

IAS 17 Leases (June 2005)

Finance subleases of finance leases

The IFRIC considered a suggestion that IAS 17 needed interpretation when assets obtained under finance leases (e.g., from manufacturers) are in turn leased immediately by intermediaries, in finance leases, to end users. This was because there was a possibility of the intermediaries treating the assets as inventory when received from the manufacturer followed by a sale to the end user.

The IFRIC took the view that this issue was covered adequately by IAS 17's guidance for finance leases (both for the intermediary in its capacity as a lessee and a lessor and for the end user as a lessee) and by the derecognition requirements of IAS 39 (paragraphs 39-42) as they apply to the finance lease liabilities of the intermediary. The IFRIC did not agree with the treatment that had been suggested.