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IFRS Foundation
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SOCPA Comments on Tentative Agenda Decision: Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)

Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision- Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16).*

We noticed that the analysis of the case considers the sale of the 'business' as direct sale of the individual assets held by that business, which might not be the proper analysis. We believe that the first step in the analysis is to evaluate whether the said subsidiary satisfies the definition of 'business'. If it satisfies that definition, the disposal of the business is in the scope of IFRS 10, and the disposed subsidiary is the owner of the building before and after the disposal. The fact that the entity holds only one asset and has no liability is irrelevant to the analysis. Evaluating whether the building itself is a business or not is required only if the subsidiary itself fails to satisfy the definition of business. IFRS 15, paragraph 5, explicitly excludes "…contractual rights or obligations within the scope of … IFRS 10 *Consolidated Financial Statements…*" from its scope. In other words, in the absence of specific requirements in IFRS 10, the sale of the business does not constitute the sale of the individual assets owned by the subsidiary to the new holders of its equity and hence IFRS 15 does not apply. Since there is no sale in the scope of IFRS 15, there is no lease back in the scope of IFRS 16 because the sale and leaseback requirements in the scope of IFRS 16 are totally linked to IFRS 15. Moreover, as long as the definition of business is satisfied for the disposed subsidiary in this inquiry, the parties to the sale of the business (entity and new owner) are different from the parties to the lease of the building (entity and former subsidiary) regardless of the fact that the entity controls the subsidiary before the disposal and regardless whether the subsidiary holds a single asset or more than one asset.

Referring to September 2020 staff paper 'Agenda ref 2', we notice the following:

1. The paper refers to paragraph BC261 of IFRS 16. We believe the context of that paragraph is different from the case in question because the sale of a business has its own economic substance that mandate the application of IFRS 10.
2. The paper supports its conclusion by reference to IAS 16 and IAS 40. We believe such analogy is not appropriate since IAS 16, paragraph 68 makes explicit exclusion of sale and lease back. Similar exclusion is also made in IAS 40, paragraph 67. There is no specific exclusion for sale of a single asset subsidiary in IFRS 10.

3. The paper supports its conclusion by reference to IAS 28 with comparison with IAS 16. We believe such analogy is not appropriate since IAS 16 sets the general rule and IAS 28 sets a specific rule as an exclusion from the general rule.

If the Committee believes that the proper treatment of this transaction is sale and lease back, it might be appropriate to suggest a standard setting activity to modify, or interpret, IFRS 16 to explicitly include in the scope of sale and lease back leasing an asset from a disposed subsidiary immediately after disposing or losing control of it in a way similar to IAS 28, or, alternatively, exclude such transaction from the scope of IFRS 10 in a way similar to the exclusion made in both IAS 16 and IAS 40 and include it in the scope of IFRS 15.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames
Secretary General