Introduction and Invitation to Comment

The International Accounting Standards Board proposes to amend IAS 17 *Leases* to address a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17.

The Board invites comments on the proposed amendment. It would particularly welcome answers to the question set out below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 17 not addressed in the exposure draft.

Question

Do you agree with the proposal to amend paragraphs 14-15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17? If not, why?

Proposed amendment to IAS 17 *Leases*

In the Standard, paragraph 14 is deleted, paragraph15 is amended (new text is underlined, deleted text is struck through) and paragraph 19A is inserted.

Classification of leases

...

14 ~~Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.~~

15 The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. ~~If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease, whether analysed as one lease or as two leases, unless it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership of one or both elements. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 14.~~ The classification of the land and buildings elements ~~is classified~~ as ~~a~~ finance or operating ~~lease~~ is made in accordance with paragraphs 7–13.

…

19A A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

Basis for Conclusions on Proposed Amendment to IAS 17 Leases

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Classification of leases

BC1 The Board identified a perceived inconsistency in the guidance on the classification of leases of land and buildings.

BC2 The Board notes that the guidance in paragraph 14 of IAS 17 *Leases* on classification of leases of land and buildings may be read by some as conflicting with the general guidance on lease classification in paragraphs 8-12 of IAS 17.

BC3 The Board concluded that the guidance in paragraphs 14-15 relating to lease classification might lead to a conclusion on lease classification for land that does not reflect the substance of the transaction. Therefore, it decided to eliminate this perceived inconsistency by deleting the guidance on classification of leases of land from paragraphs 14-15.