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**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: March 2007, London

**Project: Review of Tentative Agenda Decisions
IAS 17 Leases - Sale and leasebacks with repurchase
agreements
(Agenda Paper 8(i))**

Tentative agenda decision published in January 2007 IFRIC Update

During the course of developing its Interpretation on service concession arrangements, the IFRIC tentatively concluded that a transaction that took the form of a sale and leaseback should not be accounted for as such if it incorporated a repurchase agreement. The reason was that the seller/lessee retained control of the asset by virtue of the repurchase agreement. Hence, the criteria for recognising a sale in paragraph 14 of IAS 18 *Revenue* would not be met.

However, at its meeting in May 2006 the IFRIC noted that this tentative conclusion would apply more widely than to service concession arrangements and that the matter should be the subject of a separate project.

At this meeting, the IFRIC considered whether the conditions for recognition of a sale in paragraph 14 of IAS 18 must be met before a transaction is accounted for as a sale and leaseback transaction under IAS 17. In particular, the IFRIC considered whether transactions that take the form of a sale and leaseback transaction should be accounted

for as such when the seller/lessee retains effective control of the leased asset through a repurchase agreement or option.

The IFRIC noted that IAS 17, rather than IAS 18, provides the more specific guidance with respect to sale and leaseback transactions. Consequently, it is not necessary to apply the requirements of paragraph 14 of IAS 18 to sale and leaseback transactions within the scope of IAS 17.

However, the IFRIC also noted that IAS 17 applies only to transactions that convey a right to use an asset. *SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and IFRIC 4 *Determining whether an Arrangement contains a Lease* provide guidance on when an arrangement conveys a right of use. If, applying the criteria in SIC-27 and IFRIC 4, an entity determines that an arrangement does not convey a right of use, the transaction is outside the scope of IAS 17 and the sale and leaseback accounting in IAS 17 should not be applied.

The IFRIC noted that significantly divergent interpretations do not exist in practice on this issue and that it would not expect such divergent interpretations to emerge. Consequently, the IFRIC [decided] not to take the issue onto its agenda.