

# **Leases**

Comments to the AASB by 14 August 2013



**Australian Government**

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**Australian Accounting  
Standards Board**

## Commenting on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 14 August 2013. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 13 September 2013. Comments should be addressed to:

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Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007  
AUSTRALIA  
E-mail: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Respondents to the IASB are asked to send their comments electronically to the IFRS Foundation website ([www.ifrs.org](http://www.ifrs.org)), using the 'Comment on a proposal' page.

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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## AASB REQUEST FOR COMMENTS

This Exposure Draft incorporates the International Accounting Standards Board's (IASB) proposals for an International Financial Reporting Standard (IFRS) that specifies the accounting for leases. The following summary of the proposals is a modified extract from the IASB's ED.

The core principle of the proposals is that an entity should recognise assets and liabilities arising from a lease. In accordance with that principle, a lessee would recognise assets and liabilities for leases with a maximum possible term of more than 12 months. A lessee would recognise a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the leased asset (the underlying asset) for the lease term.

The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee would depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. For practical purposes, this assessment would often depend on the nature of the underlying asset. For most leases of assets other than property (for example, equipment, aircraft, cars, trucks), a lessee would classify the lease as a 'Type A' lease and would do the following:

- (a) recognise a right-of-use asset and a lease liability, initially measured at the present value of lease payments; and
- (b) recognise the unwinding of the discount on the lease liability as interest separately from the amortisation of the right-of-use asset.

For most leases of property (i.e. land and/or a building or part of a building), a lessee would classify the lease as a 'Type B' lease and would do the following:

- (a) recognise a right-of-use asset and a lease liability, initially measured at the present value of lease payments; and
- (b) recognise a single lease cost, combining the unwinding of the discount on the lease liability with the amortisation of the right-of-use asset, on a straight-line basis.

Similarly, the accounting applied by a lessor would depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. For practical purposes, this assessment would also often depend on the nature of the underlying asset. For most leases of assets other than property, a lessor would classify the lease as a 'Type A' lease and would do the following:

- (a) derecognise the underlying asset and recognise a right to receive lease payments (the lease receivable) and a residual asset (representing the rights the lessor retains relating to the underlying asset);
- (b) recognise the unwinding of the discount on both the lease receivable and the residual asset as interest income over the lease term; and
- (c) recognise any profit relating to the lease at the commencement date.

For most leases of property, a lessor would classify the lease as a 'Type B' lease and would apply an approach similar to existing operating lease accounting in which the lessor would do the following:

- (a) continue to recognise the underlying asset; and
- (b) recognise lease income over the lease term, typically on a straight-line basis.

When measuring assets and liabilities arising from a lease, a lessee and a lessor would exclude most variable lease payments. In addition, a lessee and a lessor would include payments to be made in optional periods only if the lessee has a significant economic incentive to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

For leases with a maximum possible term (including any options to extend) of 12 months or less, a lessee and a lessor would be permitted to make an accounting policy election, by class of underlying asset, to apply simplified requirements that would be similar to existing operating lease accounting.

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating IFRSs into Australian Accounting Standards, the AASB is inviting comments on:

- (a) any of the proposals in the attached IASB Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and
- (b) the 'AASB Specific Matters for Comment' listed below.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

### **Due Date for Comments to the AASB**

Comments should be submitted to the AASB by 14 August 2013. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

### **Reduced Disclosure Requirements**

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A separate consultative document will be issued for comment shortly after the issue of this Exposure Draft outlining the AASB's Tier 2 disclosure proposals in respect of this Exposure Draft.

### **AASB Specific Matters for Comment**

In addition to the specific questions on the proposals in IASB ED/2013/6, the AASB would value comments on the following:

1. in relation to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*:

- (a) are you aware of any implications for GAAP/GFS harmonisation of the proposed changes<sup>1</sup>?
  - (b) how do you think the implications for GAAP/GFS harmonisation of the proposed changes should be dealt with in the context of the principles in AASB 1049?
2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
- (a) not-for-profit entities; and
  - (b) public sector entities;
3. whether, overall, the proposals would result in financial statements that would be useful to users;
4. whether the proposals are in the best interests of the Australian economy; and
5. unless already provided in response to specific matters for comment 1 – 4 above, or in response to the specific questions asked by the IASB in the attached IASB Exposure Draft, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

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1 In that regard, the AASB is aware that the following aspects of the Exposure Draft would be expected to have implications for GAAP/GFS harmonisation:

- (a) the proposal for lessees to recognise assets and liabilities for the rights and obligations created by leases (with the exception of leases of 12 months or less), and therefore remove the operating and finance lease distinction; and
- (b) the proposal to change the measurement requirements of assets and liabilities arising from a lease for both lessees and lessors.

May 2013

Exposure Draft ED/2013/6

# Leases

Comments to be received by 13 September 2013

# **Exposure Draft Leases**

*Comments to be received by 13 September 2013*

Exposure Draft ED/2013/6 *Leases* is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form. Comments need to be received by **13 September 2013** and should be submitted in writing to the address below or electronically via our website [www.ifrs.org](http://www.ifrs.org) using the 'Comment on a proposal' page.

All responses will be put on the public record and posted on our website unless the respondent requests confidentiality. Confidentiality requests will not normally be granted unless supported by good reason, such as commercial confidence.

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## Introduction and questions for respondents

### Why are the IASB and the FASB publishing this revised Exposure Draft?

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Leasing is an important activity for many entities. It is a means of gaining access to assets, of obtaining finance, and of reducing an entity's exposure to the risks of asset ownership. The prevalence of leasing, therefore, means that it is important that users of financial statements have a complete and understandable picture of an entity's leasing activities. The existing accounting models for leases require lessees and lessors to classify their leases as either finance leases or operating leases and account for those leases differently. Those models have been criticised for failing to meet the needs of users of financial statements because they do not always provide a faithful representation of leasing transactions. In particular, they do not require lessees to recognise assets and liabilities arising from operating leases. As a result, there has been a longstanding request from many users of financial statements and others to change the accounting requirements so that lessees would be required to recognise those assets and liabilities.

Accordingly, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) initiated a joint project to develop a new approach to lease accounting that would require assets and liabilities arising from leases to be recognised in the statement of financial position.

To meet that objective, the IASB and the FASB have jointly developed a revised draft Standard on leases. The boards developed the proposals in this revised Exposure Draft after considering responses to their Discussion Paper *Leases: Preliminary Views*, which was issued in March 2009, and the IASB's initial Exposure Draft *Leases* and the proposed FASB Accounting Standards Update, *Leases (Topic 840)*, which were issued in August 2010.

Although many of the problems associated with existing leases requirements relate to the accounting for operating leases in the financial statements of lessees, retaining the existing lease accounting models for lessors would be inconsistent with the proposed approach to lessee accounting and would result in additional complexity in financial reporting. In addition, the boards decided that it would be beneficial to consider lessor accounting at the same time they are developing proposals on revenue recognition. Consequently, this Exposure Draft proposes changes to both lessee accounting and lessor accounting.

### Who would be affected by the proposals?

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The proposed requirements would affect any entity that enters into a lease, with some specified scope exemptions. The proposed requirements would supersede IAS 17 *Leases* (and related Interpretations) in International Financial Reporting Standards (IFRSs) and the requirements in Topic 840, *Leases*, (and related Subtopics) of the FASB *Accounting Standards Codification*<sup>®</sup>.

## What are the main proposals?

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The core principle of the proposed requirements is that an entity should recognise assets and liabilities arising from a lease. This represents an improvement over existing leases requirements, which do not require lease assets and lease liabilities to be recognised by many lessees.

In accordance with that principle, a lessee would recognise assets and liabilities for leases with a maximum possible term of more than 12 months. A lessee would recognise a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the leased asset (the underlying asset) for the lease term.

The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee would depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. For practical purposes, this assessment would often depend on the nature of the underlying asset.

For most leases of assets other than property (for example, equipment, aircraft, cars, trucks), a lessee would classify the lease as a Type A lease and would do the following:

- (a) recognise a right-of-use asset and a lease liability, initially measured at the present value of lease payments; and
- (b) recognise the unwinding of the discount on the lease liability as interest separately from the amortisation of the right-of-use asset.

For most leases of property (ie land and/or a building or part of a building), a lessee would classify the lease as a Type B lease and would do the following:

- (a) recognise a right-of-use asset and a lease liability, initially measured at the present value of lease payments; and
- (b) recognise a single lease cost, combining the unwinding of the discount on the lease liability with the amortisation of the right-of-use asset, on a straight-line basis.

Similarly, the accounting applied by a lessor would depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. For practical purposes, this assessment would often depend on the nature of the underlying asset.

For most leases of assets other than property, a lessor would classify the lease as a Type A lease and would do the following:

- (a) derecognise the underlying asset and recognise a right to receive lease payments (the lease receivable) and a residual asset (representing the rights the lessor retains relating to the underlying asset);
- (b) recognise the unwinding of the discount on both the lease receivable and the residual asset as interest income over the lease term; and
- (c) recognise any profit relating to the lease at the commencement date.

## LEASES

For most leases of property, a lessor would classify the lease as a Type B lease and would apply an approach similar to existing operating lease accounting in which the lessor would do the following:

- (a) continue to recognise the underlying asset; and
- (b) recognise lease income over the lease term, typically on a straight-line basis.

When measuring assets and liabilities arising from a lease, a lessee and a lessor would exclude most variable lease payments. In addition, a lessee and a lessor would include payments to be made in optional periods only if the lessee has a significant economic incentive to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

For leases with a maximum possible term (including any options to extend) of 12 months or less, a lessee and a lessor would be permitted to make an accounting policy election, by class of underlying asset, to apply simplified requirements that would be similar to existing operating lease accounting.

An entity would provide disclosures to meet the objective of enabling users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases.

On transition, a lessee and a lessor would recognise and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach.

### **When would the proposals be effective?**

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The boards will set the effective date for the proposed requirements when they consider interested parties' feedback on this revised Exposure Draft. The boards are aware that the proposals affect almost every reporting entity. Some of those entities have many leases, and the proposed changes to accounting for leases are significant. The boards will consider these and other relevant factors when setting the effective date.

### **Questions for respondents**

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The boards invite individuals and organisations to comment on the proposals in this revised Exposure Draft and, in particular, on the questions below. Respondents need not comment on all of the questions.

Comments are requested from those who agree and those who disagree with the proposals. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with a proposal are asked to describe their suggested alternative(s), supported by specific reasoning and examples, if possible.

Respondents should submit one comment letter to either the IASB or the FASB. The boards will jointly consider all comment letters received.

## Scope

<b>Question 1: identifying a lease</b>
<p>This revised Exposure Draft defines a lease as “a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”. An entity would determine whether a contract contains a lease by assessing whether:</p> <ul style="list-style-type: none"> <li>(a) fulfilment of the contract depends on the use of an identified asset; and</li> <li>(b) the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.</li> </ul> <p>A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.</p> <p>Do you agree with the definition of a lease and the proposed requirements in paragraphs 6–19 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.</p>

## The accounting model

This revised Exposure Draft would require an entity to recognise assets and liabilities arising from a lease.

When assessing how to account for a lease, a lessee and a lessor would classify a lease on the basis of whether a lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset.

This revised Exposure Draft would require an entity to apply that consumption principle by presuming that leases of property are Type B leases and leases of assets other than property are Type A leases, unless specified classification criteria are met. Those classification criteria are different for leases of property and leases of assets other than property to reflect the different natures of property (which often embeds a land element) and assets other than property.

The boards acknowledge that, for some leases, the application of the classification criteria might result in different outcomes than if the consumption principle were to be applied without additional requirements. Nonetheless, this revised Exposure Draft would require an entity to classify leases by applying the classification criteria in paragraphs 29–31 to simplify the proposals.

## Lessee accounting

A lessee would do the following:

- (a) for all leases, recognise a right-of-use asset and a lease liability, initially measured at the present value of lease payments (except if a lessee elects to apply the recognition exemption for short-term leases).

## LEASES

- (b) for Type A leases, subsequently measure the lease liability on an amortised cost basis and amortise the right-of-use asset on a systematic basis that reflects the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits. The lessee would present the unwinding of the discount on the lease liability as interest separately from the amortisation of the right-of-use asset.
- (c) for Type B leases, subsequently measure the lease liability on an amortised cost basis and amortise the right-of-use asset in each period so that the lessee would recognise the total lease cost on a straight-line basis over the lease term. In each period, the lessee would present a single lease cost combining the unwinding of the discount on the lease liability with the amortisation of the right-of-use asset.

### Lessor accounting

A lessor would do the following:

- (a) for Type A leases, derecognise the underlying asset and recognise a lease receivable and a residual asset. The lessor would recognise both of the following:
  - (i) the unwinding of the discount on both the lease receivable and the residual asset as interest income over the lease term; and
  - (ii) any profit relating to the lease (as described in paragraph 74) at the commencement date.
- (b) for Type B leases (and any short-term leases if the lessor elects to apply the exemption for short-term leases), continue to recognise the underlying asset and recognise lease income over the lease term, typically on a straight-line basis.

#### Question 2: lessee accounting

Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

#### Question 3: lessor accounting

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

#### Question 4: classification of leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28–34, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

## Measurement

This revised Exposure Draft would require that a lessee and a lessor measure assets and liabilities arising from a lease on a basis that:

- (a) reflects a lease term determined as the non-cancellable period, together with both of the following:
  - (i) periods covered by an option to extend the lease if the lessee has a significant economic incentive to exercise that option; and
  - (ii) periods covered by an option to terminate the lease if the lessee has a significant economic incentive not to exercise that option.
- (b) includes fixed lease payments and variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), but excludes other variable lease payments unless those payments are in-substance fixed payments. The lessee and lessor would measure variable lease payments that depend on an index or a rate using the index or rate as at the commencement date.

A lessee would reassess the measurement of the lease liability, and a lessor would reassess the measurement of the lease receivable, if either of the following occurs:

- (a) there is a change in relevant factors that would result in a change in the lease term (as described in paragraph B6); or
- (b) there is a change in an index or a rate used to determine lease payments.

### Question 5: lease term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

### Question 6: variable lease payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

## Transition

### Question 7: transition

Paragraphs C2–C22 state that a lessee and a lessor would recognise and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?

Are there any additional transition issues the boards should consider? If yes, what are they and why?



## Disclosure

### Question 8: disclosure

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments; reconciliations of amounts recognised in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

### Nonpublic entities (FASB-only)

#### Question 9 (FASB-only): nonpublic entities

To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities:

- (a) To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.
- (b) To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.

Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

### Related party leases (FASB-only)

The FASB decided that the recognition and measurement requirements for all leases should be applied by lessees and lessors that are related parties based on the legally enforceable terms and conditions of the lease, acknowledging that some related party transactions are not documented and/or the terms and conditions are not at arm's length. In addition, lessees and lessors would be required to apply the disclosure requirements for related party transactions in Topic 850, Related Party Disclosures. Under existing US GAAP, entities are required to account for leases with related parties on the basis of their economic substance, which may be difficult when there are no legally enforceable terms and conditions of the agreement.

#### Question 10 (FASB-only): related party leases

Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

**Question 11 (FASB-only): related party leases**

*Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?*

**IAS 40 Investment Property**

**Question 12 (IASB-only): Consequential amendments to IAS 40**

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40 *Investment Property*. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

## [Draft] International Financial Reporting Standard X Leases

### Introduction

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- 1 **This [draft] Standard specifies the accounting for leases. The core principle of this [draft] Standard is that an entity shall recognise assets and liabilities arising from a lease.**
- 2 An entity shall consider the terms and conditions of the contract and all related facts and circumstances when applying this [draft] Standard. An entity shall apply this [draft] Standard consistently to leases with similar characteristics and in similar circumstances.

### Objective

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- 3 The objective of this [draft] Standard is to establish the principles that *lessees* and *lessors* shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a *lease*.

### Scope

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- 4 An entity shall apply this [draft] Standard to all leases as defined in paragraph 6, including leases of *right-of-use assets* in a *sublease*, except for the following:
- (a) leases of intangible assets for lessors (see [draft] IFRS X *Revenue from Contracts with Customers*).<sup>1</sup>
  - (b) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*).
  - (c) leases of biological assets (see IAS 41 *Agriculture*).
  - (d) service concession arrangements within the scope of IFRIC 12 *Service Concession Arrangements*.
- 5 A lessee need not apply this [draft] Standard to leases of intangible assets.

### Identifying a lease

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- 6 A lease is a *contract* that conveys the right to use an asset (the *underlying asset*) for a period of time in exchange for consideration.
- 7 **At inception of a contract, an entity shall determine whether that contract is or contains a lease by assessing both of the following:**
- (a) **whether fulfilment of the contract depends on the use of an identified asset (as described in paragraphs 8-11); and**

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1 Any references in this document to [draft] IFRS X *Revenue from Contracts with Customers* refer to the Exposure Draft *Revenue from Contracts with Customers* published by the IASB in November 2011.

- (b) **whether the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration (as described in paragraphs 12–19).**

### **Fulfilment of the contract depends on the use of an identified asset**

- 8 An asset would typically be identified by being explicitly specified in a contract. However, even if an asset is explicitly specified, fulfilment of a contract does not depend on the use of an identified asset if the supplier (ie the entity that provides the good or service under the contract) has the substantive right to substitute the asset throughout the term of the contract. In contrast, even if an asset is not explicitly specified in a contract, fulfilment of the contract can depend on the use of an identified asset if the supplier does not have a substantive right to substitute the asset.
- 9 A supplier's right to substitute an asset is substantive if both of the following conditions are met:
- (a) the supplier can substitute alternative assets in place of the asset without requiring the consent of the customer (ie the entity that receives the good or service under the contract); and
  - (b) there are no barriers (economic or otherwise) that would prevent the supplier from substituting alternative assets in place of the asset during the term of the contract. Examples of such barriers include, but are not limited to, the following:
    - (i) costs associated with substituting the asset that are so high that they create an economic disincentive to substituting alternative assets during the term of the contract; and
    - (ii) operational barriers that would prevent or deter the supplier from substituting the asset (for example, alternative assets are neither readily available to the supplier nor could they be sourced by the supplier within a reasonable time period or without incurring significant costs).
- 10 Fulfilment of a contract can depend on the use of an identified asset even if a supplier has the right or obligation to substitute other assets in place of the underlying asset if the asset is not operating properly or a technical upgrade becomes available. In addition, fulfilment of a contract can depend on the use of an identified asset even if a supplier has the right or obligation to substitute other assets for any reason only on or after a particular date. In this case, fulfilment of the contract can depend on the use of an identified asset until the date that the right or obligation to substitute becomes effective.
- 11 A physically distinct portion of an asset (for example, a floor of a building) can be an identified asset. However, a capacity portion of an asset (for example, a capacity portion of a fibre-optic cable that is less than substantially all of the capacity of the cable) cannot be an identified asset because it is not physically distinct from the remaining capacity of the asset.

### **Contract conveys the right to control the use of an identified asset**

12 A contract conveys the right to control the use of an identified asset if, throughout the term of the contract, the customer has the ability to do both of the following:

- (a) direct the use of the identified asset (as described in paragraphs 13–17); and
- (b) derive the benefits from use of the identified asset (as described in paragraphs 18–19).

### **Ability to direct the use**

13 A customer has the ability to direct the use of an asset when the contract conveys rights that give the customer the ability to make decisions about the use of the asset that most significantly affect the economic benefits to be derived from use of the asset throughout the term of the contract.

14 Examples of decisions that could most significantly affect the economic benefits to be derived from use of an asset include, but are not limited to, determining or being able to change any of the following:

- (a) how and for what purpose the asset is employed during the term of the contract;
- (b) how the asset is operated during the term of the contract; and
- (c) the operator of the asset.

15 In some contracts for which there are few, if any, substantive decisions to be made about the use of an asset after the *commencement date*, a customer's ability to direct the use of the asset may be obtained at or before that date. For example, a customer may be involved in designing the asset for its use or in determining the terms and conditions of the contract, so that the decisions about the use of the asset that most significantly affect the economic benefits to be derived from use are predetermined. In those cases, the customer has the ability to direct the use of the asset throughout the term of the contract as a result of the decisions that it made at or before the commencement of the contract.

16 A contract may include clauses that restrict a customer's use of an asset; for example, a contract may specify the maximum amount of use of an asset to protect the supplier's interest in the asset. Such protective rights that restrict a customer's use of an asset would not, in isolation, prevent the customer from having the ability to direct the use of the asset.

17 Rights that give a customer the ability to specify the output of an asset (for example, the quantity and description of goods or services produced by the asset) would not, in isolation, mean that a customer has the ability to direct the use of that asset. The ability to specify the output, without any other decision-making rights relating to the use of the asset, gives a customer the same rights as any customer that purchases services.

**Ability to derive the benefits from use**

- 18 A customer's ability to derive the benefits from use of an asset refers to its right to obtain substantially all of the potential economic benefits from use of the asset throughout the term of the contract. A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, consuming, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products in the form of products and services. Those economic benefits also include other economic benefits from use of the asset that could be realised from a commercial transaction with a third party.
- 19 A customer does not have the ability to derive the benefits from use of an asset if both of the following occur:
- (a) the customer can obtain the benefits from use of the asset only in conjunction with additional goods or services that are provided by the supplier and not sold separately by the supplier or other suppliers; and
  - (b) the asset is incidental to the delivery of services because the asset has been designed to function only with the additional goods or services provided by the supplier. In such cases, the customer receives a bundle of goods or services that combine to deliver an overall service for which the customer has contracted.

**Separating components of a contract**

- 20 After determining that a contract contains a lease in accordance with paragraphs 6–19, an entity shall identify each separate lease component within the contract. An entity shall consider the right to use an asset to be a separate lease component if both of the following criteria are met:
- (a) the lessee can benefit from use of the asset either on its own or together with other resources that are readily available to the lessee. Readily available resources are goods or services that are sold or leased separately (by the lessor or other suppliers) or resources that the lessee has already obtained (from the lessor or from other transactions or events); and
  - (b) the underlying asset is neither dependent on, nor highly interrelated with, the other underlying assets in the contract.

- 21 An entity shall account for each lease component as a separate lease, separately from non-lease components of a contract, except as described in paragraphs 23(b)(ii) and 23(c). An entity shall allocate the consideration in the contract to each separate lease component that has been identified in accordance with paragraphs 22–24.

**Lessor**

- 22 After identifying the lease components in a contract in accordance with paragraph 20, a lessor shall allocate the consideration in the contract using the requirements in paragraphs 70–76 of [draft] IFRS X *Revenue from Contracts with Customers*.

**Lessee**

- 23 After identifying the lease components in a contract in accordance with paragraph 20, a lessee shall allocate the consideration in the contract as follows:
- (a) if there are observable *stand-alone prices* for each component of the contract, a lessee shall allocate the consideration to each component on the basis of the relative stand-alone price of each component.
  - (b) if there are observable stand-alone prices for one or more, but not all, of the components of the contract, a lessee shall allocate both of the following:
    - (i) the stand-alone price of each component to the components of the contract with observable prices; and
    - (ii) the remaining consideration in the contract to the components of the contract without observable prices. If one or more of the components without observable prices is a lease component, the lessee shall combine those components and account for them as a single lease component.
  - (c) if there are no observable stand-alone prices for any components of the contract, a lessee shall combine the components and account for them as a single lease component.
- 24 A price is observable if it is the price that either the lessor or similar suppliers charge for similar lease, good or service components on a stand-alone basis.

**Lease term (paragraphs B2–B6)**

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- 25 An entity shall determine the *lease term* as the non-cancellable period of the lease, together with both of the following:
- (a) periods covered by an option to extend the lease if the lessee has a significant economic incentive to exercise that option; and
  - (b) periods covered by an option to terminate the lease if the lessee has a significant economic incentive not to exercise that option.
- 26 At the commencement date, an entity shall consider contract-based, asset-based, entity-based and market-based factors when assessing whether a lessee has a significant economic incentive either to exercise an option to extend a lease, or not to exercise an option to terminate a lease, as described in paragraph B5. Those factors shall be considered together and the existence of any one factor does not necessarily signify that a lessee has a significant economic incentive to exercise, or not to exercise, the option.
- 27 An entity shall reassess the lease term only if either of the following occurs:
- (a) there is a change in relevant factors, as described in paragraph B6, that would result in the lessee having or no longer having a significant economic incentive either to exercise an option to extend the lease or not to exercise an option to terminate the lease. A change in market-based factors (such as market rates to lease a comparable asset) shall not, in isolation, trigger reassessment of the lease term.

- (b) the lessee does either of the following:
- (i) elects to exercise an option even though the entity had previously determined that the lessee did not have a significant economic incentive to do so; or
  - (ii) does not elect to exercise an option even though the entity had previously determined that the lessee had a significant economic incentive to do so.

## Classification of leases

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- 28**     **At the commencement date, an entity shall classify a lease as either a Type A lease or a Type B lease. An entity shall not reassess the classification after the commencement date.**
- 29     If the underlying asset is not *property*, an entity shall classify a lease as a Type A lease unless one of the following two criteria is met:
- (a)     the lease term is for an insignificant part of the total *economic life* of the underlying asset; or
  - (b)     the present value of the *lease payments* is insignificant relative to the fair value of the underlying asset at the commencement date.
- If either criterion above is met, the lease is classified as a Type B lease.
- 30     If the underlying asset is *property*, an entity shall classify a lease as a Type B lease unless one of the following two criteria is met:
- (a)     the lease term is for the major part of the remaining economic life of the underlying asset; or
  - (b)     the present value of the lease payments accounts for substantially all of the fair value of the underlying asset at the commencement date.
- If either criterion above is met, the lease is classified as a Type A lease.
- 31     Notwithstanding the requirements in paragraphs 29–30, a lease is classified as a Type A lease if a lessee has a significant economic incentive to exercise an option to purchase the underlying asset.
- 32     If a lease component contains the right to use more than one asset, an entity shall determine the nature of the underlying asset on the basis of the nature of the primary asset within the lease component. An entity shall regard the economic life of the primary asset to be the economic life of the underlying asset when applying the classification criteria in paragraphs 29–30.
- 33     Notwithstanding the requirements in paragraph 32, if a lease component contains both land and a building, an entity shall regard the economic life of the building to be the economic life of the underlying asset when applying the classification criteria in paragraph 30.
- 34     When classifying a sublease, an entity shall evaluate the sublease with reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease), rather than with reference to the right-of-use asset.



- 35 A lessee shall not classify a lease as a Type A or a Type B lease if it chooses to measure the right-of-use asset in accordance with paragraph 52 or paragraph 53. Such a lease shall be treated as a Type A lease when applying the applicable presentation and disclosure requirements.

### Contract modifications

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- 36 If the contractual terms and conditions of a lease are modified, resulting in a substantive change to the existing lease, an entity shall account for the modified contract as a new contract at the date that the modifications become effective. An entity shall recognise any difference between the carrying amounts of the assets and liabilities arising from the previous lease and those arising from any new lease in profit or loss. Examples of a substantive change arising from a contract modification include changes to the contractual lease term or to the amount of contractual lease payments that were not part of the original terms and conditions of the lease.

### Lessee

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#### Recognition

- 37 **At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.**

#### Measurement

##### Initial measurement

- 38 **At the commencement date, a lessee shall measure both of the following:**
- (a) **the lease liability at the present value of the lease payments discounted using the rate the lessor charges the lessee. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate (as described in paragraphs B7–B9).**
  - (b) **the right-of-use asset as described in paragraph 40.**

##### *Initial measurement of the lease payments included in the lease liability*

- 39 At the commencement date, the lease payments included in the lease liability shall consist of the following payments relating to the use of the underlying asset during the lease term (as described in paragraph 25) that are not yet paid:
- (a) fixed payments, less any lease incentives receivable from the lessor;
  - (b) *variable lease payments* that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as at the commencement date;
  - (c) variable lease payments that are in-substance fixed payments;
  - (d) amounts expected to be payable by the lessee under *residual value guarantees*;

- (e) the exercise price of a purchase option if the lessee has a significant economic incentive to exercise that option (assessed considering the factors described in paragraph B5); and
- (f) payments for penalties for terminating the lease, if the lease term (as determined in accordance with paragraph 25) reflects the lessee exercising an option to terminate the lease.

*Initial measurement of the right-of-use asset*

40 At the commencement date, the cost of the right-of-use asset shall consist of all of the following:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made to the lessor at or before the commencement date, less any lease incentives received from the lessor; and
- (c) any *initial direct costs* incurred by the lessee (as described in paragraphs B10–B11).

**Subsequent measurement**

41 **After the commencement date, a lessee shall measure both of the following:**

- (a) **the lease liability by increasing the carrying amount to reflect the unwinding of the discount on the lease liability and reducing the carrying amount to reflect the lease payments made during the period. The lessee shall determine the unwinding of the discount on the lease liability in each period during the lease term as the amount that produces a constant periodic discount rate on the remaining balance of the liability, taking into consideration the reassessment requirements in paragraph 43; and**
- (b) **the right-of-use asset at cost less any accumulated amortisation and any accumulated impairment losses, taking into consideration the reassessment requirements in paragraph 43, unless paragraph 52 or paragraph 53 applies.**

42 After the commencement date, a lessee shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset in accordance with other applicable Standards, all of the following:

- (a) for Type A leases, the unwinding of the discount on the lease liability as interest and the amortisation of the right-of-use asset.
- (b) for Type B leases, a single lease cost, combining the unwinding of the discount on the lease liability with the amortisation of the right-of-use asset, calculated so that the remaining cost of the lease (as described in paragraphs B15–B16) is allocated over the remaining lease term on a straight-line basis. However, the periodic lease cost shall not be less than the periodic unwinding of the discount on the lease liability.
- (c) variable lease payments not included in the lease liability in the period in which the obligation for those payments is incurred.

*Reassessment of the lease liability*

- 43 After the commencement date, a lessee shall remeasure the lease liability to reflect changes to the lease payments as described in paragraph 44 and changes to the discount rate as described in paragraphs 45–46. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset, except as follows:
- (a) a lessee shall identify the amount of the remeasurement arising from a change in an index or a rate (as described in paragraph 44(d)) that is attributable to the current period and shall recognise that amount in profit or loss.
  - (b) if the carrying amount of the right-of-use asset is reduced to zero, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.
- 44 A lessee shall reassess the lease payments if there is a change in any of the following:
- (a) the lease term, as described in paragraph 27. A lessee shall determine the revised lease payments on the basis of the revised lease term.
  - (b) relevant factors that result in the lessee having or no longer having a significant economic incentive to exercise an option to purchase the underlying asset, assessed in accordance with paragraph B6. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.
  - (c) the amounts expected to be payable under residual value guarantees. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under residual value guarantees.
  - (d) an index or a rate used to determine lease payments during the reporting period. A lessee shall determine the revised lease payments using the index or rate as at the end of the reporting period.
- 45 A lessee shall reassess the discount rate if there is a change in any of the following, unless the possibility of change was reflected in determining the discount rate at the commencement date:
- (a) the lease term;
  - (b) relevant factors that result in the lessee having or no longer having a significant economic incentive to exercise an option to purchase the underlying asset; or
  - (c) a reference interest rate, if variable lease payments are determined using that rate.
- 46 A lessee shall determine the revised discount rate at the date of reassessment as the rate the lessor would charge the lessee at that date (or, if that rate is not readily determinable, the lessee's incremental borrowing rate at that date) on the basis of the remaining lease term.

*Amortisation of the right-of-use asset***Type A leases**

47 For Type A leases, a lessee shall amortise the right-of-use asset on a straight-line basis, unless another systematic basis is more representative of the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits.

48 A lessee shall amortise the right-of-use asset from the commencement date to the earlier of the end of the *useful life* of the right-of-use asset or the end of the lease term. However, if the lessee has a significant economic incentive to exercise a purchase option, the lessee shall amortise the right-of-use asset to the end of the useful life of the underlying asset.

49 Subject to the requirements in paragraphs 47–48, a lessee shall otherwise apply the depreciation requirements in IAS 16 *Property, Plant and Equipment* when amortising the right-of-use asset.

**Type B leases**

50 For Type B leases, a lessee shall determine the amortisation of the right-of-use asset for the period as the difference between the following:

- (a) the periodic lease cost, determined in accordance with paragraph 42(b); and
- (b) the periodic unwinding of the discount on the lease liability, determined in accordance with paragraph 41(a).

*Impairment of the right-of-use asset*

51 A lessee shall determine whether the right-of-use asset is impaired and shall recognise any impairment loss in accordance with IAS 36 *Impairment of Assets*.

*Alternative measurement bases for the right-of-use asset*

52 A lessee shall measure right-of-use assets arising from leased property in accordance with the fair value model in IAS 40 if the leased property meets the definition of *investment property* and the lessee elects the fair value model in IAS 40 as an accounting policy.

53 A lessee may measure right-of-use assets relating to a class of property, plant and equipment at a revalued amount in accordance with IAS 16 if the lessee revalues all assets within that class of property, plant and equipment.

**Presentation**

54 A lessee shall either present in the statement of financial position or disclose in the notes all of the following:

- (a) right-of-use assets separately from other assets;
- (b) lease liabilities separately from other liabilities;
- (c) right-of-use assets arising from Type A leases separately from right-of-use assets arising from Type B leases and right-of-use assets measured at revalued amounts; and

## LEASES

- (d) lease liabilities arising from Type A leases separately from lease liabilities arising from Type B leases.
- 55 If a lessee does not present right-of-use assets and lease liabilities separately in the statement of financial position, the lessee shall do both of the following:
- (a) present right-of-use assets within the same line item as the corresponding underlying assets would be presented if they were owned; and
- (b) disclose which line items in the statement of financial position include right-of-use assets and lease liabilities.
- 56 In the statement of profit or loss and other comprehensive income, a lessee shall present both of the following:
- (a) for Type A leases, the unwinding of the discount on the lease liability separately from the amortisation of the right-of-use asset.
- (b) for Type B leases, the unwinding of the discount on the lease liability together with the amortisation of the right-of-use asset.
- 57 In the statement of cash flows a lessee shall classify the following:
- (a) repayments of the principal portion of the lease liability arising from Type A leases within financing activities;
- (b) the unwinding of the discount on the lease liability arising from Type A leases in accordance with the requirements relating to interest paid in IAS 7 *Statement of Cash Flows*;
- (c) payments arising from Type B leases within operating activities; and
- (d) variable lease payments and *short-term lease* payments not included in the lease liability within operating activities.

### Disclosure

- 58 **The objective of the disclosure requirements is to enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. To achieve that objective, a lessee shall disclose qualitative and quantitative information about all of the following:**
- (a) **its leases (as described in paragraphs 60(a) and 60(b));**
- (b) **the significant judgements made in applying the [draft] Standard to those leases (as described in paragraph 60(c)); and**
- (c) **the amounts recognised in the financial statements relating to those leases (as described in paragraphs 61–67).**
- 59 A lessee shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessee shall aggregate or disaggregate disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.
- 60 A lessee shall disclose the following:

- (a) information about the nature of its leases, including:
  - (i) a general description of those leases;
  - (ii) the basis, and terms and conditions, on which variable lease payments are determined;
  - (iii) the existence, and terms and conditions, of options to extend or terminate the lease. A lessee shall provide narrative disclosure about the options that are recognised as part of the right-of-use asset and lease liability and those that are not;
  - (iv) the existence, and terms and conditions, of residual value guarantees provided by the lessee; and
  - (v) the restrictions or covenants imposed by leases, for example those relating to dividends or incurring additional financial obligations.

A lessee shall identify the information relating to subleases included in the disclosures provided above.

- (b) information about leases that have not yet commenced but that create significant rights and obligations for the lessee.
- (c) information about significant assumptions and judgements made in applying the [draft] Standard, which may include the following:
  - (i) the determination of whether a contract contains a lease (as described in paragraphs 6–19);
  - (ii) the allocation of the consideration in a contract between lease and non-lease components (as described in paragraphs 23–24); and
  - (iii) the determination of the discount rate (as described in paragraphs B7–B9).

61 A lessee shall disclose a reconciliation of opening and closing balances of right-of-use assets by class of underlying asset separately for Type A leases, Type B leases and right-of-use assets measured at revalued amounts. Those reconciliations shall include items that are useful in understanding the change in the carrying amount of right-of-use assets, for example, the following:

- (a) additions due to leases commencing or being extended;
- (b) reclassifications when a lessee exercises a purchase option;
- (c) reductions due to leases being terminated;
- (d) remeasurements relating to a change in an index or a rate used to determine lease payments;
- (e) amortisation;
- (f) effects of business combinations; and
- (g) impairment.

## LEASES

- 62 A lessee that measures its right-of-use assets arising from leased investment property in accordance with the fair value model in IAS 40 (as described in paragraph 52) may elect not to provide the disclosure required by paragraph 61 for those right-of-use assets.
- 63 If a lessee measures right-of-use assets at revalued amounts, the lessee shall disclose:
- (a) the effective date of the revaluation; and
  - (b) the amount of the revaluation surplus that relates to right-of-use assets at the start and end of the reporting period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders.
- 64 A lessee shall disclose a reconciliation of opening and closing balances of the lease liability separately for Type A leases and Type B leases. Those reconciliations shall include the periodic unwinding of the discount on the lease liability and other items that are useful in understanding the change in the carrying amount of the lease liability, for example, the following:
- (a) liabilities created due to leases commencing or being extended;
  - (b) liabilities extinguished due to leases being terminated;
  - (c) remeasurements relating to a change in an index or a rate used to determine lease payments;
  - (d) cash paid;
  - (e) foreign currency exchange differences; and
  - (f) effects of business combinations.
- 65 A lessee shall disclose costs that are recognised in the period relating to variable lease payments not included in the lease liability.
- 66 A lessee shall disclose information about the acquisition of right-of-use assets in exchange for lease liabilities, arising from both Type A leases and Type B leases, as a supplemental non-cash transaction disclosure (see IAS 7).
- 67 In place of the maturity analyses required by paragraphs 39(a) and 39(b) of IFRS 7 *Financial Instruments: Disclosures*, a lessee shall disclose a maturity analysis of the lease liability, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessee shall reconcile the undiscounted cash flows to the lease liability recognised in the statement of financial position.

## Lessor

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### Type A leases

#### Recognition

- 68 **At the commencement date, a lessor shall do all of the following:**
- (a) **derecognise the carrying amount of the underlying asset (if previously recognised);**

- (b) recognise a *lease receivable*;
- (c) recognise a *residual asset*; and
- (d) recognise any resulting profit or loss on the lease in profit or loss (as described in paragraph 74).

## Measurement

### Initial measurement

69 At the commencement date, a lessor shall measure both of the following:

- (a) the lease receivable at the present value of the lease payments, discounted using the rate the lessor charges the lessee (as described in paragraphs B8–B9), plus any initial direct costs (as described in paragraphs B10–B11); and
- (b) the residual asset as described in paragraph 71.

#### *Initial measurement of the lease payments included in the lease receivable*

70 At the commencement date, the lease payments included in the lease receivable shall consist of the following payments relating to the use of the underlying asset during the lease term (as described in paragraph 25) that are not yet received:

- (a) fixed payments, less any lease incentives payable to the lessee;
- (b) variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as at the commencement date;
- (c) variable lease payments that are in-substance fixed payments;
- (d) lease payments structured as residual value guarantees (as described in paragraphs B17–B18);
- (e) the exercise price of a purchase option if the lessee has a significant economic incentive to exercise that option (assessed considering the factors described in paragraph B5); and
- (f) payments for penalties for terminating the lease, if the lease term (as determined in accordance with paragraph 25) reflects the lessee exercising an option to terminate the lease.



*Initial measurement of the residual asset*

71 At the commencement date, a lessor shall measure the residual asset as follows:

$$A + B - C$$

A = the present value of the amount the lessor expects to derive from the underlying asset following the end of the lease term, discounted using the rate the lessor charges the lessee (*gross residual asset*).

B = the present value of expected variable lease payments (as described in paragraph 72).

C = any unearned profit, determined in accordance with paragraphs 73–75.

**Variable lease payments included in the rate the lessor charges the lessee**

72 If a lessor reflects an expectation of variable lease payments in determining the rate the lessor charges the lessee and those payments are not included in the lease receivable, the lessor shall include in the initial measurement of the residual asset the present value of variable lease payments expected to be earned during the lease term, discounted using the rate the lessor charges the lessee.

**Profit**

73 If the fair value of the underlying asset is greater than its carrying amount immediately before the commencement date, a lessor shall allocate that difference between profit relating to the lease, which the lessor recognises at the commencement date, and unearned profit, which is included in the initial measurement of the residual asset.

74 A lessor shall calculate the profit relating to the lease recognised at the commencement date as the difference between the fair value and the carrying amount of the underlying asset immediately before the commencement date, multiplied by the present value of the lease payments (discounted using the rate the lessor charges the lessee), divided by the fair value of the underlying asset.

75 A lessor shall determine the unearned profit included in the initial measurement of the residual asset as the difference between the fair value and the carrying amount of the underlying asset immediately before the commencement date, less the profit recognised at the commencement date.

**Subsequent measurement**

76 **After the commencement date, a lessor shall measure both of the following:**

- (a) **the lease receivable by increasing the carrying amount to reflect the unwinding of the discount on the lease receivable and reducing the carrying amount to reflect the lease payments made during the period. A lessor shall determine the unwinding of the discount on the lease receivable in each period during the lease term as the amount that produces a constant periodic discount**

**rate on the remaining balance of the receivable, taking into consideration the reassessment and impairment requirements in paragraphs 78 and 84; and**

- (b) the residual asset at its initial carrying amount plus the unwinding of the discount in accordance with paragraph 82, taking into consideration the requirements on reassessment, variable lease payments and impairment in paragraphs 78, 83 and 85.**

77 After the commencement date, a lessor shall recognise all of the following in profit or loss:

- (a) the unwinding of the discount on the lease receivable as interest income;
- (b) the unwinding of the discount on the gross residual asset as interest income; and
- (c) variable lease payments that are not included in the lease receivable in the periods in which that income is earned.

*Reassessment of the lease receivable*

78 After the commencement date, a lessor shall remeasure the lease receivable to reflect changes to the lease payments as described in paragraph 79 and changes to the discount rate as described in paragraphs 80–81. A lessor shall do both of the following:

- (a) adjust the carrying amount of the residual asset to reflect the amount the lessor expects to derive from the underlying asset following the end of the revised lease term, if there is a change in the lease term or in the assessment of whether the lessee has or no longer has a significant economic incentive to exercise a purchase option, as described in paragraphs 79(a) and 79(b); and
- (b) recognise any difference between the carrying amounts of the lease receivable and residual asset before and after the remeasurement in profit or loss.

79 A lessor shall reassess the lease payments if there is a change in any of the following:

- (a) the lease term, as described in paragraph 27. A lessor shall determine the revised lease payments on the basis of the revised lease term;
- (b) relevant factors that result in the lessee having or no longer having a significant economic incentive to exercise an option to purchase the underlying asset, assessed in accordance with paragraph B6. A lessor shall determine the revised lease payments to reflect the change in amounts receivable under a purchase option; and
- (c) an index or a rate used to determine lease payments during the reporting period. A lessor shall determine the revised lease payments using the index or rate as at the end of the reporting period.

80 A lessor shall reassess the discount rate if there is a change in any of the following, unless the possibility of change was reflected in determining the discount rate at the commencement date:

- (a) the lease term;
- (b) relevant factors that result in the lessee having or no longer having a significant economic incentive to exercise an option to purchase the underlying asset; or
- (c) a reference interest rate, if variable lease payments are determined using that rate.

81 A lessor shall determine the revised discount rate at the date of reassessment as the rate the lessor would charge the lessee at that date on the basis of the remaining lease term.

*Subsequent measurement of the residual asset*

82 After the commencement date, a lessor shall increase the carrying amount of the residual asset in each period to account for the effect of the unwinding of the discount on the gross residual asset, using the rate the lessor charges the lessee.

83 If a lessor includes variable lease payments in the initial measurement of the residual asset in accordance with paragraph 72, the lessor shall derecognise a portion of the carrying amount of the residual asset in each period and recognise a corresponding expense in profit or loss. The lessor shall determine the portion to derecognise on the basis of the variable lease payments expected to be earned in the period (as described in paragraphs B19–B21).

*Impairment of the lease receivable and the residual asset*

84 A lessor shall determine whether the lease receivable is impaired and shall recognise any impairment in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.<sup>2</sup> When determining the loss allowance for a lease receivable, a lessor shall take into consideration the collateral relating to the receivable. The collateral relating to the receivable represents the cash flows that the lessor would expect to derive from the underlying asset during the remaining lease term, which excludes the cash flows that the lessor would expect to derive from the underlying asset following the end of the lease term.

85 A lessor shall apply IAS 36 to determine whether the residual asset is impaired, taking into consideration any residual value guarantees relating to the underlying asset when assessing impairment of the residual asset. A lessor shall recognise any impairment loss in profit or loss in accordance with IAS 36.

*Accounting for the underlying asset at the end of the lease term or on termination of a lease*

86 At the end of the lease term, a lessor shall reclassify the residual asset to the appropriate category of asset (for example, property, plant and equipment) in

<sup>2</sup> The Exposure Draft *Financial Instruments: Expected Credit Losses* proposes that lease receivables be within the scope of the new impairment requirements that would supersede the impairment requirements in IAS 39.

accordance with applicable Standards, measured at the carrying amount of the residual asset. The lessor shall account for the asset that was the subject of a lease in accordance with the applicable Standard.

- 87 If a lease is terminated before the end of the lease term, a lessor shall do all of the following:
- (a) test the lease receivable for impairment in accordance with IAS 39 and recognise any impairment loss identified;
  - (b) reclassify the lease receivable (less any amounts still expected to be received by the lessor) and the residual asset to the appropriate category of asset in accordance with applicable Standards, measured at the sum of the carrying amounts of the lease receivable (less any amounts still expected to be received by the lessor) and the residual asset; and
  - (c) account for the asset that was the subject of the lease in accordance with the applicable Standard.

### **Presentation**

- 88 A lessor shall present lease assets (ie the sum of the carrying amounts of lease receivables and residual assets) separately from other assets in the statement of financial position.
- 89 A lessor shall also either present in the statement of financial position or disclose in the notes the carrying amount of lease receivables and the carrying amount of residual assets.
- 90 A lessor shall either present in the statement of profit or loss and other comprehensive income or disclose in the notes income arising from leases. If a lessor does not present lease income in the statement of profit or loss and other comprehensive income, the lessor shall disclose which line items include the income in the statement of profit or loss and other comprehensive income.
- 91 A lessor shall present any profit or loss on the lease recognised at the commencement date in a manner that best reflects the lessor's business model(s). Examples of presentation include the following:
- (a) if a lessor uses leases as an alternative means of realising value from the goods that it would otherwise sell, the lessor shall present revenue and cost of goods sold relating to its leasing activities in separate line items so that income and expenses from sold and leased items are presented consistently.
  - (b) if a lessor uses leases for the purposes of providing finance, the lessor shall present the profit or loss in a single line item.
- 92 In the statement of cash flows, a lessor shall classify cash receipts from lease payments within operating activities.

### Type B leases

- 93 **A lessor shall recognise lease payments as lease income in profit or loss over the lease term on either a straight-line basis or another systematic basis if that basis is more representative of the pattern in which income is earned from the underlying asset.**
- 94 A lessor shall recognise initial direct costs as an expense over the lease term on the same basis as lease income (as described in paragraph 93).
- 95 A lessor shall recognise variable lease payments in profit or loss in the period in which that income is earned.
- 96 A lessor shall continue to measure and present the underlying asset subject to a Type B lease in accordance with other applicable Standards.
- 97 In the statement of cash flows, a lessor shall classify cash receipts from lease payments within operating activities.

### Disclosure

- 98 **The objective of the disclosure requirements is to enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. To achieve that objective, a lessor shall disclose qualitative and quantitative information about all of the following:**
- (a) **its leases (as described in paragraph 100(a));**
  - (b) **the significant judgements made in applying the [draft] Standard to those leases (as described in paragraph 100(b)); and**
  - (c) **the amounts recognised in the financial statements relating to those leases (as described in paragraphs 101–109).**
- 99 A lessor shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessor shall aggregate or disaggregate disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.
- 100 A lessor shall disclose the following:
- (a) information about the nature of its leases, including:
    - (i) a general description of those leases;
    - (ii) the basis, and terms and conditions, on which variable lease payments are determined;
    - (iii) the existence, and terms and conditions, of options to extend or terminate the lease; and
    - (iv) the existence, and terms and conditions, of options for a lessee to purchase the underlying asset.
  - (b) information about significant assumptions and judgements made in applying the [draft] Standard, which may include the following:

- (i) the determination of whether a contract contains a lease (as described in paragraphs 6–19);
  - (ii) the allocation of the consideration in a contract between lease and non-lease components (as described in paragraph 22); and
  - (iii) the initial measurement of the residual asset (as described in paragraph 71).
- 101 A lessor shall disclose lease income recognised in the reporting period, in a tabular format, to include the following:
- (a) for Type A leases:
    - (i) profit or loss recognised at the commencement date (gross or net, consistently with paragraph 91);
    - (ii) the unwinding of the discount on the lease receivable; and
    - (iii) the unwinding of the discount on the gross residual asset;
  - (b) for Type B leases, lease income relating to lease payments;
  - (c) lease income relating to variable lease payments not included in the measurement of the lease receivable; and
  - (d) short-term lease income.

#### **Disclosures relating to Type A leases**

- 102 In addition to the disclosures required by paragraphs 100–101, a lessor shall also provide the disclosures in paragraphs 103–107 for Type A leases.
- 103 A lessor shall disclose a reconciliation of the opening and closing balances of the lease receivable. The reconciliation shall include items that are useful in understanding the change in the carrying amount of the lease receivable, for example, the following:
- (a) additions due to leases commencing or being extended;
  - (b) receivables derecognised due to leases being terminated;
  - (c) cash received;
  - (d) the unwinding of the discount on the lease receivable;
  - (e) foreign currency exchange differences;
  - (f) effects of business combinations; and
  - (g) changes to the loss allowance.
- 104 A lessor shall disclose a reconciliation of the opening and closing balances of the residual asset. The reconciliation shall include items that are useful in understanding the change in the carrying amount of the residual asset, for example, the following:
- (a) additions due to leases commencing;
  - (b) reductions due to leases being extended;
  - (c) reclassifications at expiry or termination of a lease;

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- (d) the unwinding of the discount on the gross residual asset;
- (e) effects of business combinations; and
- (f) impairment.

105 Except as described in paragraph 106, a lessor shall disclose information relating to risks arising from leases required by paragraphs 31–42H of IFRS 7.

106 In place of the maturity analyses required by paragraph 37(a) of IFRS 7, a lessor shall disclose a maturity analysis of the lease receivable, showing the undiscounted cash flows to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted cash flows to the lease receivable recognised in the statement of financial position.

107 A lessor shall disclose information about how it manages its risk associated with residual assets. In particular, a lessor shall disclose all of the following:

- (a) its risk management strategy for residual assets;
- (b) the carrying amount of residual assets covered by residual value guarantees (excluding guarantees considered to be lease payments for the lessor, as described in paragraph 70(d)); and
- (c) any other means by which the lessor reduces its residual asset risk (for example, buy-back agreements or variable lease payments for use in excess of specified limits).

### **Disclosures relating to Type B leases**

108 In addition to the disclosures required by paragraphs 100–101, a lessor shall also provide the disclosures in paragraph 109 for Type B leases.

109 A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted cash flows to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall present that maturity analysis separately from the maturity analysis required by paragraph 106 for Type A leases.

### **Sale and leaseback transactions**

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110 If an entity (the transferor) transfers an asset to another entity (the transferee) and leases that asset back from the transferee, both the transferor and the transferee shall account for the transfer contract and the lease in accordance with paragraphs 111–117.

#### **Determining whether the transfer of the asset is a sale**

111 An entity shall apply the requirements for determining when a performance obligation is satisfied in [draft] IFRS X *Revenue from Contracts with Customers* when determining whether the transfer of an asset shall be accounted for as a sale of the asset.

112 The existence of the leaseback (ie the transferor's right to use the asset for a period of time) does not, in isolation, prevent the transferee from obtaining

control of the asset. However, if the leaseback provides the transferor with the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, then the transferee does not obtain control of the asset and the transfer is not a sale. The transferor is considered to have the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, if either of the following occurs:

- (a) the lease term is for the major part of the remaining economic life of the asset; or
- (b) the present value of the lease payments accounts for substantially all of the fair value of the asset.

### **Transfer of the asset is a sale**

113 If a transferee obtains control of the asset in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IFRS X *Revenue from Contracts with Customers*:

- (a) the transferor shall account for a sale in accordance with applicable Standards and for the lease in accordance with lessee accounting in this [draft] Standard.
- (b) the transferee shall account for a purchase in accordance with applicable Standards and for the lease in accordance with lessor accounting in this [draft] Standard.

114 If the consideration for the sale of an asset is not at fair value or the lease payments are not at market rates, an entity shall make the following adjustments to recognise the sale at fair value:

- (a) the transferor shall measure the right-of-use asset and the gain or loss on disposal of the underlying asset to reflect current market rates for lease payments for that asset. The transferor shall subsequently account for the lease to reflect those current market rates.
- (b) the transferee shall measure the lease receivable and the residual asset for Type A leases, or the underlying asset for Type B leases, to reflect current market rates for lease payments for that asset. The transferee shall subsequently account for the lease to reflect those current market rates.

### **Transfer of the asset is not a sale**

115 If the transferee does not obtain control of the asset in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IFRS X *Revenue from Contracts with Customers*:

- (a) the transferor shall not derecognise the transferred asset and shall account for any amounts received as a financial liability in accordance with applicable Standards; and
- (b) the transferee shall not recognise the transferred asset and shall account for the amounts paid as a receivable in accordance with applicable Standards.



**Disclosure**

- 116 If a transferor or a transferee enters into a sale and leaseback transaction that is accounted for in accordance with paragraphs 113–114, it shall provide the disclosures required by paragraphs 58–67 or 98–109.
- 117 In addition to the disclosures required by paragraphs 58–67, a transferor that enters into a sale and leaseback transaction shall disclose both of the following:
- (a) the main terms and conditions of that transaction, and
  - (b) any gains or losses arising from the transaction separately from gains or losses on disposal of other assets.

**Short-term leases**

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- 118 A lessee may elect, as an accounting policy, not to apply the requirements in paragraphs 25–35 and 37–57 to short-term leases. Instead, a lessee may recognise the lease payments in profit or loss on a straight-line basis over the lease term.
- 119 A lessor may elect, as an accounting policy, not to apply the requirements in paragraphs 25–35 and 69–97 to short-term leases. Instead, a lessor may recognise the lease payments in profit or loss over the lease term on either a straight-line basis or another systematic basis, if that basis is more representative of the pattern in which income is earned from the underlying asset.
- 120 The accounting policy election for short-term leases shall be made by class of underlying asset to which the right of use relates. An entity that accounts for short-term leases in accordance with paragraph 118 or paragraph 119 shall disclose that fact.

## Appendix A Defined terms

*This appendix is an integral part of the [draft] Standard.*

<b>commencement date of the lease (commencement date)</b>	The date on which a <b>lessor</b> makes an <b>underlying asset</b> available for use by a <b>lessee</b> .
<b>contract</b>	An agreement between two or more parties that creates enforceable rights and obligations.
<b>economic life</b>	Either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users.
<b>gross residual asset</b>	The amount a <b>lessor</b> expects to derive from an <b>underlying asset</b> following the end of the <b>lease term</b> , measured on a discounted basis.
<b>initial direct costs</b>	Costs that are directly attributable to negotiating and arranging a <b>lease</b> and would not have been incurred without entering into the lease.
<b>investment property</b>	<b>Property</b> held to earn rentals or for capital appreciation or both, rather than for: <ul style="list-style-type: none"> <li>(a) use in the production or supply of goods or services or for administrative purposes, or</li> <li>(b) sale in the ordinary course of business.</li> </ul>
<b>lease</b>	A <b>contract</b> that conveys the right to use an asset (the <b>underlying asset</b> ) for a period of time in exchange for consideration.
<b>lease liability</b>	A <b>lessee's</b> obligation to make lease payments arising from a <b>lease</b> , measured on a discounted basis.

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<b>lease payments</b>	<p>Payments made by a <b>lessee</b> to a <b>lessor</b> relating to the right to use an <b>underlying asset</b> during the <b>lease term</b>, consisting of the following:</p> <ul style="list-style-type: none"><li>(a) fixed payments, less any lease incentives received or receivable from the lessor;</li><li>(b) <b>variable lease payments</b> that depend on an index or a rate, or are in-substance fixed payments;</li><li>(c) the exercise price of a purchase option if the lessee has a significant economic incentive to exercise that option; and</li><li>(d) payments for penalties for terminating the <b>lease</b>, if the lease term reflects the lessee exercising an option to terminate the lease.</li></ul> <p>For the lessee, lease payments also include amounts expected to be payable by the lessee under <b>residual value guarantees</b>. Lease payments do not include payments allocated to non-lease components of a <b>contract</b> except when the lessee is required to combine non-lease and lease components and account for them as a single lease component.</p> <p>For the lessor, lease payments also include lease payments structured as residual value guarantees. Lease payments do not include payments allocated to non-lease components.</p>
<b>lease receivable</b>	<p>A <b>lessor's</b> right to receive <b>lease payments</b> arising from a <b>lease</b>, measured on a discounted basis.</p>
<b>lease term</b>	<p>The non-cancellable period for which a <b>lessee</b> has the right to use an <b>underlying asset</b>, together with both of the following:</p> <ul style="list-style-type: none"><li>(a) periods covered by an option to extend the <b>lease</b> if the lessee has a significant economic incentive to exercise that option; and</li><li>(b) periods covered by an option to terminate the lease if the lessee has a significant economic incentive not to exercise that option.</li></ul>
<b>lessee</b>	<p>An entity that enters into a <b>contract</b> to obtain the right to use an <b>underlying asset</b> for a period of time in exchange for consideration.</p>
<b>lessee's incremental borrowing rate</b>	<p>The rate of interest that a <b>lessee</b> would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the <b>right-of-use asset</b> in a similar economic environment.</p>
<b>lessor</b>	<p>An entity that enters into a <b>contract</b> to provide the right to use an <b>underlying asset</b> for a period of time in exchange for consideration.</p>
<b>property</b>	<p>Land or a building, or part of a building, or both.</p>

<b>rate implicit in the lease</b>	The rate of interest that, at a given date, causes the sum of the present value of payments made by a <b>lessee</b> for the right to use an <b>underlying asset</b> and the present value of the amount a lessor expects to derive from the underlying asset following the end of the <b>lease term</b> to equal the fair value of the underlying asset.
<b>rate the lessor charges the lessee</b>	A discount rate that takes into account the nature of the transaction as well as the terms and conditions of the <b>lease</b> . The rate the <b>lessor</b> charges the lessee could be, for example, the <b>rate implicit in the lease</b> , or the property yield.
<b>residual asset</b>	An asset representing the rights to an <b>underlying asset</b> retained by a <b>lessor</b> during a <b>lease</b> .
<b>residual value guarantee</b>	A guarantee made to a <b>lessor</b> that the value of an <b>underlying asset</b> returned to the lessor at the end of a <b>lease</b> will be at least a specified amount.
<b>right-of-use asset</b>	An asset that represents a <b>lessee's</b> right to use an <b>underlying asset</b> for the <b>lease term</b> .
<b>short-term lease</b>	A <b>lease</b> that, at the <b>commencement date</b> , has a maximum possible term under the <b>contract</b> , including any options to extend, of 12 months or less. Any lease that contains a purchase option is not a short-term lease.
<b>stand-alone price</b>	The price at which a <b>lessee</b> would purchase a component of a <b>contract</b> separately.
<b>sublease</b>	A transaction in which an <b>underlying asset</b> is re-leased by the original <b>lessee</b> (or 'intermediate lessor') to a third party, and the <b>lease</b> (or 'head lease') between the original <b>lessor</b> and lessee remains in effect.
<b>underlying asset</b>	An asset that is the subject of a <b>lease</b> , for which a right to use that asset has been conveyed to a <b>lessee</b> . The underlying asset could be a physically distinct portion of a single asset.
<b>useful life</b>	The period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from an asset by an entity.
<b>variable lease payments</b>	Payments made by a <b>lessee</b> to a <b>lessor</b> for the right to use an <b>underlying asset</b> that vary because of changes in facts or circumstances occurring after the <b>commencement date</b> , other than the passage of time.

## Appendix B Application guidance

*This appendix is an integral part of the [draft] Standard. It describes the application of paragraphs 1–120 and has the same authority as the other parts of the [draft] Standard.*

- B1 The application guidance gives guidance on the following topics:
- (a) lease term (paragraphs B2–B4);
  - (b) significant economic incentive (paragraphs B5–B6);
  - (c) discount rate (paragraphs B7–B9);
  - (d) costs other than lease payments (paragraphs B10–B14);
  - (e) cost of a Type B lease for the lessee (paragraphs B15–B16);
  - (f) lease payments structured as a residual value guarantee (paragraphs B17–B18); and
  - (g) variable lease payments included in the rate the lessor charges the lessee for Type A leases (paragraphs B19–B21).

### **Lease term (paragraphs 25–27)**

- B2 An entity shall determine the non-cancellable period of a lease when determining the lease term. When assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract in paragraph 6 and determine the period for which the contract is enforceable. A lease is no longer enforceable when both the lessee and the lessor each have the right to terminate the lease without permission from the other party with no more than an insignificant penalty.
- B3 If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term, as described in paragraph 25.
- B4 The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

### **Significant economic incentive (paragraphs 25–27)**

- B5 At the commencement date, an entity assesses whether the lessee has a significant economic incentive to exercise, or not to exercise, an option by considering all factors relevant to that assessment—contract-based, asset-based, market-based and entity-based factors. An entity’s assessment will often require the consideration of a combination of those factors because they are interrelated. Examples of factors to consider include, but are not limited to, any of the following:
- (a) contractual terms and conditions for the optional periods compared with current market rates, such as:
    - (i) the amount of lease payments in any optional period;

- (ii) the amount of any variable lease payments or other contingent payments such as payments under termination penalties and residual value guarantees; and
  - (iii) the terms and conditions of any options that are exercisable after initial optional periods (for example, the terms and conditions of a purchase option that is exercisable at the end of an extension period at a rate that is currently below market rates).
- (b) significant leasehold improvements that are expected to have significant economic value for the lessee when the option to extend or terminate the lease or to purchase the asset becomes exercisable;
  - (c) costs relating to the termination of the lease and the signing of a new lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's operations, or costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location; and
  - (d) the importance of that underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialised asset and the location of the underlying asset.
- B6 An entity shall reassess whether the lessee has, or does not have, a significant economic incentive to exercise, or not to exercise, an option if there is a change in relevant factors as described in paragraph B5. However, a change in market-based factors (such as market rates to lease a comparable asset) shall not, in isolation, trigger reassessment.

### **Discount rate (paragraphs 38 and 69)**

- B7 The discount rate initially used to determine the present value of the lease payments for a lessee is calculated on the basis of information available at the commencement date.
- B8 The discount rate used to determine the present value of the lease payments for a lessor is the rate the lessor charges the lessee. The rate the lessor charges the lessee could be, for example, the *rate implicit in the lease* or the property yield. An entity shall use the rate implicit in the lease as the rate the lessor charges the lessee whenever that rate is available.
- B9 Both the lessee's incremental borrowing rate and the rate the lessor charges the lessee reflect the nature of the transaction and the terms and conditions of the lease; for example, the lease payments, the lease term, the security attached to the lease, the nature of the underlying asset and the economic environment.

### **Costs other than lease payments**

#### **Initial direct costs (paragraphs 40 and 69)**

- B10 Initial direct costs are costs that are directly attributable to negotiating and arranging a lease and would not have been incurred without entering into the lease. Initial direct costs for a lessee or a lessor may include, for example, any of the following:

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- (a) commissions;
- (b) legal fees;
- (c) evaluating the prospective lessee's financial condition;
- (d) evaluating and recording guarantees, collateral and other security contracts;
- (e) negotiating lease terms and conditions;
- (f) preparing and processing lease documents; and
- (g) payments made to existing tenants to obtain the lease.

B11 Both of the following items are examples of costs that are not initial direct costs:

- (a) general overheads, including, for example, depreciation, occupancy and equipment costs, unsuccessful origination efforts and idle time; and
- (b) costs related to activities performed by the lessor for advertising, soliciting potential lessees, servicing existing leases or other ancillary activities.

### **Costs of the lessee relating to the construction or design of an underlying asset**

B12 An entity may negotiate a lease before the underlying asset is available for use by the lessee. For some leases, the underlying asset may need to be constructed or redesigned for use by the lessee. Depending on the terms and conditions of the contract, a lessee may be required to make payments relating to the construction or design of the asset.

B13 If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs in accordance with other applicable Standards, for example IAS 2 *Inventories* or IAS 16. If the lessee controls the underlying asset before the commencement date, the transaction is a sale and leaseback transaction that is accounted for in accordance with paragraphs 113–114 of this [draft] Standard.

B14 Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use the underlying asset are lease payments, regardless of the timing of those payments.

### **Cost of a Type B lease for the lessee (paragraph 42(b))**

B15 For Type B leases, paragraph 42(b) requires a lessee to recognise a lease cost in each period calculated as the greater of the remaining cost of the lease (calculated at the beginning of each period) allocated over the remaining lease term on a straight-line basis or the periodic unwinding of the discount on the lease liability.

B16 Throughout the lease term, the remaining cost of a lease consists of the following:

- (a) lease payments (determined at the commencement date); plus

- (b) initial direct costs (determined at the commencement date); minus
- (c) the periodic lease cost recognised in prior periods; minus
- (d) any impairment of the right-of-use asset recognised in prior periods; plus or minus
- (e) any adjustments to reflect changes made to the lease liability that arise from remeasuring the liability in accordance with paragraphs 43–46. The adjustment to the remaining cost of a lease would equal the total change in future lease payments less any amounts recognised in profit or loss at the date of remeasurement of the lease liability.

**Lease payments structured as a residual value guarantee (paragraph 70(d))**

- B17 In some contracts, a lessor not only obtains a residual value guarantee, but the contract also states that the lessor will pay to the counterparty, or the counterparty can retain, any difference between the selling price of the underlying asset and an amount specified in the contract. The counterparty may or may not be the lessee.
- B18 In those cases, the lessor will pay to, or receive from, the counterparty any difference between the selling price of an underlying asset and a specified amount. Accordingly, the lessor receives a fixed amount for the residual asset, which is similar to a fixed lease payment receivable at the end of the lease term. Those guarantees are considered to be lease payments for the lessor.

**Variable lease payments included in the rate the lessor charges the lessee for Type A leases (paragraph 83)**

- B19 If a lessor includes variable lease payments in the initial measurement of the residual asset in accordance with paragraph 72, paragraph 83 requires the lessor to derecognise a portion of the carrying amount of the residual asset in each period and recognise a corresponding expense in profit or loss.



LEASES

B20 At the commencement date, a lessor shall calculate the portion of the residual asset to derecognise in each period on the basis of the expected variable lease payments as follows:

$$\frac{A \times C \times D}{B \times E}$$

A = the amount of variable lease payments expected to be earned in the current period reflected in determining the rate the lessor charges the lessee.

B = the amount of total variable lease payments expected to be earned during the lease term reflected in determining the rate the lessor charges the lessee.

C = the amount of the initial measurement of the residual asset relating to variable lease payments (ie the present value of variable lease payments expected to be earned during the lease term, discounted using the rate the lessor charges the lessee).

D = the carrying amount of the underlying asset immediately before the commencement date.

E = the fair value of the underlying asset at the commencement date.

B21 Changes in estimates relating to variable lease payments do not affect the amounts to be derecognised by the lessor in each period. A lessor shall recognise any difference between expected and actual variable lease payments in profit or loss in the reporting period.

## Appendix C

### Effective date and transition

*This appendix is an integral part of the [draft] Standard and has the same authority as the other parts of the [draft] Standard.*

#### Effective date

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- C1 An entity shall apply this [draft] Standard for annual reporting periods beginning on or after [date to be inserted after exposure].

#### Transition

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- C2 An entity shall apply this [draft] Standard retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs C3–C24.
- C3 In the financial statements in which an entity first applies the [draft] Standard, the entity shall recognise and measure leases within the scope of the [draft] Standard that exist at the beginning of the earliest comparative period presented, using the approach described in paragraphs C7–C24.
- C4 An entity shall adjust equity at the beginning of the earliest comparative period presented, and the other comparative amounts disclosed for each prior period presented, as if the [draft] Standard had always been applied, subject to the requirements in paragraphs C7–C24.
- C5 If a lessee elects not to apply the recognition and measurement requirements in this [draft] Standard to short-term leases, the lessee need not apply the approach described in paragraphs C8–C12 to short-term leases. If a lessor elects not to apply the recognition and measurement requirements in this [draft] Standard to short-term leases, the lessor shall apply paragraph C14.
- C6 Notwithstanding the requirements in paragraph C3, an entity may apply all of the requirements in this [draft] Standard retrospectively in accordance with IAS 8, taking into consideration the requirements in paragraph C15.

#### Specified reliefs

- C7 An entity may use one or both of the following specified reliefs when applying this [draft] Standard to leases that commenced before the effective date:
- (a) an entity need not include initial direct costs in the measurement of the right-of-use asset (if the entity is a lessee) or the lease receivable (if the entity is a lessor).
  - (b) an entity may use hindsight, such as in determining whether a contract contains a lease, in classifying a lease or in determining the lease term if the contract contains options to extend or terminate the lease.

## Lessees

### Leases previously classified as operating leases

- C8 Unless the requirements in paragraph C10 apply, at the beginning of the earliest comparative period presented, a lessee shall recognise all of the following:
- (a) a lease liability, measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the effective date (see paragraph C9).
  - (b) for each Type A lease, a right-of-use asset measured as the applicable proportion of the lease liability at the commencement date, which can be imputed from the lease liability determined in accordance with paragraph C8(a). The applicable proportion is the remaining lease term at the beginning of the earliest comparative period presented relative to the total lease term. A lessee shall adjust the right-of-use asset recognised by the amount of any previously recognised prepaid or accrued lease payments.
  - (c) for each Type B lease, a right-of-use asset measured at an amount that equals the lease liability. A lessee shall adjust the right-of-use asset recognised by the amount of any previously recognised prepaid or accrued lease payments.
- C9 A lessee can apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment). The lessee shall consider its total financial liabilities when calculating the discount rate for each portfolio of leases.

### Leases previously classified as finance leases

- C10 For leases that were classified as finance leases in accordance with IAS 17 *Leases*, the carrying amount of the right-of-use asset and the lease liability at the beginning of the earliest comparative period presented shall be the carrying amount of the lease asset and lease liability immediately before that date in accordance with that Standard.
- C11 For those leases, a lessee shall do all of the following:
- (a) subsequently measure the right-of-use asset and the lease liability in accordance with paragraphs 41, 42(a), 42(c), 47–49 and 51–53;
  - (b) not apply the reassessment requirements in paragraphs 43–46; and
  - (c) classify the assets and liabilities held under finance leases as right-of-use assets and lease liabilities arising from Type A leases for the purposes of presentation and disclosure.
- C12 If a modification to the contractual terms and conditions of any of those leases results in a substantive change to the lease as described in paragraph 36, a lessee shall account for the lease as a new lease in accordance with the requirements of this [draft] Standard.

## Lessors

### Leases previously classified as operating leases

- C13 Unless the requirements in paragraph C16 apply, at the beginning of the earliest comparative period presented for each Type A lease, a lessor shall do all of the following:
- (a) derecognise the underlying asset. A lessor shall adjust the carrying amount of the underlying asset derecognised by the amount of any previously recognised prepaid or accrued lease payments;
  - (b) recognise a lease receivable measured at the present value of the remaining lease payments, discounted using the rate the lessor charges the lessee determined at the commencement date, subject to any adjustments required to reflect impairment; and
  - (c) recognise a residual asset according to the initial measurement requirements in paragraph 71, using information available at the beginning of the earliest comparative period presented.
- C14 For Type B leases, the carrying amount of the underlying asset and any lease assets or liabilities at the beginning of the earliest comparative period presented shall be the same as the amounts recognised by the lessor immediately before that date in accordance with IAS 17.
- C15 If a lessor had previously securitised receivables arising from leases that were classified as operating leases in accordance with IAS 17, the lessor shall account for those transactions as secured borrowings in accordance with applicable Standards, regardless of whether the lessor chooses to apply this [draft] Standard retrospectively.

### Leases previously classified as finance leases

- C16 For leases that were classified as finance leases in accordance with IAS 17, the carrying amount of the lease receivable at the beginning of the earliest comparative period presented shall be the carrying amount of the net investment in the lease immediately before that date in accordance with that Standard.
- C17 For those leases, a lessor shall do all of the following:
- (a) subsequently measure the lease receivable in accordance with paragraphs 76(a), 77(a), 77(c), 84, and 87;
  - (b) not apply the requirements in paragraphs 76(b), 77(b), 78–83, and 85–86; and
  - (c) classify the net investment arising from finance leases as lease receivables arising from Type A leases for the purposes of presentation and disclosure.
- C18 If a modification to the contractual terms and conditions of any of those leases results in a substantive change to the lease as described in paragraph 36, a lessor shall account for the lease as a new lease in accordance with the requirements of this [draft] Standard.

### **Sale and leaseback transactions before the beginning of the earliest comparative period presented**

- C19 If a previous sale and leaseback transaction was accounted for as a sale and a finance lease in accordance with IAS 17, an entity shall do all of the following:
- (a) not reassess the transaction to determine whether it is a sale and leaseback transaction;
  - (b) not remeasure lease assets and lease liabilities at the beginning of the earliest comparative period presented; and
  - (c) continue to amortise any deferred gain or loss in respect of the transaction.
- C20 An entity shall reassess the transaction to determine whether the transferee obtains control of the underlying asset in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IFRS X *Revenue from Contracts with Customers* if either of the following applies:
- (a) a previous sale and leaseback transaction was accounted for as a sale and an operating lease in accordance with IAS 17; or
  - (b) a previous transaction was assessed to determine whether it was a sale and leaseback transaction in accordance with IAS 17, but it did not qualify for sale and leaseback accounting.
- C21 If a transferee obtains control of the underlying asset in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IFRS X *Revenue from Contracts with Customers*, a lessee shall use the requirements in paragraphs C8–C9 to measure lease assets and lease liabilities and shall derecognise any deferred gain or loss at the beginning of the earliest comparative period presented.

### **Amounts previously recognised in respect of business combinations**

- C22 If a lessee has previously recognised an asset or a liability in accordance with IFRS 3 *Business Combinations* relating to favourable or unfavourable terms of an operating lease acquired as part of a business combination, the lessee shall derecognise that asset or liability and adjust the carrying amount of the right-of-use asset by a corresponding amount.

### **Disclosure**

- C23 An entity shall provide the transition disclosures required by IAS 8, except for the requirements in paragraphs 28(f)(i) and 28(f)(ii) of IAS 8.
- C24 If an entity uses one or both of the specified reliefs in paragraph C7, it shall disclose that fact.

## Withdrawal of other Standards

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- C25 This [draft] Standard supersedes the following Standards and Interpretations:
- (a) IAS 17;
  - (b) IFRIC 4 *Determining whether an Arrangement contains a Lease*;
  - (c) SIC-15 *Operating Leases—Incentives*; and
  - (d) SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

## Appendix D [Draft] Amendments to other IFRSs

This appendix sets out the [draft] amendments to other IFRSs that are a consequence of the IASB issuing this [draft] Standard. An entity shall apply the amendments for annual periods beginning on or after [date to be inserted]. Amended paragraphs are shown with new text underlined and deleted text struck through.

The table below shows how the following references have been amended in other Standards.

Existing reference to	contained in	in	is amended to reference to
IAS 17 <i>Leases</i> [or IAS 17]	IFRS 1	Paragraph C4(f)	[draft] IFRS X <i>Leases</i> [or [draft] IFRS X]
	IFRS 4	Paragraph 4(c) and Implementation Guidance, Example 1	
	IFRIC 12	References and paragraph AG8	
	SIC-29	References and paragraph 5	
	SIC-32	References	
Finance lease [or finance leases]	IFRS 1	Paragraph C4(f)	Lease [or leases]
	IFRS 4	Paragraph 4(c) and Implementation Guidance, Example 1	
	IAS 7	Paragraph 44(a)	
Contingent lease payments [or contingent rentals or contingent payments]	IFRS 4	Paragraph 4(c)	Variable lease payments
	IFRS 9	Paragraph B4.3.8(f)(ii)–B4.3.8(f)(iii)	
	IAS 34	Paragraph B7 and its related heading	

## IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 30 is amended.

### Use of fair value as deemed cost

30 If an entity uses fair value in its opening IFRS statement of financial position as *deemed cost* for an item of property, plant and equipment, an investment property, ~~or~~ an intangible asset or a right-of-use asset (see paragraphs D5 and D7), the entity's first IFRS financial statements shall disclose, for each line item in the opening IFRS statement of financial position:

(a) ...

In Appendix D, paragraphs D1, D7, D8B and D9 are amended, paragraph D7A is added and paragraph D9A is deleted.

D1 An entity may elect to use one or more of the following exemptions:

(a) ...

(d) leases (paragraphs D9 ~~and D9A~~);

(e) ...

### Deemed cost

...

D7 The elections in paragraphs D5 and D6 are also available for:

(a) investment property, if an entity elects to use the cost model in IAS 40 *Investment Property*; ~~and~~

(aa) right-of-use assets ([draft] IFRS X *Leases*); and

(b) ...

D7A A lessee that elects to measure a right-of-use asset arising from a Type B lease at fair value as its deemed cost shall include the difference between the fair value of the right-of-use asset and the carrying amount of the lease liability at the date of transition as part of the remaining cost of the lease.

...

D8B Some entities hold items of property, plant and equipment, right-of-use assets or intangible assets that are used, or were previously used, in operations subject to rate regulation. The carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with IFRSs. If this is the case, a first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition to IFRSs as deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. At the date of transition to IFRSs, an entity shall test for impairment in accordance with IAS 36 each item for which this exemption is used. For the purposes of this paragraph, operations are subject to rate



regulation if they provide goods or services to customers at prices (ie rates) established by an authorised body empowered to establish rates that bind the customers and that are designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return. The specified return could be a minimum or range and need not be a fixed or guaranteed return.

### Leases

D9 A first-time adopter may apply the transitional provisions in ~~IFRIC 4 *Determining whether an Arrangement contains a Lease* paragraphs C3–C9, C13 and C23–C24 of [draft] IFRS X.~~ However, a first-time adopter is not permitted to apply the transitional provisions in paragraphs C10–C12 and C14–C22 of [draft] IFRS X. When applying the transitional provisions in [draft] IFRS X, a first-time adopter shall regard the effective date to be the date of transition to IFRSs in accordance with this Standard. Therefore, ~~a first-time adopter may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date.~~

D9A ~~[Deleted] If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs. For an entity to have made the same determination of whether the arrangement contained a lease in accordance with previous GAAP, that determination would have to have given the same outcome as that resulting from applying IAS 17 *Leases* and IFRIC 4.~~

In the Implementation Guidance, paragraph IG4 and Examples 7 and 11 are amended and paragraphs IG14–IG16, IG204–IG206 and their related headings and Example 202 are deleted.

## IAS 10 *Events after the Reporting Period*

- ...
- IG4 Paragraphs 14–17 of the IFRS do not override requirements in other IFRSs that base classifications or measurements on circumstances existing at a particular date. Examples include:
- (a) the distinction between ~~finance Type A~~ leases and ~~operating Type B~~ leases (see ~~IAS 17 *Leases*~~ [draft] IFRS X *Leases*). A first-time adopter shall classify those contracts on the basis of the contractual terms and conditions at the commencement date of the lease. If the contractual terms and conditions of a lease are modified, resulting in a substantive change to the original lease, a first-time adopter shall classify any new lease on the basis of the contractual terms and conditions at the commencement date of the new lease;
  - (b) ...

**IAS 17 Leases**

- IG14 ~~[Deleted] At the date of transition to IFRSs, a lessee or lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease (IAS 17 paragraph 13). In some cases, the lessee and the lessor may agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification in accordance with IAS 17 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) do not give rise to a new classification of a lease.~~
- IG15 ~~[Deleted] When IAS 17 was revised in 1997, the net cash investment method for recognising finance income of lessors was eliminated. IAS 17 permits finance lessors to eliminate this method prospectively. However, the transitional provisions in IAS 17 do not apply to an entity's opening IFRS statement of financial position (paragraph 9 of the IFRS). Therefore, a finance lessor measures finance lease receivables in its opening IFRS statement of financial position as if the net cash investment method had never been permitted.~~
- IG16 ~~[Deleted] SIC-15 *Operating Leases—Incentives* applies to lease terms beginning on or after 1 January 1999. However, a first-time adopter applies SIC-15 to all leases, whether they started before or after that date.~~

...

**IFRS 3 Business Combinations**

...

- IG22 The following examples illustrate the effect of Appendix C of the IFRS, assuming that a first-time adopter uses the exemption.

...

<p><b>IG Example 7 Business combination—finance lease not capitalised in accordance with previous GAAP</b></p> <p><b>Background</b></p> <p>Parent L's date of transition to IFRSs is 1 January 20X4. Parent L acquired subsidiary M on 15 January 20X1 and did not capitalise subsidiary M's <del>finance</del> leases. If subsidiary M prepared financial statements in accordance with IFRSs, it would recognise <del>finance lease liabilities obligations</del> of 300 and <del>right-of-use leased</del> assets of 250 at 1 January 20X4.</p>
--

*continued...*

...continued

**IG Example 7 Business combination—finance lease not capitalised in accordance with previous GAAP**

**Application of requirements**

Parent L has elected not to apply the transitional reliefs in paragraph D9 of this Standard. In its consolidated opening IFRS statement of financial position, parent L recognises ~~finance lease liabilities obligations~~ of CU300 and ~~right-of-use leased~~ assets of CU250, and charges CU50 to retained earnings (paragraph C4(f)).

...

## Explanation of transition to IFRSs

IG63 Paragraphs 24(a) and (b), 25 and 26 of the IFRS require a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the statement of financial position, statement of comprehensive income and, if applicable, statement of cash flows. Paragraph 24(a) and (b) requires specific reconciliations of equity and total comprehensive income. IG Example 11 shows one way of satisfying these requirements.

**IG Example 11 Reconciliation of equity and total comprehensive income**

**Background**

An entity first adopted IFRSs in 20X5, with a date of transition to IFRSs of 1 January 20X4. Its last financial statements in accordance with previous GAAP were for the year ended 31 December 20X4.

**Application of requirements**

...

**Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs)**

Note		Previous GAAP	Effect of transition to IFRSs	IFRSs
		CU	CU	CU
1, 1A	Property, plant and equipment	8,299	1,100	89,399
2	Goodwill	1,220	150	1,370
2	Intangible assets	208	(150)	58
3	Financial assets	3,471	420	3,891
	Total non-current assets	13,198	1,520	134,718
	Trade and other receivables	3,710	0	3,710
4	Inventories	2,962	400	3,362
5	Other receivables	333	431	764
	Cash and cash equivalents	748	0	748

continued...

...continued

<b>IG Example 11 Reconciliation of equity and total comprehensive income</b>				
	Total current assets	7,753	831	8,584
	Total assets	20,951	42,351	223,302
	Interest-bearing loans	9,396	0	9,396
	Trade and other payables	4,124	0	4,124
1A	Lease liabilities	0	1,000	1,000
6	Employee benefits	0	66	66
7	Restructuring provision	250	(250)	0
	Current tax liability	42	0	42
8	Deferred tax liability	579	460	1,039
	Total liabilities	14,391	1,276	14,667
	Total assets less total liabilities	6,560	1,075	7,635
	Issued capital	1,500	0	1,500
5	Hedging reserve	0	302	302
9	Retained earnings	5,060	773	5,833
	Total equity	6,560	1,075	6,635
<b>Notes to the reconciliation of equity at 1 January 20X4:</b>				
1	Depreciation was influenced by tax requirements in accordance with previous GAAP, but in accordance with IFRSs reflects the useful life of the assets. The cumulative adjustment increased the carrying amount of property, plant and equipment by 100.			
1A	<u>Right-of-use assets arising from Type B leases of property and related lease liabilities of CU1,000 are recognised in accordance with IFRS, but were not recognised in accordance with previous GAAP. For the purposes of this example, it is assumed that the right-of-use asset equals the liability at the date of transition. The entity presents right-of-use assets within property, plant and equipment.</u>			
2	...			

#### **IFRIC 4 Determining whether an Arrangement contains a Lease**

IG204 ~~[Deleted] IFRIC 4 specifies criteria for determining, at the inception of an arrangement, whether the arrangement contains a lease. It also specifies when an arrangement should be reassessed subsequently.~~

IG205 ~~[Deleted] Paragraph D9 of the IFRS provides a transitional exemption. Instead of determining retrospectively whether an arrangement contains a lease at the inception of the arrangement and subsequently reassessing that arrangement as required in the periods before transition to IFRSs, entities may determine~~

whether arrangements in existence on the date of transition to IFRSs contain leases by applying paragraphs 6–9 of IFRIC 4 to those arrangements on the basis of facts and circumstances existing on that date.

**IG Example 202 Determining whether an arrangement contains a lease**

**Background**

An entity's first IFRS financial statements are for a period that ends on 31 December 20Y7 and include comparative information for 20Y6 only. Its date of transition to IFRSs is therefore 1 January 20Y6.

On 1 January 20X5 the entity entered into a take-or-pay arrangement to supply gas. On 1 January 20Y0, there was a change in the contractual terms of the arrangement.

**Application of requirements**

On 1 January 20Y6 the entity may determine whether the arrangement contains a lease by applying the criteria in paragraphs 6–9 of IFRIC 4 on the basis of facts and circumstances existing on that date. Alternatively, the entity applies those criteria on the basis of facts and circumstances existing on 1 January 20X5 and reassesses the arrangement on 1 January 20Y0. If the arrangement is determined to contain a lease, the entity follows the guidance in paragraphs IG14–IG16.

IG206 ~~[Deleted] Paragraph D9A of IFRS 1 provides a transitional exemption in addition to that discussed in paragraph IG205. The exemption in paragraph D9A applies only to arrangements that were assessed in the same manner as required by IFRIC 4. If arrangements exist at the date of transition to IFRSs that an entity did not assess under previous GAAP in the same manner as required by IFRIC 4 to determine whether they contain a lease, the entity may apply the transition exemption discussed in paragraph IG205.~~

**IFRS 3 Business Combinations**

Paragraphs 14 and 17 are amended and paragraph 28A and its related heading are added.

*Recognition conditions*

...

14 Paragraphs ~~B28–B40~~ ~~B31–B40~~ provide guidance on recognising operating leases and intangible assets. Paragraphs ~~22–28A~~ specify the types of identifiable assets and liabilities that include items for which this IFRS provides limited exceptions to the recognition principle and conditions.

...

*Classifying or designating identifiable assets acquired and liabilities assumed in a business combination*

...

- 17 This IFRS provides two exceptions to the principle in paragraph 15:
- (a) classification of a lease ~~contract~~ as either ~~an operating lease~~ a Type A lease or a ~~finance~~ Type B lease in accordance with IAS 17 [draft] IFRS X Leases; ~~and~~. The acquirer shall classify those contracts on the basis of the contractual terms and conditions at the commencement date of the lease. If the contractual terms and conditions of a lease are modified, resulting in a substantive change to the original lease, the acquirer shall classify any new lease on the basis of the contractual terms and conditions at the commencement date of the new lease, which might be the acquisition date.
- (b) ...

### **Leases**

- 28A Paragraphs B45A–B45E provide guidance on recognising and measuring assets and liabilities that arise from leases at the acquisition date.

In Appendix B, paragraphs B28–B30 are deleted.
--

### **Operating leases**

- B28 ~~[Deleted] The acquirer shall recognise no assets or liabilities related to an operating lease in which the acquiree is the lessee except as required by paragraphs B29 and B30.~~
- B29 ~~[Deleted] The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The acquirer shall recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms. Paragraph B42 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquiree is the lessor.~~
- B30 ~~[Deleted] An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits that qualify as identifiable intangible assets, for example, as a customer relationship. In that situation, the acquirer shall recognise the associated identifiable intangible asset(s) in accordance with paragraph B31.~~

In Appendix B, paragraph B32 is amended and paragraph B42 and its related heading are deleted.
--

### **Intangible assets**

...

B32 An intangible asset that meets the contractual-legal criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. For example:

(a) ~~[deleted] an acquiree leases a manufacturing facility under an operating lease that has terms that are favourable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favourable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease contract.~~

(b) ...

### **~~Assets subject to operating leases in which the acquiree is the lessor~~**

B42 ~~[Deleted] In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the acquirer shall take into account the terms of the lease. In other words, the acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favourable or unfavourable when compared with market terms as paragraph B29 requires for leases in which the acquiree is the lessee.~~

In Appendix B, paragraphs B45A–B45E and their related headings are added and paragraph B64 is amended.

## **Recognition and measurement of leases acquired in a business combination**

B45A The acquirer shall recognise assets and liabilities arising from leases in accordance with [draft] IFRS X (taking into account the requirements in paragraph B45B), and shall measure those assets and liabilities in accordance with paragraphs B45C–B45E.

B45B The acquirer shall not recognise assets or liabilities at the acquisition date for leases that, at that date, have a remaining maximum possible term under the contract of 12 months or less.

### **Assets and liabilities recognised when the acquiree is a lessor**

B45C When the acquiree is a lessor of a Type A lease, the acquirer shall recognise a lease receivable and a residual asset for each Type A lease at the acquisition date. The acquirer shall measure the lease receivable at the present value of the remaining lease payments, as if the acquired lease were a new lease at the acquisition date. The acquirer shall measure the residual asset as the difference between the fair value of the underlying asset at the acquisition date and the carrying amount of the lease receivable at that date. The acquirer shall take into

account the terms and conditions of the lease in calculating the acquisition-date fair value of an asset that is subject to a Type A lease (ie the acquirer does not recognise a separate asset or liability if the terms of the lease are either favourable or unfavourable when compared with market terms).

- B45D When the acquiree is a lessor of a Type B lease, the acquirer shall take into account the terms and conditions of the lease in measuring the acquisition-date fair value of the underlying asset, such as a building, that is subject to the lease (ie the acquirer does not recognise a separate asset or liability if the terms of the lease are either favourable or unfavourable when compared with market terms).

### **Assets and liabilities recognised when the acquiree is a lessee**

- B45E When the acquiree is a lessee, the acquirer shall recognise a right-of-use asset and a lease liability for each lease at the acquisition date. The acquirer shall measure the lease liability at the present value of the remaining lease payments, as if the acquired lease were a new lease at the acquisition date. The acquirer shall measure the right-of-use asset at the same amount as the lease liability, adjusted to reflect:

- (a) favourable or unfavourable terms of the lease when compared with market terms; and
- (b) any other intangible asset associated with the lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms (for example, a lease of gates at an airport or of retail space in a prime shopping area that might provide entry into a market or other future economic benefits that qualify as intangible assets).

...

## **Disclosures (application of paragraphs 59 and 61)**

---

- B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

- (a) ...
- (h) for acquired receivables:
  - (i) the fair value of the receivables (unless those receivables arise from Type A leases for which the acquirer shall disclose the amounts recognised as of the acquisition date);
  - (ii) the gross contractual amounts receivable; and
  - (iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected.

The disclosures shall be provided by major class of receivable, such as loans, ~~direct finance leases~~ lease receivables arising from Type A leases and any other class of receivables.



In the Illustrative Examples, paragraphs IE34 and IE72 are amended.
---

### Contract-based intangible assets

IE34 Contract-based intangible assets represent the value of rights that arise from contractual arrangements. Customer contracts are one type of contract-based intangible asset. If the terms of a contract give rise to a liability (for example, if the terms of ~~an operating lease or a~~ customer contract are unfavourable relative to market terms), the acquirer recognises it as a liability assumed in the business combination. Examples of contract-based intangible assets are:

Class	Basis
...	...
Lease agreements (whether the acquiree is the lessee or the lessor)	Contractual
...	...

...

### Disclosure requirements

...

IE72 The following example illustrates some of the disclosure requirements of IFRS 3; it is not based on an actual transaction. The example assumes that AC is a listed entity and that TC is an unlisted entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

...

B64(h) The fair value of the financial assets acquired includes lease receivables arising from ~~under finance~~ Type A leases of data networking equipment with a fair value of CU2,375. The gross amount due under the contracts is CU3,100, of which CU450 is expected to be uncollectible.

## **IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

In the Implementation Guidance, Example 4 is amended.

### **Completion of sale expected within one year (paragraph 8)**

---

#### **Example 4**

To qualify for classification as held for sale, the sale of a non-current asset (or disposal group) must be highly probable (paragraph 7), and transfer of the asset (or disposal group) must be expected to qualify for recognition as a completed sale within one year (paragraph 8). That criterion would not be met if, for example:

- (a) ...
- (b) an entity is committed to a plan to 'sell' a property that is in use, ~~and the transfer of the property will be accounted for as a sale and finance leaseback as part of a sale and leaseback transaction, and the transaction does not qualify for sale and leaseback accounting in accordance with paragraph 115 of [draft] IFRS X Leases.~~

## **IFRS 7 *Financial Instruments: Disclosures***

In Appendix B, paragraph B11D is amended.

### **Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))**

...

B11D The contractual amounts disclosed in the maturity analyses as required by paragraph 39(a) and (b) are the contractual undiscounted cash flows, for example:

- (a) ~~[deleted] gross finance lease obligations (before deducting finance charges);~~
- (b) ...

## **IFRS 13 *Fair Value Measurement***

Paragraph 6 is amended.

### **Scope**

---

...

6 The measurement and disclosure requirements of this IFRS do not apply to the following:

- (a) share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; and

## LEASES

- (b) ~~[deleted] leasing transactions within the scope of IAS 17 Leases; and~~
- (c) ...

### **IAS 1 Presentation of Financial Statements**

Paragraphs 54 and 123 are amended.

#### **Information to be presented in the statement of financial position**

54 **As a minimum, the statement of financial position shall include line items that present the following amounts:**

- (a) ...
- (b) **investment property;**
- (ba) **lease assets (ie the sum of the carrying amounts of lease receivables and residual assets arising from Type A leases);**
- (c) ...

#### **Disclosure of accounting policies**

...

123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

- (a) ...
- (b) when substantially all the significant risks and rewards of ownership of financial assets ~~and lease assets~~ are transferred to other entities; and
- (c) ...

### **IAS 2 Inventories**

Paragraph 12A is added.

#### **Costs of conversion**

...

12A The costs of conversion include costs incurred relating to leases of assets that are used to convert materials into finished goods. For Type A leases, the costs of conversion include the amortisation of the right-of-use asset determined in accordance with [draft] IFRS X Leases. For Type B leases, the costs of conversion include the lease cost determined in accordance with [draft] IFRS X.

### **IAS 7 Statement of Cash Flows**

Paragraphs 14, 17 and 33 are amended.

## Operating activities

...

- 14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

- (a) ...
- (aa) cash receipts arising from leases;
- (b) ...
- (c) cash payments to suppliers for goods and services;
- (ca) cash payments arising from Type B leases;
- (d) ...

## Financing activities

- 17 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

- (a) ...
- (e) cash payments by a lessee for the reduction of the outstanding liability relating to a ~~finance~~ Type A lease.

...

## Interest and dividends

---

...

- 33 The unwinding of the discount on the lease receivable arising from Type A leases is classified as cash flows from operating activities for a lessor. Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

In the Illustrative Examples, Example A is amended.

## A Statement of cash flows for an entity other than a financial institution

...

LEASES

3 The following additional information is also relevant for the preparation of the statements of cash flows:

- ...
- during the period, the group ~~acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. C made cash payments of 350 were made to purchase property, plant and equipment. The group also entered into Type A leases giving rise to right-of-use assets with a cost of 900.~~
- ...

**Consolidated statement of financial position as at end of 20X2**

	20X2	20X1
<b>Assets</b>		
...		
Property, plant and equipment at cost <sup>(a)</sup>	3,730	1,910
Accumulated depreciation	<u>(1,450)</u>	<u>(1,060)</u>
Property, plant and equipment net	2,280	850
...		
<b>Liabilities</b>		
...		
Long-term debt <sup>(b)</sup>	2,300	1,040
...		

(a) The Group presents right-of-use assets within property, plant and equipment.

(b) The Group presents lease liabilities within long-term debt.

**Direct method statement of cash flows (paragraph 18(a))**

	20X2
...	
<b>Cash flows from financing activities</b>	
...	
Payment of <del>finance</del> <u>Type A</u> lease liabilities	(90)
...	

**Indirect method statement of cash flows (paragraph 18(b))**

	20X2
...	
<b>Cash flows from financing activities</b>	
...	
Payment of <del>finance</del> <u>Type A</u> lease liabilities	(90)
...	

**Notes to the statement of cash flows (direct method and indirect method)**

---

...

**B. Property, plant and equipment**

During the period, the Group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 ~~was acquired by means of finance~~ related to right-of-use assets arising from Type A leases. Cash payments of 350 were made to purchase property, plant and equipment.

...

**IAS 16 Property, Plant and Equipment**

Paragraph 3A is added and paragraphs 4 and 27 are deleted.
--

**Scope**

---

...

3A This Standard applies to property, plant and equipment provided by a lessor to a lessee under one or more Type B or short-term leases.

~~4~~ ~~[Deleted] Other Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, IAS 17 Leases requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.~~

...

**Measurement of cost**

...

~~27~~ ~~[Deleted] The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with IAS 17.~~

Paragraphs 44 and 68–69 are amended.
--------------------------------------

**Depreciation**

...

44 An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, ~~whether owned or subject to a finance lease~~. Similarly, if an entity acquires property, plant and equipment subject to ~~an operating~~ a Type B lease in which it is the lessor, it may be appropriate to

depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.

...

## Derecognition

---

...

**68** The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless IAS 17 IFRS X Leases requires otherwise ~~on a sale and leaseback~~). Gains shall not be classified as revenue.

...

69 The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a ~~finance~~ Type A lease or by donation). In determining the date of disposal of an item that is sold, an entity applies the criteria in IAS 18 for recognising revenue from the sale of goods. ~~IAS 17 [Draft]~~ IFRS X applies to a disposal effected by entering into a Type A lease and to ~~by a sale and leaseback transaction~~.

## IAS 23 Borrowing Costs

Paragraph 6 is amended.
-------------------------

## Definitions

---

...

6 Borrowing costs may include:

- (a) ...
- (d) ~~finance charges in respect of finance~~ the unwinding of the discount on lease liabilities arising from Type A leases recognised in accordance with IAS 17 ~~[draft]~~ IFRS X Leases; and
- (e) ...

## IAS 32 Financial Instruments: Presentation

In the Application Guidance, paragraphs AG9 and AG10 are amended. As part of the amendment to paragraph AG9, a new paragraph, AG9A, has been added.
---

## Financial assets and financial liabilities

...

AG9 Under ~~IAS 17 [draft]~~ IFRS X Leases a ~~finance~~ lease gives rise to ~~is regarded as primarily an entitlement of the lessor to receive, and~~ an obligation of the lessee to pay, a stream of payments that are substantially the same as blended

payments of principal and interest under a loan agreement. Accordingly, a lessee's lease liability is regarded as a financial instrument.

AG9A Under [draft] IFRS X, the lessor of a Type A lease accounts for its investment in the amount receivable under the lease and its interest in the residual asset contract rather than the leased underlying asset itself. An operating lease, on the other hand, is regarded as primarily an uncompleted contract committing the lessor to provide the use of an asset in future periods in exchange for consideration similar to a fee for a service. Accordingly, a lessor's lease receivable arising from a Type A lease is regarded as a financial instrument. The lessor of a Type B or a short-term lease (for which the lessor has chosen to elect the recognition exemption), however, continues to account for the leased underlying asset itself rather than any amount receivable in the future under the contract lease. Accordingly, a finance lease is regarded as a financial instrument and an operating lease is a Type B lease and a short-term lease, for which the lessor has elected the recognition exemption in [draft] IFRS X, are not regarded as a financial instruments for the lessor (except as regards individual payments currently due and payable).

AG10 Physical assets (such as inventories, property, plant and equipment), leased a lessee's right-of-use assets, a lessor's residual assets and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.

### **IAS 37 Provisions, Contingent Liabilities and Contingent Assets**

Paragraph 5 is amended.
-------------------------

#### **Scope**

---

...

5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

- (a) ...
- (c) leases (see IAS 17 [draft] IFRS X Leases). However, as IAS 17 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases [draft] IFRS X does not require the recognition and measurement of assets and liabilities arising from a lease before the commencement date of a lease, this Standard applies to any lease that becomes onerous before that date. This Standard also applies to short-term leases for which the entity has elected the recognition exemption in [draft] IFRS X;
- (d) ...



In the Illustrative Examples, Example 8 is deleted.

### **Example 8 An onerous contract**

An entity operates profitably from a factory that it has leased under an operating lease. During December 20X0 the entity relocates its operations to a new factory. The lease on the old factory continues for the next four years, it cannot be cancelled and the factory cannot be re-let to another user.

**Present obligation as a result of a past obligating event** – The obligating event is the signing of the lease contract, which gives rise to a legal obligation.

**An outflow of resources embodying economic benefits in settlement** – When the lease becomes onerous, an outflow of resources embodying economic benefits is probable. (Until the lease becomes onerous, the entity accounts for the lease under IAS 17 *Leases*.)

**Conclusion** – A provision is recognised for the best estimate of the unavoidable lease payments (see paragraphs 5(c), 14 and 66).

### **IAS 38 Intangible Assets**

Paragraphs 3, 6 and 113–114 are amended.

### **Scope**

- ...
- 3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:
- (a) ...
- (c) assets arising from leases that are within the scope of IAS 17 *Leases* to which [draft] IFRS X *Leases* is applied.
- (d) ...
- 6 In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights held by an entity under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of IAS 17 and are within the scope of this Standard.
- ...

### **Retirements and disposals**

...

- 113 **The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised (unless IAS 17 IFRS X requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.**
- 114 The disposal of an intangible asset may occur in a variety of ways (eg by sale, by entering into a finance lease, or by donation). In determining the date of disposal of such an asset, an entity applies the criteria in IAS 18 *Revenue* for recognising revenue from the sale of goods. IAS 17 applies to disposal by a sale and leaseback.

### **IAS 39 *Financial Instruments: Recognition and Measurement***

Paragraph 2 is amended.

#### **Scope**

---

**This Standard shall be applied by all entities to all types of financial instruments except:**

- (a) ...
- (b) **rights and obligations under leases to which IAS 17 [draft] IFRS X Leases applies. However:**
  - (i) **lease receivables recognised by a lessor are subject to the derecognition and impairment provisions of this Standard;**
  - (ii) **~~finance lease payables~~ lease liabilities recognised by a lessee are subject to the derecognition provisions of this Standard; and**
  - (iii) ...

### **IAS 40 *Investment Property***

Given the extensive changes to IAS 40 *Investment Property*, the full text of this Standard with the proposed changes to it has been reproduced at the end of Appendix D.

### **IAS 41 *Agriculture***

Paragraph 2 is amended.

#### **Scope**

---

...

- 2 This Standard does not apply to:
- (a) land related to agricultural activity (see IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*); ~~and~~
  - (b) intangible assets related to agricultural activity (see IAS 38 *Intangible Assets*); ~~and~~
  - (c) leases of land related to agricultural activity (see [draft] IFRS X *Leases*).

### **IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities***

Paragraph 2A is added.

### **Scope**

---

...

- 2A This Interpretation also applies to changes in the measurement of a liability related to returning an asset in a specified condition at the end of a lease.

### **IFRIC 12 *Service Concession Arrangements***

The reference to IFRIC 4 in the References paragraph is deleted.

### **References**

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- ...
- ~~IFRIC 4 *Determining whether an Arrangement contains a Lease*~~
- ...

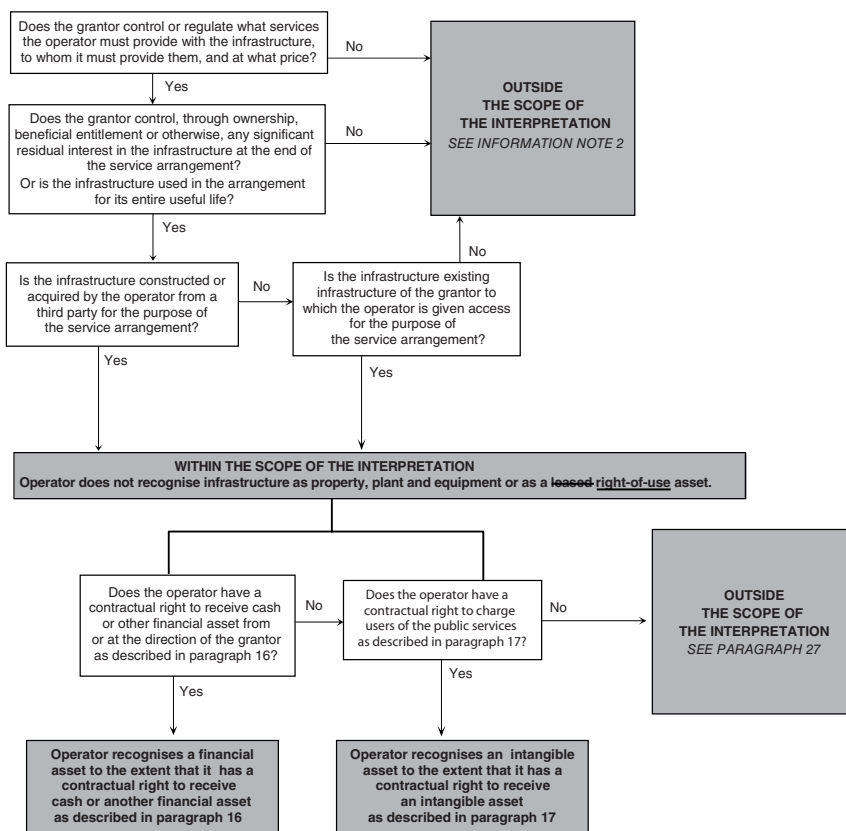
In the Implementation Guidance, Information note 1 is amended.

### **Information note 1**

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#### **Accounting framework for public-to-private service arrangements**

The diagram below summarises the accounting for service arrangements established by IFRIC 12.



### SIC-32 Intangible Assets—Web Site Costs

Paragraph 6 is amended.

#### Issue

...

- 6 IAS 38 does not apply to intangible assets held by an entity for sale in the ordinary course of business (see IAS 2 and IAS 11) or leases ~~that fall~~ within the scope of ~~IAS 17 [draft] IFRS X~~. Accordingly, this Interpretation does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity. When a web site is leased under ~~an operating a Type B~~ lease, the lessor applies this Interpretation. When a web site is leased ~~under a finance lease~~, the lessee applies this Interpretation after initial recognition of the ~~leased right-of-use~~ asset.

Given the extensive changes to IAS 40 *Investment Property*, the full text of this Standard with the proposed changes to it has been reproduced. New text is underlined and deleted text is struck through.

## International Accounting Standard 40 *Investment Property*

### Objective

---

- 1 The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

### Scope

---

- 2 **This Standard shall be applied in the recognition, measurement and disclosure of investment property.**

- 3 Among other things, this Standard applies to:

- (a) the measurement in a lessee's financial statements of a right-of-use asset that arises from a lease of property if the property would otherwise meet the definition of investment property ~~interests held under a lease accounted for as a finance lease;~~ and to
- (b) the measurement in a lessor's financial statements of investment property provided to a lessee under ~~an operating one or more Type B or short-term~~ leases.

~~This Standard does not deal with matters covered in IAS 17 Leases, including:~~

- ~~(a) classification of leases as finance leases or operating leases;~~
- ~~(b) recognition of lease income from investment property (see also IAS 18 Revenue);~~
- ~~(c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;~~
- ~~(d) measurement in a lessor's financial statements of its net investment in a finance lease;~~
- ~~(e) accounting for sale and leaseback transactions; and~~
- ~~(f) disclosure about finance leases and operating leases.~~

- 4 This Standard does not apply to:

- (a) biological assets related to agricultural activity (see IAS 41 *Agriculture*); and
- (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

## Definitions

---

- 5 The following terms are used in this Standard with the meanings specified:

**Carrying amount** is the amount at which an asset is recognised in the statement of financial position.

**Cost** is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, eg IFRS 2 *Share-based Payment*.

**Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 *Fair Value Measurement*).

**Investment property** is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a **finance lease**) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

**Owner-occupied property** is property held (by the owner or by the lessee under a **finance lease**) for use in the production or supply of goods or services or for administrative purposes.

- 6 ~~[Deleted] A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33–55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 74–78.~~

- 7 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. IAS 16 *Property, Plant and Equipment* and ~~[draft] IFRS X *Leases*~~ apply applies to owner-occupied property.

- 8 The following are examples of investment property:

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- (a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
  - (b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)
  - (c) a building owned by the entity (or held by the entity under a ~~finance~~ lease) and leased out under one or more ~~operating~~ Type B leases.
  - (d) a building that is vacant but is held to be leased out under one or more ~~operating~~ Type B leases.
  - (e) property that is being constructed or developed for future use as investment property.
- 9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
- (a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see IAS 2 *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.
  - (b) property being constructed or developed on behalf of third parties (see IAS 11 *Construction Contracts*).
  - (c) owner-occupied property (see IAS 16 ~~and [draft] IFRS X~~), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
  - (d) [deleted]
  - (e) property that is leased to another entity under a ~~finance~~ Type A lease.
- 10 Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a ~~finance~~ Type A lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.
- 11 In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.
- 12 In other cases, the services provided are significant. For example, if an entity owns and manages a hotel, services provided to guests are significant to the

arrangement as a whole. Therefore, an owner-managed hotel is owner-occupied property, rather than investment property.

- 13 It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the owner's position may, in substance, be that of a passive investor. At the other end of the spectrum, the owner may simply have outsourced day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.
- 14 Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7–13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.
- 15 In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 5. Therefore, the lessor treats the property as investment property in its individual financial statements.

## Recognition

---

- 16 **Investment property shall be recognised as an asset when, and only when:**
- (a) **it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and**
  - (b) **the cost of the investment property can be measured reliably.**
- 17 An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.
- 18 Under the recognition principle in paragraph 16, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.
- 19 Parts of investment properties may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The



carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

## Measurement at recognition

---

**20 An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.**

21 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

22 [Deleted]

23 The cost of an investment property is not increased by:

- (a) start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),
- (b) operating losses incurred before the investment property achieves the planned level of occupancy, or
- (c) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

24 If payment for an investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit.

25 ~~The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of IAS 17, ie the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph. A lessee shall initially measure a right-of-use asset classified as investment property in accordance with [draft] IFRS X.~~

26 ~~[Deleted] Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on measuring the fair value of a property interest is set out for the fair value model in paragraphs 33–35, 40, 41, 48, 50 and 52 and in IFRS 13. That guidance is also relevant to the measurement of fair value when that value is used as cost for initial recognition purposes.~~

27 One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value

unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

28 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred, or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange, and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

29 The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If the entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

## Measurement after recognition

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### Accounting policy

30 **With the exceptions noted in paragraphs 32A and 34, an entity shall choose as its accounting policy either the fair value model in paragraphs 33-55 or the cost model in paragraph 56 and shall apply that policy to all of its investment property (including right-of-use assets classified as investment property).**

31 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation.

32 This Standard requires all entities to measure the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

**32A An entity may:**

- (a) choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and**
- (b) choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).**

32B Some insurers and other entities operate an internal property fund that issues notional units, with some units held by investors in linked contracts and others held by the entity. Paragraph 32A does not permit an entity to measure the property held by the fund partly at cost and partly at fair value.

32C If an entity chooses different models for the two categories described in paragraph 32A, sales of investment property between pools of assets measured using different models shall be recognised at fair value and the cumulative change in fair value shall be recognised in profit or loss. Accordingly, if an investment property is sold from a pool in which the fair value model is used into a pool in which the cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

### **Fair value model**

33 **After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 53.**

34 ~~[Deleted] When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 6, paragraph 30 is not elective; the fair value model shall be applied.~~

35 **A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.**

36– [Deleted]  
39

40 When measuring the fair value of investment property in accordance with IFRS 13, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions.

41 If a lessee classifies a right-of-use asset as investment property, it shall measure the right-of-use asset at fair value and not the underlying property. Paragraph 25 ~~[Draft] IFRS X~~ specifies the basis for initial recognition of the cost of an

~~interest in a leased property a right-of-use asset classified as investment property. Paragraph 33 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated When lease payments are at market rates at the commencement date of the lease, the fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognised lease liabilities), should be zero. This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognised at fair value or at the present value of minimum lease payments, in accordance with paragraph 20 of IAS 17. Thus, remeasuring a leased right-of-use asset from cost in accordance with paragraph 25 [draft] IFRS X to fair value in accordance with paragraph 33 (taking into account the requirements in paragraph 50) should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.~~

42– [Deleted]

47

48

In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the variability in the range of reasonable fair value measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single measure of fair value is negated. This may indicate that the fair value of the property will not be reliably measurable on a continuing basis (see paragraph 53).

49 [Deleted]

50

In determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

- (a) equipment such as lifts or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognised separately as property, plant and equipment.
- (b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental income relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognise that furniture as a separate asset.
- (c) the fair value of investment property excludes prepaid or accrued ~~operating~~ Type B lease income, because the entity recognises it as a separate liability or asset.
- (d) the fair value of investment property held under a lease reflects expected cash flows (including ~~contingent rent that is~~ variable lease payments that are expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the carrying amount of the investment property using the fair value model.

51 [Deleted]

- 52 In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognised liabilities) will exceed the present value of the related cash receipts. An entity applies IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to determine whether to recognise a liability and, if so, how to measure it.

**Inability to measure fair value reliably**

- 53 **There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably measurable on a continuing basis. This arises when, and only when, the market for comparable properties is inactive (eg there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) and alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall measure that investment property using the cost model in IAS 16 for owned assets or [draft] IFRS X for right-of-use assets. The residual value of the investment property shall be assumed to be zero. The entity shall apply IAS 16 or [draft] IFRS X until disposal of the investment property.**
- 53A Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 53, the property shall be accounted for using the cost model in accordance with IAS 16 for owned assets or [draft] IFRS X for right-of-use assets.
- 53B The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be measured reliably.
- 54 In the exceptional cases when an entity is compelled, for the reason given in paragraph 53, to measure an investment property using the cost model in accordance with IAS 16 or [draft] IFRS X, it measures at fair value all its other investment property, including investment property under construction. In

these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

- 55 **If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.**

### **Cost model**

- 56 **After initial recognition, an entity that chooses the cost model shall measure:**

- (a) ~~investment properties all of its investment properties in accordance with IAS 16's requirements for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;~~
- (b) right-of-use assets classified as investment property, other than those that are held for sale, in accordance with [draft] IFRS X; and
- (c) all other investment properties in accordance with the requirements in IAS 16 for the cost model.

~~Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with IFRS 5.~~

### **Transfers**

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- 57 **Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:**

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) commencement of an operating a Type B lease or a short-term lease to another party, for a transfer from inventories to investment property.
- (e) [deleted]

- 58 Paragraph 57(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an

entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

59 Paragraphs 60–65 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

**60 For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with IAS 16, ~~[draft] IFRS X~~ or IAS 2 shall be its fair value at the date of change in use.**

60A When a right-of-use asset becomes owner-occupied property in accordance with paragraph 60 and a lessee classifies the lease as a Type B lease, the lessee shall include the difference between the fair value of the right-of-use asset and the carrying amount of the lease liability at the date of change in use as part of the remaining cost of the lease.

**61 If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IAS 16 for owned assets or ~~[draft] IFRS X~~ for right-of-use assets up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with IAS 16 or ~~[draft] IFRS X~~ and its fair value in the same way as a revaluation in accordance with IAS 16.**

62 Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property (or amortises the right-of-use asset if the entity classifies right-of-use assets as investment property) and recognises any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with IAS 16 or ~~[draft] IFRS X~~ and its fair value in the same way as a revaluation in accordance with IAS 16. In other words:

- (a) any resulting decrease in the carrying amount of the property or right-of-use asset is recognised in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property or right-of-use asset, the decrease is recognised in other comprehensive income and reduces the revaluation surplus within equity.
- (b) any resulting increase in the carrying amount is treated as follows:
  - (i) to the extent that the increase reverses a previous impairment loss for that property or right-of-use asset, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying

amount to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised.

- (ii) any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

**63 For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.**

64 The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

**65 When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.**

## Disposals

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**66 An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.**

67 The disposal of an investment property may be achieved by sale or by entering into a ~~finance~~ Type A lease. In determining the date of disposal for investment property that is sold, an entity applies the criteria in IAS 18 for recognising revenue from the sale of goods and considers the related guidance in the illustrative examples accompanying IAS 18. ~~IAS 17 [Draft] IFRS X~~ applies to a disposal effected by entering into a ~~finance~~ Type A lease and to a sale and leaseback transaction.

68 If, in accordance with the recognition principle in paragraph 16, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part. For investment property accounted for using the cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to



include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

**69 Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless IAS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal (unless [draft] IFRS X requires otherwise).**

70 The consideration receivable on disposal of an investment property is recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 using the effective interest method.

71 An entity applies IAS 37 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

**72 Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.**

73 Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

- (a) impairments of investment property are recognised in accordance with IAS 36;
- (b) retirements or disposals of investment property are recognised in accordance with paragraphs 66–71 of this Standard;
- (c) compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when it becomes receivable; and
- (d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 20–29 of this Standard.

## Disclosure

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### Fair value model and cost model

74 The disclosures below apply in addition to those in ~~IAS 17~~ [draft] IFRS X. In accordance with ~~IAS 17~~ [draft] IFRS X, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a ~~finance or operating~~ lease provides lessees' disclosures as ~~required by IFRS X for finance leases and lessors' disclosures for any operating leases into which it has entered.~~

75 An entity shall disclose:

- (a) whether it applies the fair value model or the cost model.
- (b) ~~[deleted] if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.~~
- (c) when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.
- (d) [deleted]
- (e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.
- (f) the amounts recognised in profit or loss for:
  - (i) rental income from investment property;
  - (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
  - (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.
  - (iv) the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used (see paragraph 32C).
- (g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.
- (h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

#### Fair value model

76 In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33-55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

- (a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;

- (b) additions resulting from acquisitions through business combinations;
- (c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
- (d) net gains or losses from fair value adjustments;
- (e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
- (f) transfers to and from inventories and owner-occupied property; and
- (g) other changes.

77 When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any ~~recognised lease obligations~~ lease liabilities that have been added back, and any other significant adjustments.

78 In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in IAS 16 or [draft] IFRS X, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

- (a) a description of the investment property;
- (b) an explanation of why fair value cannot be measured reliably;
- (c) if possible, the range of estimates within which fair value is highly likely to lie; and
- (d) on disposal of investment property not carried at fair value:
  - (i) the fact that the entity has disposed of investment property not carried at fair value;
  - (ii) the carrying amount of that investment property at the time of sale; and
  - (iii) the amount of gain or loss recognised.

#### Cost model

79 In addition to the disclosures required by paragraph 75, an entity that applies the cost model in paragraph 56 shall disclose:

- (a) the depreciation or amortisation methods used;
- (b) the useful lives or the depreciation or amortisation rates used;
- (c) the gross carrying amount and the accumulated depreciation or amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
  - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
  - (ii) additions resulting from acquisitions through business combinations;
  - (iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
  - (iv) depreciation or amortisation;
  - (v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with IAS 36;
  - (vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
  - (vii) transfers to and from inventories and owner-occupied property; and
  - (viii) other changes; and
- (e) the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot measure the fair value of the investment property reliably, it shall disclose:
  - (i) a description of the investment property;
  - (ii) an explanation of why fair value cannot be measured reliably; and
  - (iii) if possible, the range of estimates within which fair value is highly likely to lie.

## Transitional provisions

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### Fair value model

- 80 ~~[Deleted] An entity that has previously applied IAS 40 (2000) and elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property shall~~

~~recognise the effect of that election as an adjustment to the opening balance of retained earnings for the period in which the election is first made. In addition:~~

- ~~(a) if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of those property interests in earlier periods (measured on a basis that satisfies the definition of fair value in IFRS 13), the entity is encouraged, but not required:
 
  - ~~(i) to adjust the opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly; and~~
  - ~~(ii) to restate comparative information for those periods; and~~~~
- ~~(b) if the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.—~~

81 This Standard requires a treatment different from that required by IAS 8. IAS 8 requires comparative information to be restated unless such restatement is impracticable.

82 When an entity first applies this Standard, the adjustment to the opening balance of retained earnings includes the reclassification of any amount held in revaluation surplus for investment property.

### Cost model

83 IAS 8 applies to any change in accounting policies that is made when an entity first applies this Standard and chooses to use the cost model. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus for investment property.

**84 The requirements of paragraphs 27–29 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.**

### Effective date

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85 An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

85A IAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraph 62. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

85B Paragraphs 8, 9, 48, 53, 54 and 57 were amended, paragraph 22 was deleted and paragraphs 53A and 53B were added by *Improvements to IFRSs* issued in May 2008. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2009. An entity is permitted to apply the amendments to investment property under construction from any date before

1 January 2009 provided that the fair values of investment properties under construction were measured at those dates. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the amendments to paragraphs 5 and 81E of IAS 16 *Property, Plant and Equipment*.

85C IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 5, amended paragraphs 26, 29, 32, 40, 48, 53, 53B, 78–80 and 85B and deleted paragraphs 36–39, 42–47, 49, 51 and 75(d). An entity shall apply those amendments when it applies IFRS 13.

85D [an effective date paragraph to be inserted]

### **Withdrawal of IAS 40 (2000)**

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86 This Standard supersedes IAS 40 *Investment Property* (issued in 2000).

## **Approval by the Board of *Leases* published in May 2013**

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The Exposure Draft *Leases* was approved for publication by twelve of the sixteen members of the International Accounting Standards Board. Messrs Kalavacherla and Zhang voted against its publication. Their alternative views are set out after the Basis for Conclusions. Ms Tokar and Mr Kabureck abstained from voting in view of their recent appointment to the IASB.

Hans Hoogervorst

Chairman

Ian Mackintosh

Vice-Chairman

Stephen Cooper

Philippe Danjou

Martin Edelmann

Jan Engström

Patrick Finnegan

Amaro Luiz de Oliveira Gomes

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Darrel Scott

Chung Woo Suh

Mary Tokar

Wei-Guo Zhang

