The Committee received a request about whether the customer has the right to direct the use of a ship throughout the five-year term of a contract. In the fact pattern described in the request:

- a. there is an identified asset (the ship) applying paragraphs B13–B20 of IFRS 16.
- b. the customer has the right to obtain substantially all the economic benefits from use of the ship throughout the five-year period of use applying paragraphs B21–B23 of IFRS 16.
- c. many, but not all, decisions about how and for what purpose the ship is used are predetermined in the contract. The customer has the right to make the remaining decisions about how and for what purpose the ship is used throughout the period of use. In the fact pattern described in the request, the customer has determined that this decision-making right is relevant because it affects the economic benefits to be derived from use of the ship.
- d. the supplier operates and maintains the ship throughout the period of use.

**The right to direct the use of an identified asset**

Paragraph B24 of IFRS 16 specifies when a customer has the right to direct the use of an identified asset throughout the period of use. Paragraph B24(b) applies only when the relevant decisions about how and for what purpose the asset is used are predetermined. The Board noted in paragraph BC121 of IFRS 16 that ‘it would expect decisions about how and for what purpose an asset is used to be predetermined in relatively few cases’.

The Committee observed that, in the fact pattern described in the request, because not all relevant decisions about how and for what purpose the ship is used are predetermined, the customer considers paragraph B24(a) of IFRS 16 in assessing whether it has the right to direct the use of the ship.

**The right to direct how and for what purpose an asset is used**

Paragraph B24(a) specifies that a customer has the right to direct the use of an identified asset throughout the period of use if it has ‘the right to direct how and for what purpose the asset is used throughout the period of use (as described in paragraphs B25–B30)’.

To have the right to direct how and for what purpose the asset is used, within the scope of its right of use defined in the contract, the customer must be able to change how and for what purpose the asset is used throughout the period of use (paragraph B25). In assessing whether that is the case, an entity considers rights to make decisions during the period of use that are most relevant to changing how and for what purpose the asset is used throughout that period. Decision-making rights are relevant when they affect the economic benefits to be derived from use (paragraph B25). An entity does not consider decisions that are predetermined before the period of use unless the conditions in paragraph B24(b)(ii) exist (paragraph B29). Paragraph B26 includes examples of decision-making rights that, depending on the circumstances, grant the right to change how and for what purpose the asset is used. Rights limited to operating or maintaining the asset do not grant the right to change how and for what purpose it is used (paragraph B27).

The Committee observed that, in the fact pattern described in the request, the customer has the right to direct how and for what purpose the ship is used throughout the period of use. The customer has the right to make decisions about the use of the ship during the period of use that affect the economic benefits to be derived from that use. Therefore, within the scope of its right of use defined in the contract, the customer can change how and for what purpose the ship is used. The predetermination in the contract of many decisions about how and for what purpose the ship is used defines the scope of the customer’s right of use—within that scope, the customer has the right to make the decisions that are most relevant to changing how and for what purpose the ship is used.

The Committee also observed that, although the operation and maintenance of the ship are essential to its efficient use, the supplier’s decisions in this regard do not give it the right to direct how and for what purpose the ship is used.

The Committee concluded that, in the fact pattern described in the request, the customer has the right to direct the use of the ship throughout the period of use. Consequently, the contract contains a lease.
The Committee concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine whether the contract described in the request contains a lease. The Committee therefore decided not to add the matter to its standard-setting agenda.