



BULLETIN

ISSUE:
Leases
LEGISLATIVE REFERENCE:

The Pensions (Superannuation Funds and Retirement Schemes)(Investment) Regulations (the “Regulations”)

 Regulation 33

This bulletin is applicable to superannuation funds and retirement schemes:

Under Regulation 33, Other Investments, of the Pensions (Superannuation Funds and Retirement Schemes) (Investment)Regulations, 2006 a superannuation fund or scheme may invest up to 5% of the fair value of its assets in *leases and other investments*.

Definition

There are two categories of leases: finance leases and operating leases. Finance and operating leases shall assume the definition ascribed thereto pursuant to International Accounting Standard (“IAS”) 17.4 which states:

“A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases.”

Legislative Requirement

For the purpose of assessing leases in relation to Regulation 33 the Commission will have regard to accounting requirements for the lessor and lessee as follows:

(i) The Lessor

- IAS 17.36 requires that the value of the asset under a finance lease be recorded as a Receivable in the Balance Sheet at the commencement of the

lease term. For regulatory purposes, therefore, this should not be classified as “Other Investments”.

- IAS 17.49 requires that the value of assets under an operating lease should be recorded in the Balance Sheet based on the nature of the asset. For regulatory review, this should be categorized as “Other Investments” and disclosed as such in the Notes to the Certified Financial Return (CFR).

(ii) The Lessee

- IAS 17.20 states that the value of the asset under a finance lease should be recorded as both an asset and a liability at the commencement of the lease. As such the asset should be classified under “*Other Investments*” and the liability under “Other Liabilities” and disclosed as such in the Notes to the Certified Financial Return (CFR).
- The monthly payments under an operating lease according to IAS 17.33 should be recorded as an expense in the income statement and hence would not appear on the balance sheet.

The treatment of investment property under lease agreements is addressed under **IAS 40** as revised. This standard allows for property interest held by the lessee under an operating lease to be categorized as investment property under specified conditions. IAS 40 requires it to be accounted for as though it were a finance lease in accordance with IAS 17.

Glossary

International Accounting Standards (“IAS”) 17-Leases¹

- IAS 17.36: at commencement of the lease term, the lessor should record a finance lease in the balance sheet as a receivable, at an amount equal to the net investment in the lease
- IAS 17.49: assets held for operating leases should be presented in the balance sheet of the lessor according to the nature of the asset.
- IAS 17.20: at commencement of the lease term, finance leases should be recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments (discounted at the interest rate implicit in the lease, if practicable, or else at the enterprise's incremental borrowing rate);
- IAS 17.33: for operating leases, the lease payments should be recognized as an expense in the income statement over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern of the user's benefit

The foregoing interpretation is subject to any changes in the accounting standards as it relates to Leases.

¹ <http://www.iasplus.com/standard/ias17.htm>
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