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Ms Sue Lloyd
International Accounting Standards Board
Columbus Building
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Our ref RD/288

20 November 2020

Dear Ms Lloyd

Tentative agenda decision: *Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)*

We appreciate the opportunity to comment on the IFRS Interpretations Committee (Committee) tentative agenda decision *Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)* (IFRIC Update September 2020). We have consulted with, and this letter represents the views of, the KPMG network.

We support the Committee's tentative conclusion that, in the fact pattern described in the agenda request, the entity applies paragraphs 25 and B97-B99 of IFRS 10 to account for the loss of control of the subsidiary and because the transfer of the asset satisfies the requirements in IFRS 15 to be accounted for as a sale, the entity also applies paragraph 100(a) of IFRS 16. However, we recommend that the Committee clarify the intended scope of the agenda decision.

Although the fact pattern discussed by the Committee is notably narrow, the analysis supporting the tentative agenda decision seems very broad. Specifically, the tentative agenda decision discusses (a) the applicability of the loss of control requirements in IFRS 10 when an entity loses control of a subsidiary and (b) the applicability of the sale and leaseback requirements in IFRS 16 to the lease of an underlying asset transferred by the lessee to the lessor through the sale of an equity interest in a former subsidiary of the lessee. It is unclear whether the Committee believes this discussion establishes an overarching premise that applies equally to other fact patterns or is specific to the narrow fact pattern in the agenda request.

We are concerned that the specific fact pattern discussed by the Committee is more narrow than variants of the fact pattern commonly seen in practice. These include, for example:

- a tax balance related to the underlying asset being included within the corporate wrapper;

- other assets and liabilities within the corporate wrapper including significant funding balances, e.g. a property asset and a loan liability secured on the property;
- the leaseback relating to only a portion of the asset held by the corporate wrapper, e.g. specific floors in a property;
- other assets and liabilities that constitute a business being included within the corporate wrapper; and
- the presence of non-controlling interest before and/or after the sale of the corporate wrapper.

In the absence of outreach, it is unclear whether application of the tentative agenda decision to some of these common variants to the fact pattern in the request could represent a major change in practice.

In order to assist stakeholders in applying the agenda decision in a consistent manner, we recommend that the Committee specify whether the discussion in the agenda decision relies on specific aspects of the fact pattern in the request, or establishes an overarching premise about the applicability of IFRS 10 and/or IFRS 16. This will assist stakeholders in better understanding the scope of the agenda decision and the associated reasoning.

Please contact Reinhard Dotzlaw at rdotzlaw@kpmg.ca or Kimber Bascom at kbascom@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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