



MALAYSIAN INSTITUTE OF ACCOUNTANTS  
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE  
("FRSIC")

**FRSIC Issue No. 32 [2009]**

***Determining the Lease Classification of Leasehold Land in Accordance with IAS 17, as Amended by the IASB Annual Improvements Project (April 2009)***

The issue:

Determining the lease classification of leasehold land in accordance with IAS 17 "Leases", as amended in April 2009 by the IASB Annual Improvements Project.

Current accounting practice as observed by the Submitter:

Paragraph 14 of FRS 117 "Leases" (and IAS 17 as amended in 2003) requires a lease of land with an indefinite economic life to be normally classified as an operating lease, unless title is expected to pass to the lessee by the end of the lease term. While there is no divergence in practice, this is a matter of concern in countries where property rights are obtained under long-term leases and arguably, the substance of those leases differs little from buying a property.

As part of its annual improvements project in 2007, IASB reconsidered the perceived inconsistency in IAS 17; between the general lease classification guidance in Paragraphs 7 – 13 and the specific lease classification guidance in Paragraphs 14 and 15 related to long-term leases of land and buildings. As a result, Paragraphs 14 and 15 have been deleted, and a new Paragraph 15A is added in April 2009.

Paragraph 15A states:

*"When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with Paragraphs 7 – 13. In determining whether the land element is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life."*

The amendments are effective in IFRS jurisdictions from accounting periods beginning on or after 1 January 2010. Whereas, an exposure draft on FRS 117 amendments is likely to be issued by MASB in Quarter 4 of 2009, and they are expected to be effective from accounting periods beginning on or after 1 July 2010.

March 2010 update

The amendments have been incorporated in FRS 117 in September 2009, effective from accounting periods beginning on or after 1 January 2010.

Post-amendments, lease of land with an indefinite economic life (where title is expected to pass to the lessee by the end of the lease term) is likely to be classified as finance lease if, at the inception

of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the land.

**Reasons for the FRSIC to address the issue:**

A clear guidance on best method(s) to determine present value of the minimum lease payments and the fair value of the land would help to ensure seamless transition when the amendments are adopted. It is best if the implementation guidance could be rolled-out the same time with the amendments to FRS 117.

**Submitter's proposal or recommendation to address the issue:**

None suggested.

**Submitted on:**

18 August 2009

**Corresponding FRSIC Consensus:**

**PROJECT WAS DISCONTINUED.**

The FRSIC's deliberation: FRSIC decided not to take up the issue as guidance provided in Paragraph 10 of IAS 17 / FRS 117 appears to be sufficient in determining the lease classification of leasehold land.

*[Last updated: 25 August 2009]*