ACCOMPANYING SFRS(I) 16 LEASES	5

Amendments to SFRS(I) 16 Leases

Paragraphs 102A, C1D and C20E are added and paragraph C2 is amended. A new heading is added before paragraph C20E. New text is underlined, and deleted text is struck through.

Sale and leaseback transactions

...

Assessing whether the transfer of the asset is a sale

...

Transfer of the asset is a sale

...

102A After the commencement date, the seller-lessee shall apply paragraphs 29–35 to the right-of-use asset arising from the leaseback and paragraphs 36–46 to the lease liability arising from the leaseback. In applying paragraphs 36–46, 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 in profit or loss any gain or loss relating to the partial or full termination of a lease as required by paragraph 46(a).

...

Appendix C Effective date and transition

Effective date

...

C1D *Lease Liability in a Sale and Leaseback*, issued in December 2022, amended paragraph C2 and added paragraphs 102A and C20E. A seller-lessee shall apply these amendments for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies these amendments for an earlier period, it shall disclose that fact.

Transition

C2 For the purposes of the requirements in paragraphs C1–~~C20E~~–C49, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

...

Lease liability in a sale and leaseback

C20E A seller-lessee shall apply *Lease Liability in a Sale and Leaseback* (see paragraph C1D) retrospectively in accordance with SFRS(I) 1-8 to sale and leaseback transactions entered into after the date of initial application.

Amendments to the Illustrative Examples accompanying SFRS(I) 16 Leases

Sale and leaseback transactions (paragraphs 98-103)

Illustrative Example 24 has been amended. New text is underlined, and deleted text is struck through. Paragraph IE11 is not amended but is included in grey text for ease of reference. In this Illustrative Example, the headings 'Seller-lessee' and 'Buyer-lessor' are not amended; they are underlined here because that is how they appear in the published illustrative examples.

IE11 Example 24 illustrates the application of the requirements in paragraphs 99–102 of SFRS(I) 16 for a seller-lessee and a buyer-lessor.

Example 24—Sale and leaseback transaction with fixed payments and above-market terms

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU2,000,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU120,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of for determining when a performance obligation is satisfied in SFRS(I) 15 Revenue from Contracts with Customers to be accounted for as a sale of the building. Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback. ~~This example ignores any initial direct costs.~~

The fair value of the building at the date of sale is CU1,800,000. Because the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer-lessor make adjustments to measure the sale proceeds at fair value. Applying paragraph 101(b) of SFRS(I) 16, the amount of the excess sale price of CU200,000 (CU2,000,000 – CU1,800,000) is recognised as additional financing provided by Buyer-lessor to Seller-lessee.

The interest rate implicit in the lease is 4.5 per cent per annum, which is readily determinable by Seller-lessee. The present value of the annual payments (18 payments of CU120,000, discounted at 4.5 per cent per annum) is amounts to CU1,459,200, of which CU200,000 relates to the additional financing and CU1,259,200 relates to the lease—corresponding to 18 annual payments of CU16,447 and CU103,553, respectively.

Buyer-lessor classifies the lease of the building as an operating lease.

Seller-lessee

Applying paragraph 100(a) of SFRS(I) 16, at the commencement date, Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU699,555. Seller-lessee calculates this amount ~~This is calculated as:~~ $CU1,000,000$ (the carrying amount of the building) \div $CU1,800,000$ (the fair value of the building) \times $CU1,259,200$ (the discounted lease payments for the 18-year right-of-use asset) \div $CU1,800,000$ (the fair value of the building).

Seller-lessee recognises only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU240,355 calculated as follows. The gain on sale of the building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

- (a) $CU559,645$ ($CU800,000 \div CU1,800,000 \times CU1,259,200 \div CU1,800,000$) relates to the right to use the building retained by Seller-lessee; and

AMENDMENTS TO SFRS(I) 16:
LEASE LIABILITY IN A SALE AND LEASEBACK

Example 24—Sale and leaseback transaction with fixed payments and above-market terms

(b) $CU240,355$ ($CU800,000 \div \text{—}CU1,800,000 \times (CU1,800,000 - CU1,259,200) \div CU1,800,000$) relates to the rights transferred to Buyer-lessor.

At the commencement date, Seller-lessee accounts for the transaction as follows.

Cash	CU2,000,000	
Right-of-use asset	CU699,555	
Building		CU1,000,000
<u>Lease liability</u>		<u>CU1,259,200</u>
Financial liability		<u>CU200,000</u>
		<u>CU1,459,200</u>
Gain on rights transferred		CU240,355

Buyer-lessor

At the commencement date, Buyer-lessor accounts for the transaction as follows.

Building	CU1,800,000
Financial asset	CU200,000 (18 payments of CU16,447, discounted at 4.5 per cent per annum)
Cash	CU2,000,000

After the commencement date, Buyer-lessor accounts for the lease by treating CU103,553 of the annual payments of CU120,000 as lease payments. The remaining CU16,447 of annual payments received from Seller-lessee are accounted for as (a) payments received to settle the financial asset of CU200,000 and (b) interest revenue.

Paragraph IE12 and Illustrative Example 25 are added. This paragraph and illustrative example have not been underlined for ease of reading.

- IE12 Example 25 illustrates the application of the requirements in paragraph 102A and paragraphs 29–46 of SFRS(I) 16 in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate.

Example 25—Subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU1,800,000 (the fair value of the building at the date of sale). Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for five years. Lease payments—payable annually—comprise fixed payments and variable payments that do not depend on an index or rate.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of SFRS(I) 15 Revenue from Contracts with Customers to be accounted for as a sale of the building. Accordingly, Seller-lessee accounts for the transaction as a sale and leaseback.

The interest rate implicit in the lease cannot be readily determined. Seller-lessee's incremental borrowing rate is 3 per cent per annum.

Applying paragraph 100(a) of SFRS(I) 16, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use it retains as 25 per cent.

AMENDMENTS TO SFRS(I) 16:
LEASE LIABILITY IN A SALE AND LEASEBACK

Example 25—Subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate

(a) Consequently, at the commencement date Seller-lessee accounts for the transaction as follows.

Cash	CU1,800,000
Right-of-use asset (CU1,000,000 × 25 per cent)	CU250,000
Building	CU1,000,000
Lease liability	CU450,000
Gain on rights transferred ((CU1,800,000 – CU1,000,000) × 75 per cent)	CU600,000

Seller-lessee expects to consume the right-of-use asset's future economic benefits evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

In measuring the lease liability applying paragraphs 36–46 of SFRS(I) 16, Seller-lessee develops 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. Depending on the circumstances (including the method Seller-lessee used—applying paragraph 100(a) of SFRS(I) 16—for determining the measurement of the right-of-use asset and the gain recognised on the transaction at the commencement date), either Approach 1 or Approach 2 could meet the requirements in paragraph 102A.

Approach 1—Expected lease payments at the commencement date

Applying paragraph 102A of SFRS(I) 16, Seller-lessee determines 'lease payments' to reflect the expected lease payments at the commencement date that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at that date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

Year	Lease liability				Right-of-use asset		
	Beginning balance	Lease payments ^(b)	3 per cent interest expense ^(c)	Ending balance	Beginning balance	Depreciation charge	Ending balance
	CU	CU	CU	CU	CU	CU	CU
1	450,000	(95,902)	13,500	367,598	250,000	(50,000)	200,000
2	367,598	(98,124)	11,028	280,502	200,000	(50,000)	150,000
3	280,502	(99,243)	8,415	189,674	150,000	(50,000)	100,000
4	189,674	(100,101)	5,690	95,263	100,000	(50,000)	50,000
5	95,263	(98,121)	2,858	0	50,000	(50,000)	0

In applying paragraph 102A and paragraph 38(b) of SFRS(I) 16, Seller-lessee recognises in profit or loss the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays CU99,321 for the use of the building in Year 2, it recognises CU1,197 (CU99,321 – CU98,124) in profit or loss.

Approach 2—Equal lease payments over the lease term

Applying paragraph 102A of SFRS(I) 16, Seller-lessee determines 'lease payments' to reflect equal periodic payments over the lease term that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at the commencement date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

AMENDMENTS TO SFRS(I) 16:
LEASE LIABILITY IN A SALE AND LEASEBACK

Example 25—Subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate

Year	Lease liability				Right-of-use asset		
	Beginning balance	Lease payments ^(d)	3 per cent interest expense ^(c)	Ending balance	Beginning balance	Depreciation charge	Ending balance
	CU	CU	CU	CU	CU	CU	CU
1	450,000	(98,260)	13,500	365,240	250,000	(50,000)	200,000
2	365,240	(98,260)	10,957	277,937	200,000	(50,000)	150,000
3	277,937	(98,260)	8,338	188,015	150,000	(50,000)	100,000
4	188,015	(98,260)	5,640	95,395	100,000	(50,000)	50,000
5	95,395	(98,260)	2,865	0	50,000	(50,000)	0

In applying paragraph 102A and paragraph 38(b) of SFRS(I) 16, Seller-lessee recognises in profit or loss the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays CU99,321 for the use of the building in Year 2, it recognises CU1,061 (CU99,321 – CU98,260) in profit or loss.

- (a) Applying paragraph 100(a) of SFRS(I) 16, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use retained by comparing, at the commencement date, the right of use it retains via the leaseback to the rights comprising the entire building. Paragraph 100(a) does not prescribe a particular method for determining that proportion.
- (b) Applying paragraph 102A and paragraph 36(b) of SFRS(I) 16, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect the expected lease payments estimated at the commencement date and, when discounted, result in the carrying amount of the lease liability at that date of CU450,000.
- (c) Applying paragraph 102A and paragraph 36(a) of SFRS(I) 16, Seller-lessee increases the carrying amount of the lease liability to reflect interest on the lease liability using its incremental borrowing rate.
- (d) Applying paragraph 102A and paragraph 36(b) of SFRS(I) 16, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect equal periodic payments over the lease term that, when discounted, result in the carrying amount of the lease liability at the commencement date of CU450,000.