30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
E-mail: iasb@iasb.org Website: www.iasb.org

International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**December 2008, London**
Project:	**Annual Improvements**
Subject:	**ED Annual Improvements Process - Comment analysis: IAS 17 Classification of leases of land and buildings (Q11) (Agenda paper 11F)**

INTRODUCTION

1 Question 11 of the 2007 Annual Improvements ED addresses a perceived inconsistency in the guidance on the classification of leases of land and buildings in IAS 17. This agenda paper summarises the staff's analysis of the comments received on the proposed amendment and possible alternatives for proceeding with this issue. The comment period ended in January 2008.

2 At its February 2008 meeting, the Board reviewed a preliminary summary of significant points raised in the comment letters. The Board decided to postpone the reconsideration of this proposal until more analysis could be completed for redeliberations to begin in the fourth quarter of 2008.

STAFF RECOMMENDATION

3 The staff recommends that the Board should not proceed with the proposed amendment and leave this issue to be resolved in the project on leases.

4 If the Board wishes to proceed with amending IAS 17 now to remove the perceived inconsistency, the staff recommends that the Board revise the drafting from the original proposal exposed in the ED:

(a) To clearly state the Board's rationales underlying the change from its previous decision in 2003 and why it is imperative to do so at this time outside of the Board's active project on leases;

(b) To address the potential consequential amendment to IAS 40, if any; and

(c) To clarify the transition provision.

Proposed wording is included in Appendix B to this agenda paper.

BACKGROUND

5 IAS 17 requires the land and buildings elements of leases to be considered and accounted for separately in certain situations. The separate consideration of the elements of such leases is relevant when the applying the classification criteria in paragraphs 7-14 of IAS 17 results in the two elements being classified differently. In most cases the building element would be classified as a finance lease and the land element would be classified as an operating lease. Separate accounting is not necessary when both components of the lease are classified the same way or when one component is not material relative to the other.

6 Paragraphs 8-12 of IAS 17 provide general guidance on the classification of leases as finance leases and operating leases. Paragraphs 14-18 provide guidance on the separate consideration of the elements of leases. Paragraph 14 also provides additional guidance on how to assess the classification of leases of land and buildings:

'*Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessees* <u>*normally*</u> *do not receive substantially all the risks and* *rewards incidental to ownership. A payment made on entering….*' [Emphasis added]

7 This guidance requires a lease of land to be normally classified as an operating lease, unless title is expected to pass to the lessee by the end of the lease term.

8 There was concern that this additional guidance is unnecessary and potentially hinders the application of the general lease classification guidance in paragraphs 8 to 12. When the Board decided to propose this amendment in 2007, the original agenda paper noted that a consequence of the current wording is that more leases of land and buildings have to be separated between an operating lease for the land and a finance lease for the building than might otherwise arise from a simple application of the criteria in paragraphs 8 to 12.

9 The staff thinks a potentially more significant issue is the consequence of the current wording for certain owner-occupied land leases that are in-substance purchases. Even though owner-occupied properties are precluded from being accounted for as investment properties under IAS 40, because of this paragraph, these leases are inappropriately classified as operating leases and therefore, precluded from being revalued in accordance with IAS 16 *Property, Plant and Equity*.

10 At its July 2007 meeting, the Board discussed this issue and proposed deleting paragraph 14 and amending paragraph 15. The proposed amendment would eliminate the perceived inconsistency between the general classification guidance in IAS 17 and the specific classification guidance for leases of land. If the proposed amendment in ED is adopted, these separate elements of long-term land and building leases will be classified in accordance with the general classification guidance for leases in paragraphs 8 to 12 of IAS 17, even for leases of land that will not result in the transfer of title.

SOME HISTORY

11 Both the Board and the IFRIC dealt with this issue over the last few years. The staff reviewed the agenda paper on which the Board made its July 2007 decision but this history was not included in the analysis. Consequently, the staff has summarised the history before discussing the comment analysis.

The Board's previous decision in 2003

12 In the 2003 Improvements Project, the Board added the specific wording currently being proposed to be deleted. The Board also specifically considered and rejected the current proposal on the basis that it conflicts with the general lease classification criteria.

13 At its meetings in December 2001 and January 2002, the Board decided to make limited improvements to IAS 17 to deal with this issue among others and not to defer its resolution until the more fundamental and wider project on leases was completed. The Board did that because this issue was a matter of concern in countries where property rights are obtained under long-term leases and the substance of those leases differs little from buying a property. Some examples of those countries are the UK, Singapore, Hong Kong and Malaysia.

14 The Board specifically considered but rejected in 2001/2002 the same proposal considered in 2007 and included as Question 11 in the Annual Improvements ED. That approach proposed deleting the requirement (in paragraph 14 of IAS 17) normally to classify a lease of land as an operating lease when title does not pass at the end of the lease. That approach would also require such a lease to be classified as a finance lease when all other conditions for finance lease classification in IAS 17 are met.

15 At the time, the Board noted that general accepted accounting principles in Australia, Canada and the United States all explicitly require a lease of land and buildings to be bifurcated into two elements.

16 When the Board redeliberated respondents' comments on the previous ED of *Proposed Improvements to IASs* (as published in May 2002), the Board also specifically reconsidered whether leases of land could be finance leases. For reasons of convergence, the Board decided in its redeliberations in 2003 to require all leases of land to continue be treated as operating leases, regardless of their term, unless title is expected pass.

17 Therefore, after redeliberations at its subsequent meetings in November 2002 and July 2003, the Board reconfirmed that decision for its 2003 Improvements Project and issued the final amendment to IAS 17 in December 2003.

18 In paragraph BC8 of IAS 17, the Board states the following rationales for its 2003 rejection of the proposal to delete the guidance currently covered by Question 11 in the 2007 AIP ED:

> *The Board noted that such an accounting treatment would conflict with the criteria for lease classification in the Standard, which are based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Indeed, land normally has an indefinite economic life and hence there are significant risks and rewards associated with the land at the end of the lease term, which do not pass to the lessee. Therefore, the Board rejected this approach.*

19 Consequently, it is clear that the Board specifically considered this issue in its original improvements project and decided to adopt an approach that treats land leases as operating unless title is expected to transfer by the end of the lease term. This means that classification of the two elements of a lease of both land and buildings must be considered separately.

The IFRIC's previous agenda decision in 2006

20 After the Board issued the amendment to IAS 17 in 2003, the IFRIC received a request to clarify whether a long lease of land would be classified as an operating lease even though title does not transfer to the lessee. Some understood the introduction of the word 'normally' in paragraph 14 of IAS 17 (as the staff reproduced in paragraph 6 earlier) as implying that a long lease of land in which title would not transfer to the lessee would be treated as a finance lease, because the time value of money would reduce the residual value to a negligible amount.

21 The IFRIC noted that one example of a lease classification affected by the introduction of the word 'normally' was a 500-year lease of land in which the lessor had agreed to pay the lessee the fair value of the property at the end of the lease period. In such circumstances, significant risks and rewards associated with the land at the end of the lease term would have been transferred to the lessee despite there being no transfer of title.

22 [Paragraph omitted from observer note]

23 Citing the Board's previous explicit rejection in paragraph BC8 of IAS 17 above, the IFRIC noted that the lease would be classified as an operating lease unless title or significant risks and rewards of ownership passed to the lessee, irrespective of the term of the lease.

24 The IFRIC decided in March 2006 not to add this item to its agenda as, although leases of land that do not transfer title are widespread, the IFRIC has not observed, and does not expect, significant diversity in practice. An extract of the related wording of the final IFRIC agenda decision is set out in Appendix A to this agenda paper.

COMMENT LETTER ANALYSIS

25 Of the 75 comment letters the Board received on the ED, 56 commented on this issue. Respondents had mixed responses to this proposed amendment. A list of the respondents is set out in Appendix C.

26 Many respondents acknowledged that the guidance the Board proposed to eliminate is a rule, an exception to the general principles applicable to the classification of leases. Consequently, its application may result in a lease classification that does not always reflect the underlying economic substance.[1] Not all of those respondents supported the proposal but those who supported it believed that the change would be a simplification and improve consistency.[2]

27 However, a large number of respondents also expressed concerns and many objected to the change and to including this as an annual improvement amendment because the proposal:

(a) is a significant change from current practice and it

- reverses the Board's previous decision in 2003;
- conflicts with the IFRIC's previous agenda decision in 2006;

(b) has the potential to create significant inconsistency due to practical difficulties and deletion of helpful guidance for assessing classification of land leases;

[1] CL 2, 6, 11, 13, 14, 16, 23, 24, 37, 51, 64, 72
[2] CL 6, 13, 16, 23, 24, 51, 72

(c) presents unintended consequences not yet addressed such as transition issues, consequential amendments to IAS 40 *Investment Property*, the cost outweighs the benefits given the project on leases, among others.

28 These concerns are discussed more fully in the following paragraphs.

A significant change from current practice

29 Many respondents noted that proceeding with the amendment would be a significant change from current practice.[3] It reverses the Board's previous decision made during the 2003 Improvements Project. It also conflicts with the IFRIC's previous agenda decision during 2006 on a similar issue (500-year lease example) even though the IFRIC did not expect significant diversity in practice.[4]

30 Given the history of this issue over the last few years, these respondents say that the rationale for the Board changing its position and for the underlying perceived inconsistency is currently unclear or unjustified.

31 The staff notes that one of the important objectives of the original improvements project in 2003 was to increase convergence with US GAAP. A respondent to the 2007 Annual Improvements ED noted that this proposal would create divergence from US GAAP.[5]

32 The staff notes that the Board discussed at its July 2007 meeting a similar example of a 999-year lease of land and buildings. The staff analysis presented at that meeting summarised the issue as described in the Background section of this agenda paper. That staff analysis also noted that '*the application of paragraph 14 to the analysis and the introduction of the word* normally*, as amended in 2003, would be viewed by many as requiring the land component of the lease to be bifurcated and classified as an operating lease, even though this may not necessarily reflect the economic position of the lessee.*'

33 The staff notes that some may argue that by the time the Board reconsidered this issue in 2007, the IFRIC had made it clear that this view was not

[3] CL 14, 19, 29, 32, 34, 37, 38, 44, 47A, 70
[4] CL 2, 5, 14, 19, 23, 32, 47A, 58, 59, 61, 69
[5] CL 50

appropriate. On the other hand, the staff also notes that the IFRIC concluded the way it did due to the explicit wording in both the standard and its basis for conclusions. The Annual Improvements Process was not in place in March 2006 and a change would require both an amendment to the standard and the Board to change its basis for conclusions.

34 In reviewing the economics of long leases in the examples discussed by the Board and the IFRIC, the staff agrees that the lessee in leases of this type will typically be in an economically similar position to an entity that purchased the land and buildings. The fair value of the residual for the property after the first 50 years of a long-term lease would be very small. Accounting for the land element as a finance lease would therefore be consistent with the economic position of the lessee.

35 However, a respondent believed that the proposed deletion of paragraphs 14 and 15 would remove two important points in distinguishing operating and finance elements of property leases.[6] They are:

(a) Land normally has an indefinite economic useful life; and

(b) The residual value of land is often significant.

36 The staff thinks that the issue of a significant residual is more relevant when the lease is approaching its renewal or expiry date.

37 The staff also notes that the Board's discussion at its July 2007 meeting recalled some of the history from the 2003 Improvements Projects but did not reconcile the changes from the Board's previous decision in 2003 or the IFRIC's previous agenda decision in 2006. At this time, understanding the history of the Board's considerations in 2003, the staff is unaware of any new information that surfaced since then to warrant such a change before the active project on leases is finished. The staff would welcome the Board's input.

Inconsistency created due to practical difficulties

38 Many respondents also commented that the proposed amendment is unclear and, if adopted as proposed the amendment would create more inconsistency due to practical difficulties.[7]

[6] CL 54

39 The comments received on the ED indicate that even though some constituents view the proposed change as permitting a reclassification of some existing operating leases to finance leases, hence as a substantive change to IAS 17, others view it as having no impact because they do not perceive any inconsistency between the general lease classification guidance and the specific lease classification guidance. That is, they agree with the Board's view set out in BC8.

40 Some respondents also believed that in practice it would be difficult to determine how long a lease term would need to be, e.g., 50 years, 100 years, or 600 years, to indicate a transfer of risks and rewards.[8] They believed that the simple deletion of the specific guidance in paragraphs 14 and 15 of IAS 17 would not improve the accounting for leases of land but rather would lead to more inconsistent application in practice. Those respondents recommended the development of implementation guidance or discussion in the Basis for Conclusions to assist users of the standards through the decision process involved in classifying a long-term land lease.

41 One respondent believed that if the Board's intention was to reduce the number of situations when a lease of land and buildings would be separated into two elements for classification assessment, then the retention of the wording in paragraph 15 defeats that objective.[9]

42 The staff notes that if the Board decides to proceed with the proposed amendment to delete the guidance in paragraphs 14 and 15 of IAS 17, including the examples of long leases discussed by the Board and the IFRIC would clarify the thought process of this change.

Question to the Board:

43 Does the Board agree with the staff recommendation in paragraph 42?

Other unintended consequences not yet addressed

44 Many respondents view this proposal as a significant change and commented that several unintended consequences had not been addressed including:

---

[7] CL 2, 5, 11, 34, 47A, 56, 62, 64
[8] CL 11, 47A, 64
[9] CL 34

(a) transition issues;

(b) what type of asset exists and potential consequential amendments to IAS 40 *Investment Property*;

(c) cost-benefit considerations if the proposal is separately adopted outside the active Leasing Project.

Transition issues

45 Several respondents expressed concerns about transition.[10] Some recommended that the Board clarify that this is a change in the requirements of IAS 17 and provide explicit transition guidance, in particular whether any resulting changes in lease classification should be accounted for as a change in accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.(CL 47A, 61, 64) On the other hand, one respondent recommended prospective transition because the review of all land and building leases would cause undue cost and effort.(CL 37)

46 One respondent also commented that prior to the adoption of IFRS many entities had treated such lease arrangements as finance leases under their previous accounting frameworks. They had reclassified these leases as operating at the date of transition. The amendment would undermine the Board's attempt to achieve a stable platform.(CL 44)

47 The staff notes that the Board required retrospective application when it initially adopted the amendment in 2003 to require separate consideration of the classification of the land and building elements of long leases. The Board noted at that time that IAS 8 already provided guidance for retrospective application when it is impracticable to do so.

48 The staff notes that, if the Board decides to proceed with this proposed amendment, entities must reconsider the classification for only the land lease element. However, the staff questions whether a separate fair value of the land lease is really available in countries where property rights are obtained under long-term leases. In those countries, the purchase of property is seldom separate from the related land that is being leased.

[10] CL 37, 44, 47A, 61, 64,

49 Although the staff does not think a prospective transition is appropriate either, the staff is sympathetic to adopting a modified retrospective transition requirement so that only unexpired leases on the date the entity adopts the amendment would need to be reassessed in accordance IAS 8.

Question to the Board:

50 Does the Board agree with the staff recommendation in paragraph 49?

What type of asset exists and potential consequential amendment to IAS 40

51 One respondent commented that paragraphs BC4 to BC7 of IAS 40 explained why the Board decided not to delete paragraph 14 of IAS 17 and inserted an option to treat some operating leases as investment property in the financial statements of the lessee. This respondent believed that an unintended consequence of this proposal, if adopted, would be that certain long-term leases of land would be considered to be finance leases by the lessee and would then be treated as investment property in accordance with IAS 40 if they met the criteria for such classification in IAS 40.[11]

52 Even if the Board eliminates the preclusion to classify land leases as finance lease, accounting for them as investment properties when they meet the definition of investment property would be a consistent presentation and the right answer. The staff also notes that IAS 40 does not require fair value accounting. The entity has an accounting policy choice for those finance leases that meet the definition of investment property.

53 Similarly, another respondent agreed with the proposed amendment but stated that some of the consequences of classifying a lease of land as a finance lease are not fully addressed, for example, what type of asset does the land being leased represent?[12]

54 This respondent commented that if the asset is property, plant and equipment, it should be depreciated based on the life of the lease and may be carried at revalued amount if this is the entity's policy or it may be classified as investment property. However, if the asset is an intangible asset (if the lease is considered a 'right to use land'), there would be restrictions on its ability to be

[11] CL 44
[12] CL 50

revalued because there must be an active market as defined in paragraph 8 of IAS 38 and 'the right to use' would not qualify as an investment property.

55 The staff thinks that the IAS 17 model is an in-substance purchase model. If an entity concludes that the lease is a finance lease, the recognised asset is property, plant and equipment not an intangible asset.

56 The staff agrees with the respondents that if the Board decides to proceed with adopting the proposed amendment, the Board should also re-evaluate the option inserted in IAS 40 when the Board amended IAS 17 in 2003 for potential consequential amendments.

57 The staff notes that the Board added that option in IAS 40 in 2003 to allow operating leases of land that is classified as investment property to be treated as if they were finance leases and if the fair value model in IAS 40 is adopted.

58 The staff thinks a more significant issue to be resolved, however, relates to owner-occupied leases that are in-substance purchases. In many cases, though not all, there is a significant upfront payment to acquire long-term land leases or land that is leased together with buildings.

59 Under the current guidance in IAS 17 to consider the classification of land and building elements of leases separately, that prepayment would be reported as prepaid rent by the lessee and not as a tangible asset.

60 As many noted, this fails to reflect the economics that the lessee has acquired a substantial interest in land. The staff agrees but notes, however, that the entity's statements of income and financial position for operating lease accounting are similar to the accounting it would reflect if the lease were treated as a finance lease.

61 In a long term lease of land and building, if both elements are considered finance leases, the lessee must split the prepayment into one for the land and one for the building. The staff notes that even when both the land and building are finance leases, this split is still necessary to allocate the capitalised amount between the land and the buildings for purposes of depreciation – land over its lease term and building over its useful life. Some argue, however, that this is normally more of a 'back of the envelope' type calculation and less complicated.

62 Even though owner-occupied properties are precluded from being accounted for as investment properties under IAS 40 and fair valued, because of the wording in paragraph 14 of IAS 17, these leases are inappropriately classified as operating leases and therefore, precluded from being revalued in accordance with IAS 16 *Property, Plant and Equity*.

63 Many reporting entities in countries where property rights are transferred through leases would like to be able to revalue their long-term land or land-and-building leases but are prohibited from doing so currently. If so, the proposed amendment may solve the issue facing many reporting entities with long-term land leases adjoining to owner-occupied buildings.

64 Based on the evaluation above, the staff does not think any additional consequential amendment to IAS 40 is necessary if the Board decides to proceed with adopting the proposed amendment.

Question to the Board:

65 **Does the Board agree with the staff assessment in paragraph 64?**

Cost-benefits if separately adopted outside the active Leasing Project

66 In light of the significant change in practice involved in this proposal and the Board's accelerated progress on the active project on Leasing, many respondents believed that the costs of making the amendment at this time would outweigh the benefits. Even though many respondents agreed with the direction of this proposal, they encouraged the Board to include this issue as a part of the Leasing Project.[13]

67 The staff notes that when this issue was first discussed in 2001, it was a significant practice issue requiring special treatment. At that time, the project on leases was not active and the approach adopted by the Board in 2003 was for reasons of convergence with liaison countries including Australia, Canada and the United States.

68 At this time, the staff notes that the joint project on leases is now an active project, with a limited scope to address lessee accounting. The direction tentatively agreed by both Boards will eliminate the distinction of

[13] CL 2, 5, 8, 11, 32, 34, 38, 44, 47A, 61

classification as operating or finance leases to require lessees to capitalise leases of right-to-use assets. In other words, when the project on leases is completed, the issue of separate consideration of the lease classification for leases of land and buildings by lessees will go away.

69 Therefore, the staff sees considerable merit in addressing this issue as a part of the Board's active project on leases.

POSSIBLE SOLUTIONS

70 Given the comments analysis and staff's comments above, the staff believes that the Board has at least two possible options:

(a) Option 1 – Do not proceed with the amendment and leave this issue to be resolved in the project on leases.

(b) Option 2 – Proceed to amend IAS 17 but revise the amendment proposed in the 2007 Annual Improvements ED to address the various consequential amendments identified in the comment letters, expand the Basis for Conclusions to set out the Board's rationales underlying the change from its previous decision in 2003 and why it is imperative to do so at this time outside of the Board's active project on leases.

Option 1

71 As noted in paragraph 69, the staff sees the merits of this solution. The staff notes that, however, after the Board decided to postpone the reconsideration of this proposal in February 2008, several constituents sent formal letters or emails inquiring about the progress of this issue. Even though many respondents objected to adopting this change at this time in light of the active project on leases, those subsequent inquiries indicate that this is an issue that some constituents are keen to see the Board address.

72 The staff notes that the current technical plan estimates that the Board's leasing project, which forms a part of the updated MoU with the FASB, will issue a discussion paper in Q1 2009, an exposure draft in 2010, and a finalised standard by June 2011 with an effective date and the possibility of early adoption yet to be determined.

73 If the Board proceeds to finalise the proposed amendment, the staff thinks that the Board can finalise the revised amendment and related consequential amendments in Q1 2009, with an effective date of 1 January 2010 and possible early adoption permitted. This allows entities to adopt the amendment approximately one to two years sooner than the project on leases would be completed.

Option 2

74 The staff agrees that the standard should not preclude entities from classifying land leases as finance leases if they are in substance outright purchases. Adopting the amendment as proposed may also allow reporting entities with owner-occupied long-term land leases to revalue them in accordance with IAS 16. Therefore the proposed change is an improvement. On the other hand, the proposed amendment is a significant change to current practice largely built on the Board's decision in 2003 and the IFRIC's agenda decision in 2006.

75 If the active project on leases were still another five years from completion, the staff thinks that the Board should proceed now and adopt the amendment as proposed, despite its being a significant change in practice. The current estimated timing difference of one to two years, however, makes this option more of a coin toss in the event of a delay in that project.

76 If the Board decides to finalise this proposal separately from the active project on leases, the staff believes additional drafting changes are necessary:

(a) To clearly state the Board's rationales for the change from its previous decision in 2003 and why it is imperative to make these changes now ahead of its active project on leases;

(b) To address the potential consequential amendment to IAS 40, if any; and

(c) To clarify the transition provision.

Proposed wording is included in Appendix B to this agenda paper.

STAFF RECOMMENDATION

77 The staff recommends Option 1.

78 **Does the Board agree with the staff's recommendation in paragraph 77?**

79 If the Board disagrees with the staff and decides to adopt Option 2, does the Board have any drafting comments to the proposed wording in Appendix B?

APPENDIX A – RELEVANT IFRIC UPDATE (MARCH 2006)

Leases of Land that do not transfer Title to the Lessee

The IFRIC considered a comment letter that it had received in response to the publication of its draft reasons for not taking this issue on its agenda. The correspondent argued that a finance lease treatment should be afforded to leases exceeding 500 years. The IFRIC rejected this approach based on the current text of the standard. However, in response to comments from a number of IFRIC members, the IFRIC agreed to recommend to the IASB that the special provisions related to the transfer of title on a lease of land should be deleted from IAS 17. The IFRIC confirmed the following text, previously published, of its reasons for not taking this item onto its agenda.

The IFRIC considered whether long leases of land would represent a situation when a lease of land would not *normally* be classified as an operating lease even though title does not transfer to the lessee. IAS 17 states at paragraph 14 that a characteristic of land is that it normally has an indefinite economic life. If title is not expected to pass to the lessee by the end of the lease term, then the lessee *normally* does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease will be an operating lease. Even when the land has an indefinite economic life, paragraph 15 states that 'the land element is *normally* classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term……' [emphasis added].

The IFRIC noted that leases of land with an indefinite economic life, under which title is not expected to pass to the lessee by the end of the lease term, were classified as operating leases before an amendment to IAS 17 was made in respect of IAS 40 *Investment Properties*. Specifically, IAS 17 was amended to state that in leases of land that do not transfer title, lessees *normally* do not receive substantially all the risks and rewards incidental to ownership.

Some have understood the introduction of the word 'normally' as implying that a long lease of land in which title would not transfer to the lessee would henceforth be treated as a finance lease, since the time value of money would reduce the residual value to a negligible amount. The IFRIC noted that, as summarised in paragraph BC 8, the Board considered but rejected that approach in relation to the classification of leases of land and buildings, because 'it would conflict with the criteria for lease classification in the Standard, which are based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee'. The Board also made clear that it had not made any fundamental changes to the Standard.

The IFRIC noted that one example of a lease classification affected by the introduction of the word 'normally' was a lease of land in which the lessor had agreed to pay the lessee the fair value of the property at the end of the lease period. In such circumstances, significant risks and rewards associated with the land at the end of the lease term would have been transferred to the lessee despite there being no transfer of title. Consequently a lease of land, irrespective of the lease term, is classified as an operating lease unless title is expected to pass to the lessee or significant risks and rewards associated with the land at the end of the lease term pass to the lessee.

The IFRIC decided not to add this item to its agenda as, although leases of land that do not transfer title are widespread, the IFRIC has not observed, and does not expect, significant diversity in practice.

Appendix B – PROPOSED DRAFTING

[Omitted from observer note]

APPENDIX C – LIST OF RESPONDENTS ON THE ED

CL #	Respondent
1	CPA Australia
2	New South Wales Treasury
3	Australasian Council of Auditors-General
4	Otto (GmbH & Co KG)
5	Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC)
6	Securities Commission
7	Holcim Group Support
8	Group of 100
9	Telstra Corporation Limited
10	Institut der Wirtschaftsprüfer (IDW)
11	German Accounting Standards Committee (DRSC)
12	Dutch Accounting Standards Board (DASB)
13	Organismo Italiano di Contabilita
14	Grant Thornton
15	IFRSC of the Korea Accounting Standards Board (KASB)
16	National Accounting Standards Board of Russia (NASB)
17	F Hoffmann La Roche
18	Investment Management Association (IMA)
19	Conseil National de la Comptabilité (CNC)
20	Norsk RegnskapsStiftelse - Norwegian Accounting Standards Board
21	FirstRand Banking Group
22	Real Property Association of Canada
23	Accounting Standards Board (ASB)
24	The Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF)
25	Cobham Plc
26	Takkt AG
27	Eskom
28	Bank of Scotland Treasury
29	Canadian Accounting Standards Board
30	Bundesverband deutscher Banken
31	London Investment Banking Association (LIBA)
32	South African Institute of Chartered Accountants (SAICA) Accounting Practice Board (APB) of South Africa and the Accounting Practices Committee (APC) of SAICA
33	British American Tobacco
34	Royal Institute of Chartered Surveyors (RICS)
35	British Bankers' Association (BBA)
36	The Chartered Institute of Management Accountants
37	Nestlé
38	Foreningen af Statsautoriserede Revisorer (FSR)
39	Quoted Companies Alliance
40	BDO
41	PricewaterhouseCoopers
42	Italian Banking Association (ABI)

CL #	Respondent
43	RWE Aktiengesellschaft
44	Deloitte Touche Tohmatsu
45	Association pour la participation des entreprises françaises à l'harmonisation comptable internationale (ACTEO) and Mouvement des Entreprises de France (MEDEF) and Association Française des Entreprises Privées (AFEP)
46	The Actuarial Profession
47	KPMG
48	Institute of Chartered Accountants of Scotland (ICAS)
49	The Chartered Institute of Public Finance and Accountancy (CIPFA)
50	Ernst & Young
51	Shell International
52	National Grid Plc
53	Association of Chartered Certified Accountants (ACCA)
54	Institute of Chartered Accountants in Ireland (ICAI)
55	International Federation of Accountants (IFAC)
56	Malaysian Accounting Standards Board (MASB)
57	Arcandor AG
58	Institute of Chartered Accountants in England & Wales (ICAEW)
59	Mazars
60	Japanese Institute of Certified Public Accountants (JICPA)
61	Australian Accounting Standards Board
62	Accounting Standards Board of Japan (ASBJ)
63	Föreningen Auktoriserade Revisorer FAR
64	Hong Kong Institute of Certified Public Accountants
65	London Society of Chartered Accountants (LSCA)
66	International Actuarial Association (IAA)
67	Institute of Chartered Accountants of Pakistan (ICAP)
68	Prof Hannu Schadewitz
69	Fédération des Experts Comptables Européens (FEE)
70	BUSINESS EUROPE
71	BP plc
72	Financial Reporting Standards Board (FRSB)
73	Institute of Certified Public Accountants of Kenya
74	Swedish Financial Reporting Board
75	European Financial Reporting Advisory Group (EFRAG)

APPENDIX D – RELEVANT EXTRACTS FROM IAS 17 AND IAS 40

[Omitted from observer note]