Single-asset, single lessee lease vehicles (IFRS 10 *Consolidated Financial Statements*)—May 2015

The Interpretations Committee received two requests for clarification about the interaction of IFRS 10 and IAS 17 Leases. In both examples, a structured entity (SE) is created to lease a single asset to a single lessee.

In one submission the lease is an operating lease; in the other it is a finance lease. In the case of the operating lease, the question was whether the lessee should consolidate the SE. In the case of the finance lease, the question was whether the lender should consolidate the SE. In both examples, the consolidation decision would be based on an assessment of whether the entity controls the SE. In particular, the submitters asked whether the lessee's use of the leased asset is a relevant activity of the SE when assessing power over the SE.

The Interpretations Committee noted that an entity has power over an investee when it has rights that give it the current ability to direct the relevant activities of the entity, ie the activities that significantly affect the investee's returns. On entering into a lease, regardless of whether it is a finance lease or an operating lease, the SE (the lessor) would have two rights—a right to receive lease payments and a right to the residual value of the leased asset at the end of the lease. Consequently, the activities that would affect the SE's returns would relate to managing the returns derived from these rights; for example, managing the credit risk associated with the lease payments and any other guaranteed payments or managing the leased asset at the end of the lease term (for example, managing its sale or re-leasing). How the decision-making relating to these activities would significantly affect the SE's returns would depend on the particular facts and circumstances.

The Interpretations Committee was of the view that the lessee's right to use the leased asset for a period of time would not, in isolation, typically give the lessee decision-making rights over these relevant activities of the SE and hence would not typically be a relevant activity of the SE.

However, it noted that this conclusion does not mean that a lessee can never control the lessor. For example, a parent that controls another entity for other reasons can lease an asset from that entity.

It also noted that, in assessing control, an entity would consider all of the rights that it has in relation to the investee to determine whether it has power over the investee. This would include rights in contractual arrangements other than the lease contract, such as contractual arrangements for loans made to the lessor, as well as rights included within the lease contract, including those that go beyond simply providing the lessee with the right to use the asset.

As a result of its discussions, the Interpretations Committee concluded that the principles and guidance within IFRS 10 would enable a determination of control to be made in a specific scenario based on the relevant facts and circumstances of that scenario. The Interpretations Committee also noted that it is not its practice to give case-by-case advice on individual fact patterns.

Consequently, the Interpretations Committee thought that neither an Interpretation of nor an amendment to a Standard is required and decided not to add these issues to its agenda.