



Project	Leases
Topic	Revaluation of the lessee's right-of-use asset

Purpose

1. The objective of this paper is to discuss how to revalue a lessee's right-of-use assets for IFRS preparers.

Background

2. At their June 2009 meetings, the boards discussed whether to permit revaluation of a right-of-use asset. The IASB tentatively decided that the standard applicable to the underlying leased asset (for example, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*) would determine whether and how a lessee may revalue its right-of-use assets.
3. At their October 2009 joint meeting, the boards tentatively decided that a lease contract has created a new right (a right of use), which is an intangible asset. Consistent with that decision, the IASB tentatively decided at the November 2009 joint meeting that IFRS preparers would be permitted to revalue their right-of-use assets using the revaluation model in IAS 38 *Intangible Assets*.
4. At their March 2010 joint meeting, the boards tentatively decided that a lessee would present its right-of-use asset with property, plant and equipment (PP&E), separately from other assets that are owned but not leased, on the face of the statement of financial position.

This paper has been prepared by the technical staff of the FASB and the IASCF for discussion at a public meeting of the FASB or the IASB.

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5. As a result of the decision to present the asset with PP&E, some IASB Board members questioned whether revaluation of right-of-use assets using the revaluation model in IAS 38, *Intangible Assets* is appropriate.

Staff recommendation

6. The staff recommend that:
 - (a) a lessee revalue its right-of-use assets using the revaluation model in IAS 16 *Property, Plant and Equipment*;
 - (b) using the revaluation model in IAS 16, permit a lessee to revalue its leased assets (right-of-use assets) only if the lessee chooses to revalue its owned assets in a class of property, plant and equipment; and
 - (c) require a lessee to revalue the entire class of property, plant and equipment (all owned and leased assets) to which that leased asset belongs if the lessee chooses to revalue its leased assets.

Staff analysis

Revaluation model

7. IFRSs allow non-financial assets subject to depreciation/amortisation initially measured at cost to be subsequently carried at fair value.
8. Under the revaluation model in IAS 16 *Property, Plant and Equipment*, property, plant and equipment are revalued if their fair values can be measured reliably. Under IAS 38 *Intangible Assets*, revaluations of these assets are determined by reference to an active market. Both Standards state that revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.
9. Because of the different thresholds, some property, plant and equipment held under a lease could have been revalued using the revaluation model in IAS 16 *Property, Plant and Equipment*. However, they may not qualify for revaluation

under the IAS 38 *Intangible Assets* revaluation model because an active market for the right-of-use asset would be very rare.

10. As an active market is unlikely to exist for the right-of-use assets, this threshold would effectively prohibit revaluation of the assets.
11. It can be argued that an entity may want to continue to revalue its leased assets as in some jurisdictions it is common to revalue leased property (eg Hong Kong, the UK).
12. In addition, at the joint leases working group meeting in September 2009, some working group members noted that although revaluation is inconsistent with the proposed cost-based model, it is important to be consistent between leased and purchased assets.
13. The staff think that the right-of-use assets should be revalued using the revaluation model in IAS 16 *Property, Plant and Equipment* because:
 - (a) there is no point in allowing an option to revalue if the threshold for applying the option is so high that it can hardly ever be reached.
 - (b) it would not provide more relevant information to users if a lessee revalues its right-of-use asset using the revaluation model in IAS 38.
 - (c) it would ensure consistency with similar assets that are owned rather than leased in IFRSs (ie the same revaluation model would be used for a right to use an office building as for an owned office building).

Question 1

The staff recommend that a lessee should use the revaluation model in IAS 16 *Property, Plant and Equipment* if it chooses to revalue its right-of-use assets.

Do the boards agree?

How to revalue under the IAS 16 revaluation model

14. This section would be applicable only if the boards decide to use the IAS 16 revaluation model in the question 1.

15. IAS 16 states that if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Therefore, the staff initially analysed two ways of addressing how the right-of-use assets should be revalued:
- (a) Option 1: revalue all right-of-use assets if a lessee chooses to revalue its leased assets
 - (b) Option 2: revalue the entire class of property, plant and equipment (all owned and leased assets) to which that leased asset belongs if a lessee chooses to revalue its owned assets.
16. The right-of-use assets include property, plant and equipment. It may be possible to revalue a leased building, but it may be complex and costly for preparers to revalue a leased car, if not impossible. Also, the nature of property, plant and equipment is very different. The revalued amount of the building would provide useful information to users, but they may not be interested in the revalued amount of the car. Therefore, the staff think that requiring a lessee to revalue all right-of-use assets may not be feasible for all lease transactions and the costs would exceed the benefits.
17. Under Option 2, if a lessee chooses to revalue its all owned buildings, it also needs to revalue all its leased buildings. It can be argued that a right to use a building obtained from a lease is different from outright ownership of the building. Therefore, factors to revalue owned assets may be different from those to revalue leased assets. The staff think that requiring a lessee to revalue all leased assets if a lessee chooses to revalue its owned assets in a class could increase burden on preparers because they may not have the information available to revalue their leased assets in the same ways as to revalue their owned assets.

Staff recommendation

18. Because of the problems associated with both Option 1 and Option 2, the staff recommend another approach, that is:

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- (a) permit a lessee to revalue its leased assets (right-of-use assets) only if the lessee chooses to revalue its owned assets in a class of property, plant and equipment; and
 - (b) require a lessee to revalue the entire class of property, plant and equipment (all owned and leased assets) to which that leased asset belongs if the lessee chooses to revalue its leased assets.
19. The staff think that permitting a lessee to revalue leased assets only if it chooses to revalue its owned assets would provide relevant information and it would be less costly for preparers to apply than Option 2.
20. However, the staff think that if a lessee chooses to revalue its all leased buildings, it also needs to revalue its all owned buildings. This is because:
- (a) it would be consistent with the revaluation requirement to the entire class in IAS 16
 - (b) it would provide more relevant and useful information to users as a lessee's asset portfolio is revalued whether its assets are leased or not.

Question 2

The staff recommend that under the revaluation model in IAS 16 *Property, Plant and Equipment*:

- a. permit a lessee to revalue its leased assets (right-of-use assets) only if the lessee chooses to revalue its owned assets in a class of property, plant and equipment; and
- b. require a lessee to revalue the entire class of property, plant and equipment (all owned and leased assets) to which that leased asset belongs if the lessee chooses to revalue its leased assets.

Do the boards agree?