



International Accounting Standards Committee®

Press Release

For immediate release

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IASC'S STANDING INTERPRETATIONS COMMITTEE (SIC) ISSUES A DRAFT INTERPRETATION

The Standing Interpretations Committee (SIC) today published a Draft Interpretation to clarify accounting issues under International Accounting Standards. The Draft Interpretation is available both in hard copy format and also on IASC's Web Site <http://www.iasc.org.uk>. Comments should be submitted in writing by **20 December 2000**. The Draft Interpretation is SIC – D27: Transactions in the Legal Form of a Lease and Leaseback.

Commenting on the new Draft Interpretation, Paul Cherry, Chairman of the Standing Interpretations Committee, said: "This Draft Interpretation addresses a particular case of evaluating the substance and form of a transaction. The SIC evaluated a complex fact pattern involving several parties and a transaction in the legal form of a lease of assets and a lease of the same assets back to the same enterprise. The Interpretation requires a careful analysis of a fact pattern in its entirety and illustrates that not every transaction having the legal form of a lease is considered a lease for accounting purposes under IAS 17."

Paul Cherry continued: "The Draft Interpretation considers a particular arrangement. While a careful reading of the facts of that arrangement is required for a full understanding of the approach, the Interpretation concludes that in that particular arrangement, the series of transactions should be accounted for as one transaction and that the substance of the arrangement is that a lease under IAS 17 does not exist. The Interpretation also provides guidance on how an enterprise should account for a fee it receives and whether other aspects of the transaction give rise to assets and liabilities of the enterprise.

ENDS.

Printed copies of Draft Interpretation SIC-D27 will be mailed to subscribers to IASC's "SIC Interpretations Subscription Package" and to subscribers to the IASC "Comprehensive Package" services next week. The SIC publications include a loose-leaf binder containing

Draft and Final SIC Interpretations, the SIC Operating Procedures, a member list and other additional information. Detailed information on subscription services and on ordering other IASC publications can be obtained from IASC's publication department, 166 Fleet Street, London EC4A 2DY, United Kingdom. Telephone: +44 (020) 7427-5927. Fax: +44 (020) 7353-0562. E-mail: publications@iasc.org.uk Internet: <http://www.iasc.ork.uk>

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NOTE TO EDITORS:

SIC – D27: Transactions in the Legal Form of a Lease and Leaseback

This Draft Interpretation addresses whether a transaction that takes the legal form of a lease of assets from an enterprise and a lease of the same assets back to the same enterprise is a lease under IAS 17. In the example arrangement, the SIC agreed that the series of transactions are linked together and should be accounted for as one transaction. The substance of the particular transaction is that a lease does not exist under IAS 17.

The SIC also considered how an enterprise should account for the fee it receives and whether the separate investment account and the sublease payment obligations represent assets and liabilities of the enterprise. Factors such as whether there is continuing involvement in the form of activities necessary to retain the fee, the terms of guarantee arrangements, and the risk of repayment of the fee are considered in determining the appropriate accounting treatment for the fee. The definitions of an asset and liability are applied in determining whether assets and liabilities exist.

In the example arrangement, the SIC concluded that the substance of the obligation assumed by the enterprise is a guarantee of the sublease payment obligations rather than a direct obligation to pay sublease payments, and since the enterprise acts similar to that of an agent and does not control the assets, the separate investment account and sublease payment obligations do not meet the definitions of an asset and liability respectively. The fee is recognised as income when execution of the agreements is finalised, because amongst other reasons, the possibility of payments under the guarantee obligation is remote and the use of the underlying asset by the enterprise during the term of the lease is not considered a significant act in terms of earning the fee.