SOCPA
الهيئة السعودية
للمحاسبين القانونيين

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

March 28 2021

IFRS Foundation
7 West ferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the efforts of the IASB and welcomes the opportunity to comment on the Exposure Draft Exposure Draft ED/2020/4, *Lease Liability in a Sale and Leaseback- Proposed amendment to IFRS 16***.**

The Ed introduces a new terminology not defined in IFRS 16, i.e., 'expected lease payments', which is not a defined term neither in the framework nor in IFRS 16. It only appears in IAS 40 in one instance only without definition.

We have noticed the Board basis for conclusions reached about the inclusion of variable lease payment that do not depend on an index or rate. However, the arguments given are not convincing for the following reasons:

1. The Board in BC19(a) states "… Seller-lessees should, therefore, have access to information that would enable them to reasonably estimate the fair value of the underlying asset and the expected lease payments". The Board also stated that "seller-lessees would need to have that information to assess whether to enter into the transaction and the price at which to enter into it". We see this equally applies to lessee and lessor in other contract entered into at market rate. We cannot expect rational lessees and lessors not to have access to information that would enable them to reasonably estimate the fair value of the underlying asset and the expected lease payments. They also need that information to assess whether to enter into the transaction and determine the related price. Therefore, including the variable lease payment that does not depend on an index or rate in the lease payment in a sale and lease back and excluding it from other leases has no conceptual basis.

2. The Board in BC19(b) states that "applying the requirements in paragraph 101 of IFRS 16, seller-lessees are already required to consider whether the payments for the lease are at market rates and whether the fair value of the consideration equals the fair value of the underlying asset". We would like to emphasize that the market rate for sale and lease back is not always linked to the return on the asset itself, it is linked usually to the market rate of profit sharing of the business where such an asset is used, for example a retail store. In a volatile business such as retail stores, both buyer-lessor and seller-lessee benefit from linking lease revenue and expense to the performance of the business rather than fixed payments. The revenue generated from these retail stores is highly volatile and it is difficult to be reliably estimated for more than one year or even less.

3. The Board in BC19(c) states that 'seller-lessees generally do not have high volumes of sale and leaseback transactions that include variable lease payments'. We think this argument is not appropriate to justify measuring liability in a manner that is inconsistent with the definition of liability stated in the framework.

SOCPA
الهيئة السعودية
للمحاسبين القانونيين

VISION رؤية
2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

It needless to say that share of future revenue is not a 'present obligation of the entity to transfer an economic resource as a result of past events'. Conceptually, share of future revenue is a sort of a joint arrangement, which does not result initially in a liability to any party to the arrangement. Consequently, the Board may deliberate an accounting treatment of these transactions in a way that reflects its commercial substance, which is a profit sharing.

Alternatively, and to attain the main goal of paragraph 100 of IFRS 16 (i.e., the limit on the recognition of gain on sale in case where there is no right of use asset, the Board may deliberate whether to develop an approach similar (in nature) to the one included in IAS 17 to defer, and amortize over the contract term, a proportion of the gain related to the proportion of the remaining asset's useful life retained by the seller-lessee in case that lease payments include variable lease payments linked to future performance or use of an underlying asset.

Regardless of our concern about the inclusion of 'variable lease payments (regardless of whether they depend on an index or a rate) in the measurement of lease liability, we have another concern about the prohibition of re-measuring the lease liability to reflect a change in future variable lease payments. That amount is initially an estimation by nature. Therefore, the principle of change in an estimate in IAS 8 should apply to re-measuring that estimate.

In conclusion. We expect that the application of the approach introduced in the ED will vary widely and adjustment will be material to the degree that such information will not faithfully represent the liability that is recognized initially.

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