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## Tentative Agenda Decision and comment letters: Estimating Residual Value (IAS 16)

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The IFRS Interpretations Committee (Committee) discussed the following matter and tentatively decided not to add a standard-setting project to the work plan. The Committee will reconsider this tentative decision, including the reasons for not adding a standard-setting project, at a future meeting. The Committee invites comments on the tentative agenda decision. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by good reason, for example, commercial confidence.

### Tentative Agenda Decision

*Open for comment until 30 November 2026*

The Committee received a request about how an entity estimates the residual value of an item of property, plant and equipment in accordance with IAS 16. Specifically, the request asked whether an entity's estimate of residual value reflects expected future developments other than the expected age and condition of the item at the end of its useful life (other expected future developments).

#### *Fact pattern*

In the fact pattern described in the request:

- a. an entity manufactures cars and leases them to its customers. The lease term is usually three years, which is significantly shorter than the cars' economic lives. The entity sells the leased cars at the end of the lease term.

- b. the entity classifies the lease contracts as operating leases and recognises the leased cars as property, plant and equipment. The entity measures the leased cars using the cost model in IAS 16 and depreciates them on a straight-line basis over the lease term.

The request asks whether the entity is required to reflect other expected future developments in its estimate of the leased cars' residual value.

### *Applying the requirements in IAS 16*

Paragraph 6 of IAS 16 defines the residual value of an asset as 'the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.'

The Committee observed that the definition of residual value requires an entity to estimate the amount it would *currently* obtain—that is, the amount the entity would obtain at the reporting date—from disposing of the asset if it were already of the age and in the condition expected at the end of its useful life. In doing so, an entity:

- a. reflects other expected future developments to the extent such developments affect the amount the entity would currently obtain from disposing of the asset (that is, to the extent those developments affect current prices). For example, expected future technological changes that might make an asset obsolete could affect the amount an entity would currently obtain for the asset.
- b. does not reflect other expected future developments to the extent they would affect the amount the entity will obtain for the asset only in the future (that is, to the extent they affect only future prices). For example, inflation between the reporting date and the end of an asset's useful life might affect the amount an entity expects to obtain for the asset only in the future.

### *Conclusion*

The Committee concluded that the principles and requirements in IAS 16 provide an adequate basis for an entity to determine whether it is required to reflect other expected future developments in estimating the residual value of an item of property, plant and equipment. Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.

The deadline for commenting on the tentative agenda decision is **30 November 2026**. The Committee will consider all comments received in writing by that date; agenda papers analysing comments received will include analysis only of comments received by that date.

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