Córdoba (SPAIN) May, 13th 2020

Dear members of the International Accounting Standards Board,

We appreciate the opportunity to comment on *Tentative Agenda Decision and comment letters: Sale and Leaseback with Variable Payments (IFRS 16).* We are faculty members of the Department of Financial Economics and Accounting at Universidad Loyola Andalucía (Spain). We have been studying IFRS 16 *Leases* for a long time, and we would like to share with you our comments. We hope you find them helpful.

We consider that IFRS 15 and IFRS 16 accounting standards are useful for addressing this issue. However, we think that the lease liability that is recognized on the commencement date does not meet the criteria to be classified as a liability. A present obligation does not exist as the seller-lessee has the practical ability to avoid the expected lease payments.

In our opinion, this sale-leaseback operation is equivalent to a sale in which the rights are transferred at the end of the lease term. For this reason, the gain (or loss) that the seller-lessee recognizes is limited to the proportion of the total gain (or loss) that relates to the rights transferred to the buyer-lessor. In the illustrative example, a performance-based variable consideration is included in the transaction price. On the commencement date of the agreement, the seller-lessee receives payment of the selling price, but he/she must satisfy future payments that are normally fixed but, in this case, must be estimated. In our opinion, the transaction could be analysed by applying IFRS 15 as regards to variable considerations in the transaction price. Thus, the liability that would arise on the commencement would be classified as a contract liability.

The accounting entry would be as follows:

At the date of the transaction:

Items	Db.	Cr.
Cash	1,800	
Property, plant & equipment		1,000
Contract liability		200
Profits on disposal of PPE		600

The contract liability would represent, in this case, a deferred gain, corresponding to the gain on the rights that were not transferred to the buyer-lessor. The entity should not re-measured the rights transferred retrospectively due to changes in actual lease payments based on actual usage. The contract liability should, therefore, be recognized in the income statement on a straight-line basis. Then, it would be treated as an adjustment to the future lease payment rather than the reassessment of the deferred gain.

The accounting entry would be as follows:

Items	Db.	Cr.
Contract liability	40	
Lease expenses		40
Lease expenses	150	
Cash		150

A most common situation would be a leaseback contract with fixed and variable payments and the accounting treatment should be consistent with that of the discussed example.

Please do not hesitate to contact us for any clarification or further information.

Sincerely,

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