Project **Leases**

Topic **Residual Value Guarantees—Lessees**

Objective

1. The purpose of this paper is to discuss the subsequent measurement and reassessment of residual value guarantees for lessees.

2. This paper does not discuss:

   (a) the subsequent measurement and reassessment of residual value guarantees for lessors, which the staff will present to the Boards at a future meeting after further decisions are made on lessor accounting.

   (b) guarantees provided by an unrelated third party because the Boards have tentatively decided that the initial measurement of a lessee's right-of-use asset would not include such guarantees.

   (c) the disclosures for residual value guarantees, which the staff will present to the Boards at a future meeting.

3. This paper is organized as follows:

   (a) Summary of staff recommendations

   (b) Summary of tentative decisions reached to date

   (c) Staff analysis of the subsequent measurement of residual value guarantees included in the measurement of a lessee's right-of-use asset

   (d) Staff analysis of the reassessment of residual value guarantees

(e) Appendix A—Excerpt of IASB Agenda Reference 2G/FASB Agenda Reference 174, which discussed the reassessment of options to renew or terminate a lease discussed at the May 2011 joint Board meeting

(f) Appendix B—Example calculations.

Summary of staff recommendations

4. The staff recommends that the amounts expected to be payable under residual value guarantees (RVGs) included in the measurement of the lessee's right-of-use (ROU) asset should be amortized consistently with how other lease payments included in the measurement of a ROU asset are amortized. That is, amortization should be on a systematic basis from the date of commencement of the lease to the end of the lease term or over the useful life of the underlying asset, if shorter. The method of amortization should reflect the pattern in which the economic benefits of the ROU asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method should be used.

5. The majority of staff members recommend that lessees should reassess amounts expected to be payable under RVGs. An entity would be required to consider contract-based, asset-based, and entity-based factors (but not market-based factors) in reassessing whether events or circumstances indicate that there is a significant change in the amounts expected to be payable under RVGs. All of those factors should be considered together and the existence of only one factor does not necessarily, by itself, indicate a significant change. However, a minority of staff members recommend that a lessee should not reassess amounts expected to be payable under RVGs.

6. Additionally, if the Boards decide to require reassessment of the amounts expected to be payable under RVGs, the majority of staff members recommend that the accounting for changes to the lessee's liability to make lease payments (lessee's liability) because of changes in estimates of RVGs should be consistent with the proposals in the *Leases* Exposure Draft (ED). That is, changes in the expected amount of such payments should be reflected in (a) net income to the extent that those changes relate to current or prior periods and (b)

as an adjustment to the ROU asset to the extent that those changes relate to future periods. The staff also recommends that application guidance should be included to state that the allocation for changes in estimates of RVGs should reflect the pattern in which the economic benefits of the ROU asset will be consumed or was consumed. If that pattern cannot be reliably determined, an entity should allocate changes in estimates of RVGs to future periods. However, some staff members recommend that if the Boards require reassessment of the amounts expected to be payable under RVGs, any change to the lessee's liability should be reflected in profit or loss in the period of change.

Summary of tentative decisions reached to date

7. At the February 2011 joint Board meeting, the Boards tentatively decided that, at initial measurement, lease payments should include amounts expected to be payable under RVGs except for amounts payable under guarantees provided by an unrelated third party.

Subsequent measurement of RVGs

Summary of proposals in the Leases Exposure Draft

8. The ED states that the lessee's ROU asset would be subsequently measured at amortized cost as part of the lease payments. There is no specific guidance proposed for the subsequent measurement of RVGs included in the initial measurement of the lessee's liability. However, paragraph 20 of the ED states:

> A lessee shall amortize the right-of-use asset on a systematic basis from the date of commencement of the lease to the end of the lease term or over the useful life of the underlying asset if shorter. The lessee shall select the amortization method in accordance with Topic 350 [IASB: IAS 38].

Staff analysis

9. The staff notes that the proposals in the ED did not specifically address the subsequent measurement of RVGs that are included in the measurement of the lessee's ROU asset.

10. However, the staff notes that the ED states that a lessee should amortize the ROU asset on a systematic basis from the date of commencement of the lease to the end of the lease term or over the useful life of the underlying asset if shorter and that the amortization method should be in accordance with Topic 350 (IAS 38 for IFRSs), which states:

> A recognized intangible asset shall be amortized over its useful life to the reporting entity unless that life is determined to be indefinite. If an intangible asset has a finite useful life, but the precise length of that life is not known, that intangible asset shall be amortized over the best estimate of its useful life. *The method of amortization shall reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method shall be used.* [Emphasis added, paragraph 350-30-35-6]

11. The staff notes that some respondents questioned whether the pattern of subsequent measurement of RVGs should be different to the pattern of subsequent measurement of the ROU asset (for example, all amortized at the end of the lease term as that is when the RVG payment is usually due).

12. However, the staff thinks that the following is an example of how paragraph 10 would be applied on a straight-line amortization basis (see Appendix B for detailed calculations):

Example 1

A lessee enters into a five year lease arrangement for a machine. The expected amount payable under a RVG is CU50 and the fixed lease payments are CU100 per year. The discount rate used by the lessor is 6 percent. The present value of the CU550 total lease payments (including the expected amounts payable under RVGs) is CU459.

Entry at inception

ROU Asset	459	
Lease Liability		459

Entry at end of Year 1

Amortization of ROU	92	
Interest Expense	28	
Lease Liability	72	
Cash		100
ROU Asset		92

Staff recommendation

13. The staff recommends that the amounts expected to be payable under RVGs included in the measurement of the lessee's ROU asset should be amortized on a systematic basis from the date of commencement of the lease to the end of the lease term or over the useful life of the underlying asset if shorter, which is consistent with the ED proposals on the amortization of the ROU asset. The method of amortization should reflect the pattern in which the economic benefits of the ROU asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method should be used.

Question 1 – Subsequent measurement
Question 1 – Do the Boards agree that: a. The amounts expected to be payable under RVGs included in the measurement of the lessee's ROU asset should be amortized on a systematic basis from the date of commencement of the lease to the end of the lease term or over the useful life of the underlying asset, if shorter? b. The method of amortization should reflect the pattern in which the economic benefits of the ROU asset are consumed or otherwise used up? c. If that pattern cannot be reliably determined, a straight-line amortization method should be used? d. If not, why not?

Reassessment of RVGs

Summary of proposals in the ED

14. The ED states:

> After the date of commencement of the lease, the lessee shall reassess the carrying amount of the liability to make lease payments payments arising from each lease if facts or circumstances indicate that there would be a significant change in the liability since the previous reporting period. (paragraph 17)

15. When facts or circumstances indicate that there would be a significant change in the lessee's liability due to a reassessment of variable lease payments, the ED states a lessee should distinguish changes in variable lease payments that relate to current or prior periods from those that relate to future periods as follows:

> A lessee shall recognize changes in the expected amount of such payments:
>
> a. In net income, to the extent that those changes relate to current or prior periods.
>
> b. As an adjustment to the right-of-use asset to the extent that those changes relate to future periods.
>
> For example, when lease payments depend on the amount of the lessee's sales, changes relating to sales in current or prior periods are recognized in net income, whereas changes relating to expectations of future sales are recognized as an adjustment to the right-of-use asset. (paragraph 18)

Summary of feedback received

16. Very few respondents commented specifically on the reassessment of RVGs. Most of the feedback that was received was mostly included with that of other variable lease payments (because the question on reassessment referred to variable lease payments including payments under term option penalties and RVGs).

17. A minority of respondents to the ED (which included preparers, users, industry organizations, etc.) agreed that lessees should remeasure assets and liabilities arising under a lease when significant changes to those amounts occur based on a reassessment of variable lease payments, in general. Those respondents stated that this would provide users of financial statements with up-to-date management estimates.

18. However, the majority of respondents that commented specifically on the reassessment of RVGs supported requiring reassessment of estimates made for RVGs.

> Reassessment of the carrying values should be required only for impairment purposes or where an actual change (eg, exercise of an option) has occurred. Apart from impairment, reassessment should be required only when it is likely that a residual payment is probable under a residual value guarantee, when a renewal option

> is exercised, or an event triggering contingent rent payments occurs. (CL #770)
>
> Further, in our view, residual value guarantees are different from non-committed contingent rental payments, since these guarantees are an actual lessee commitment, which would appropriately be included in the initial lease asset and liability calculation and remeasured accordingly. (CL #487)

19. Respondents also identified practical application challenges with the proposals relating to:

    (a) allocating reassessment changes between prior, current, and future accounting periods;

    > Additionally, we recommend the Boards define whether a change in the expected amount of a residual value guarantee should be considered a change that relates to the current period (as that is when the expected value of the underlying asset decreased) or relates to a future period (because that is when the amount payable is determined). (CL #341)
    >
    > If the Board declines to change how lessees and lessors measure residual value guarantees, we believe it should provide guidance on how a lessee should account for a change in the estimated residual value guarantee. For example, if a lessee increases its estimate of the residual value guarantee at the end of the fifth year of a ten-year lease, should it recognize one-half of the increase as an adjustment to depreciation expense? Or should the lessee adjust its amortization of the right-of-use asset prospectively? We would prefer that the lessee recognize the portion of the adjustment relating to the lease term that has expired as an adjustment to depreciation expense in the-period the estimated residual value guarantee changes. (CL #654)

    (b) proving that no significant change in estimates has occurred, with many commenting that preparers are likely to have to perform all of the reassessment steps that would be required to recognize the effects of reassessment to determine if a significant change has occurred.

20. Private company feedback was consistent with the overall feedback received on reassessment.

> In conclusion, we believe that the most reasonable treatment would be that the only events requiring remeasurement should be exercise of a renewal option, significant change in a residual value guarantee or early termination of the lease contract. (CL #726)
>
> Changes in estimates related to term option penalties and residual value guarantee payments. Based on the guidance in paragraph 18, it is unclear to us whether such payments should be

> ascribed to future periods or should be ascribed to all periods of the lease (and therefore a portion would be related to prior periods and a portion would be related to future periods). (CL #66)

Staff analysis

21. The staff presents the following approaches for the reassessment of amounts expected to be payable under RVGs:

    (a) Require reassessment

    (b) Do not require reassessment.

22. Current leases guidance in Topic 840 and IAS 17 does not include reassessment requirements for RVGs. That is because the initial measurement of RVGs is at fair value for operating leases and at the gross amount of the guarantee for capital leases as required by paragraphs 840-10-25-6(b) and 460-10-30-2 (IAS 37 for IFRS preparers).

23. Although the majority of staff members think that requiring reassessment for any amounts expected to be payable under RVGs would provide useful information to users of financial statements, some argue that the costs of requiring reassessment would outweigh the benefits. Those who support not requiring reassessment of RVGs view RVGs as a commitment at the end of the lease term. That is, the lessee does not owe anything until the event happens at the end of the lease term, and the accounting should reflect that event when it occurs. They also think it would be difficult to determine if reassessment is necessary without performing the evaluation necessary to reassess.

24. However, others argue that a lessee should reassess amounts expected to be payable under RVGs. They note that on Day 1 many entities may assume that they will not have to pay a RVG and that this assumption will not change until, for example, the entity uses an underlying asset more than originally expected. Therefore, on Day 1, an estimate of a RVG would rarely be included in the measurement of a lessee's liability.

25. If the Boards tentatively decide to require reassessment of amounts expected to be payable under RVGs, the staff also thinks that the reassessment requirements for RVGs should be consistent with that of options to extend or terminate a lease. The Boards tentatively decided that a lessee and a lessor should consider

contract-based, asset-based, and entity-based factors (but not market-based factors) in reassessing if a lessee has a significant economic incentive to exercise an option. The Boards noted that all of those factors should be considered together and the existence of only one factor does not necessarily, by itself, identify a significant economic incentive to exercise the option. See Appendix A for an excerpt of the analysis of those factors that was included in IASB Agenda Reference 2G/FASB Agenda Reference 174 (discussed at the May 2011 joint Board meeting).

26. The staff has analyzed the advantages and disadvantages of requiring reassessment below:

Advantages	Disadvantages
• May provide relevant and more timely information to users of financial statements because it reflects the current expectations of the lessee's liability. If reassessment is not required, information may be outdated, irrelevant, or misleading because the estimate on Day 1 of expected RVGs will most likely be CU0. • More consistent with the tentative decision to require reassessment of options to extend or terminate a lease. • More consistent with the tentative decision to require reassessment of all purchase options.	• May be costly to apply for lessees that have numerous leasing arrangements. • Inconsistent with the view that RVGs represent minimum lease payments and cash flows that are certain to occur.

Staff recommendation

27. The majority of staff members recommend that entities should reassess amounts expected to be payable under RVGs. The staff thinks that an entity would rarely expect to pay a RVG upon initial measurement of a lessee's liability, therefore, the initial measurement included in the lessee's liability would always be zero. Therefore, those staff members think that the benefits of reassessment would outweigh the costs and would provide relevant information to users.

28. However, a minority of staff members recommend that a lessee should not reassess amounts expected to be payable under RVGs because they do not think the benefits of reassessment would outweigh the costs of providing who information. Additionally, those staff members that do not support requiring reassessment think that, based on outreach performed, RVGs are rarely paid in practice because, oftentimes, contracts are renegotiated if a RVG is expected to be paid.

29. The staff members who support reassessment of amounts expected to be payable under RVGs also recommend that the reassessment requirements be consistent with the reassessment requirements for options. That is, an entity would be required to consider contract-based, asset-based, and entity-based factors (but not market-based factors) in reassessing whether events or circumstances indicate that there has been a significant change to the amounts expected to be payable under RVGs that have been included in the measurement of the lessee's liability. All of those factors should be considered together and the existence of only one factor does not necessarily, by itself, indicate a significant change.

Question 2 – Reassessment of RVGs
Question 2 – Do the Boards think that entities should reassess amounts expected to be payable under RVGs? Why or why not? If a lessee is required to reassess amounts expected to be payable under RVGs, do the Boards agree with the staff recommendation that a lessee should consider contract-based, asset-based, and entity-based factors (and not market-based factors) in reassessing whether events or circumstances indicate that there has been a significant change to the amounts expected to be payable under RVGs (which is consistent with the reassessment of options to extend or terminate a lease)? If not, why not?

How to account for reassessment

30. The staff is presenting the following approaches for any change in the expected amounts payable under a RVG as a result of reassessment:

    (a) Retain the proposals in the ED as summarized in paragraph 15 of this memo.

    (b) Require all changes to be recognized in net income (IASB: profit or loss).

31. Topic 840 states that, for operating leases, the subsequent measurement of RVGs by lessees should be as follows:

> Paragraph 460-10-30-2(b) requires the lessee-guarantor to measure the liability for a residual value guarantee initially at its fair value at lease inception even if no residual value deficiency is probable. Beginning on the date the deficiency becomes probable, the expected deficiency (up to the maximum for which the lessee is responsible) shall be accrued by the lessee-guarantor using the straight-line method over the remaining term of the lease. A lessee-guarantor shall accrue a deficiency whether or not the lessee expects to exercise a purchase or renewal option at the end of the lease term. If no payments for a residual value deficiency are ultimately due under the guarantee, it is possible that subsequent measurement of the liability may not affect the guarantor-lessee's earnings for each reporting period over the lease term, depending on the lessee-guarantor's accounting policy for subsequent measurement of the liability. (paragraph 840-20-35-1)

32. The guidance on the accounting for changes in accounting estimates in Topic 250 (and similarly in IAS 8) is as follows:

> A change in accounting estimate shall be accounted for in the period of change if the change affects that period only or in the period of change and future periods if the change affects both. A change in accounting estimate shall not be accounted for by restating or retrospectively adjusting amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods. (paragraph 250-10-45-17)

33. The staff thinks that RVGs are directly related to the underlying leased asset. That is, expected amounts payable under RVGs often depend on the use of the underlying asset. Therefore, recognizing changes to the lessee's liability as an adjustment to the ROU asset may better reflect the economics of the transaction than recognizing changes only through net income/profit and loss. For example, if a lessee determines in Year 3 that a RVG is expected to be paid (and did not expect this in Year 1) because the expected payment relates to future periods, the adjustment would be recognized as an adjustment through the ROU asset. Additionally, if the payment is expected in Year 3, it is likely that this payment will be expected for the remainder of the lease term. For example, if a RVG is based on the amount of miles driven in a car lease, if you have exceeded the maximum amount of miles, you will have exceeded the maximum amount of miles for the remainder of the lease term.

34. The staff notes that the feedback received identified practical application challenges with proposals relating to allocating reassessment changes between prior, current, and future accounting periods. However, the staff notes that the proposed requirements in the ED are similar to the current guidance on changes in accounting estimates discussed in paragraph 32 of this memo. Additionally, creating a rule that states that a RVG is related to a specific accounting period may not accurately reflect the amortization of the RVG.

35. The staff has summarized the advantages and disadvantages of the ED proposals below:

Advantages	Disadvantages
• Reflects the economics of many leases because it	• It may be difficult to determine how much of the change in

recognizes costs and income in periods to which those costs and income relate. • Arguably more consistent with the current guidance in U.S. GAAP and IFRS. • Consistent with the tentative decisions made for the remeasurement of options to extend or renew a lease.	estimate relates to current or prior periods versus future periods. • Reassessment creates additional complexity in the model. • It could be costly to continuously update the new "cost basis" of the ROU asset and subsequent changes to the amortization of the ROU asset.

36. The following is an example of how this would be applied (see Appendix B for detailed calculations):

Example 2

A lessee enters into a five year lease arrangement for a machine. The expected amount payable under a RVG at inception of the lease is CU50 and the fixed lease payments are CU100 per year. The discount rate used by the lessor is 6 percent. However, at the beginning of Year 2, the expected amounts payable under RVGs changes to CU100.

Reassessment entry at the beginning of Year 2

ROU Asset	40	
Lease Liability		40

Entry at end of Year 2

Amortization of ROU	102	
Interest Expense	26	
Lease Liability	74	
Cash		100
ROU Asset		102

Staff recommendation

37. The majority of staff members recommend that if the Boards require reassessment of the amounts expected to be payable under RVGs, changes should be reflected in (a) net income to the extent that those changes relate to current or prior periods and (b) as an adjustment to the lessee's liability through an adjustment to the ROU asset to the extent that those changes relate to future periods. That is because those staff members think that the estimates involved in measuring the expected value of RVGs could change significantly throughout the lease term and that reflecting changes as an adjustment to the lessee's liability through an adjustment to the ROU asset would better reflect the actual expectations of usage.

38. Those staff members also recommend that application guidance should be included to state that the allocation for changes in estimates of RVGs should reflect the pattern in which the economic benefits of the ROU asset will be consumed or was consumed. If that pattern cannot be reliably determined, an entity should allocate changes in estimates of RVGs to future periods.

39. However, some staff members recommend that if the Boards require reassessment of the amounts expected to be payable under RVGs, any change to the lessee's liability should be reflected in profit or loss in the period of change. That is because those staff members do not think that allocating the change in estimates outweighs the benefit of that allocation.

Question 3 – How to account for the reassessment of RVGs
Question 3 – Do the Boards agree with the staff recommendation that changes in the expected amount of RVGs should be reflected in (a) net income to the extent that those changes relate to current or prior periods and (b) as an adjustment to the lessee's liability through and adjustment to the ROU asset to the extent that those changes relate to future periods? If not, what approach do the Boards prefer? Do the Boards agree that application guidance should state that: a. Application guidance should state that the allocation for changes in estimates of RVGs should reflect the pattern in which the economic benefits of the ROU asset will be consumed or was consumed? b. If that pattern cannot be reliably determined, an entity should allocate changes in estimates of RVGs to future periods? c. If not, why not?

Appendix A—Excerpt of IASB Agenda Reference 2G/FASB Agenda Reference 174

What constitutes a significant economic incentive to exercise an option to extend a lease or purchase an underlying asset?

21. The Boards instructed the staff to perform additional outreach on the evaluation of market rate fluctuations in determining whether a lessee has a significant economic incentive to exercise an option. Although the Boards' instruction was for the staff to perform outreach specifically as it related to market rate fluctuations and their impact on the reassessment of purchase options, the staff thinks the results of that outreach also are relevant to the reassessment of options to extend or terminate a lease.

22. In performing the analysis, the staff identified types of factors that could be considered economic incentives to exercise an option. These factors are comparable to those presented to the Boards in previous meetings:

    (a) Contract-based factors: Terms that are written into the lease contract that could create a significant economic incentive to exercise an option at the date of commencement, or subsequently if there is a change in the lease contract. Contract-based factors include the following examples:

        (i) The contract calls for a substantial penalty for terminating the lease earlier than the contractual lease term.

        (ii) The contract calls for the lessee to incur material costs to restore the asset prior to returning it to the lessor.

        (iii) The payments during the extension period are sufficiently lower than the payments in the initial period, indicating that a portion of the payments in the initial period economically represent the consideration paid for an in-the-money extension option.

        (iv) The purchase option exercise price is low enough to indicate that a portion of the payments in the initial period economically represent the consideration paid for an in-the-money purchase option (bargain purchase option).

(b) Asset-based factors: Characteristics of the underlying leased asset that exist either at lease commencement or subsequently that could create a significant economic incentive to exercise an option. Asset-based factors include the following:

 (i) There are significant leasehold improvements installed by the lessee during the lease term that are expected to still have significant economic value when the option to extend the lease or purchase the asset becomes exercisable.

 (ii) Significant leasehold improvements are installed by the lessor to customize an asset for the lessee, with the costs of such improvements passed onto the lessee in the form of increased lease payments during the initial lease term, and those improvements continue to provide significant benefits at the end of that initial lease term. In this case, the lessee would need to consider the fact that it would have to make higher payments in a lease at a new location to achieve the same level of customization and may conclude that it would be more economical to extend the lease at the current location.

 (iii) A hospital has a five-year lease with a fixed-payment extension option for a specialized medical facility. The facility is in a geographic location that is critical to the lessee (e.g., proximity to the main hospital operations) with no other viable locations within a reasonable distance. The main hospital operations are located in buildings that are either owned or leased for longer terms than the facility with the five-year lease.

(c) Market-based factors: Market rentals for comparable assets could create a significant economic incentive to exercise an option. This would include fluctuations in the market rental rates or asset values occurring after lease commencement. The staff acknowledges that an assessment of whether a contract-based factor, such as a fixed price purchase or extension option, constitutes a significant economic incentive at lease commencement must be evaluated relative to market prices estimated at commencement.

(d) Entity-specific factors: This would include factors such as historical practice of the entity, management intent and common industry practice.

Contract-based factors

23. Contract-based factors are agreed upon by the lessee and lessor during contract negotiation. Thus, the staff thinks that those factors would be considered in the evaluation of whether a lessee has a significant economic incentive to exercise an option to extend/terminate a lease or an option to purchase an underlying leased asset. The results of such evaluation would generally not change unless the contract itself changes.

Asset-based factors

24. The staff thinks that asset-based factors exist on or subsequent to lease inception. Thus, they should be considered in the evaluation of whether a lessee has a significant economic incentive to exercise an option to extend/terminate a lease or an option to purchase an underlying leased asset.

Market-based factors

25. Market-based factors could give a lessee a significant economic incentive to exercise an option. However, some staff think that requiring them to be part of the assessment of whether the lessee has a significant economic incentive to exercise an option could be challenging.

26. The following example illustrates the issue. Lessee A has a 10-year lease for its corporate headquarters in a large metropolitan area with annual payments of CU150,000. The lease has a 5-year renewal option at the same annual payment of CU150,000. During the 10 years, the following occurs to annual market rates for the lease of comparative real estate:

(a) At the end of year 3, there is an increase in demand. The annual market rate increases to CU300,000.

(b) At the end of year 6, a local recession drives the annual market rate to CU50,000 per year.

(c) At the end of year 8, because of tax incentives instituted by the local jurisdiction to stimulate the economy, an increase in demand results in the market rate increasing to CU320,000 per year.

(d) At the end of year 10, the market rate is still CU320,000. However, Lessee A has decided that it has changed its business model to lower costs by decentralizing its management. It now estimates that it needs a much smaller space for its corporate headquarters and does not exercise the option to extend the lease term.

27. This fact pattern illustrates some of the concerns expressed by Board members and outreach participants regarding accounting for fluctuations in market rates after lease commencement. The staff discusses the consequences of this fact pattern in describing the alternative accounting approaches in paragraph 30.

Entity-specific factors

28. The Boards have decided that entity-specific factors such as past practice and management intent would not result in the recognition of payments under extension and purchase options in the lessee's liability to make lease payments. The Boards concluded that not including entity-specific factors in the assessment of lease term leads to more objective analysis, because it does not depend on the assessment of future business conditions or management intent, which could easily be altered by external economic circumstances.