



# Leases

*Update June 2011*

This presentation has been prepared to help constituents understand the current status of projects of the FASB and IASB. The views expressed in this presentation are those of the presenter. Official positions of the FASB and IASB are reached only after extensive due process and deliberations.



# Agenda

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- Why a leases project?
- Summary of the *Leases* exposure draft
- Feedback received
- Redeliberations update
- Remaining issues
- Timeline
- Project team

# Why a leases project?

3

Existing lease accounting does not provide useful information to users

- Accounting depends on classification
- Users adjust financial statements to recognise assets and liabilities arising from operating leases
- Complex because of dividing line between finance and operating leases

# Summary of the *Leases* exposure draft

4

- Joint Project of IASB and US FASB
- Exposure draft (ED) published in August 2010
- Comment letter deadline ended 15 December 2010
- Extensive outreach across all major geographical regions conducted during 4-month comment period
- Since publishing the ED, the Boards have:
  - considered comments received from respondents; and
  - considered feedback received at outreach meetings, including round tables and preparer workshops

# Feedback received

5

- 785 comment letters received
- 7 roundtables in London, Hong Kong, Chicago and Norwalk (attended by representatives from over 80 interested parties)
- 15 preparer workshops in London, Tokyo, Seoul, Melbourne, São Paulo, Toronto and Norwalk (attended by over 90 organisations)
- Over 200 meetings (1,500 organisations, 2,300 individuals, including over 500 users)
- Preparer questionnaires (completed by over 250 lessors and over 400 lessees)
- 4 project webcasts and podcasts (each 500-1000 participants)
- Publication of articles
- Targeted outreach during re-deliberations with over 70 organisations

# Feedback received continued

- General support for a right-of-use model
- Basic lessee accounting principle widely accepted, ie leases create assets and liabilities
- Concerns over costs of reassessments, measurement complexity, lessor accounting model and multi-element contracts
- Currently redeliberations to address concerns
- Further targeted outreach performed for redeliberations on issues, eg the definition of a lease and variable lease payments

# Redeliberations – definition of a lease

7

- Targeted outreach
- Retain ED definition
- Add guidance regarding elements of a lease:
  - Specified asset
    - Portions
    - Identification
  - Control of use
    - Assets used to deliver services to customer

# Redeliberations - scope

## Multi-element contracts

- Separately account for non-lease elements
- Allocation between lease and non-lease elements
  - For lessors, in accordance with the allocation guidance for revenue recognition
  - For lessees, if observable prices

## Short-term leases

- No requirement to recognise assets and liabilities
- Defined as leases for which the maximum possible lease term is 12 months or less

# Redeliberations – lessee accounting model

Lessee has acquired the right to use an underlying asset and is paying for that right with its lease payments

All leases in scope			
<b>Balance sheet</b>		<b>Income Statement</b>	
• Right-of-use asset*	X	• Amortisation expense	X
• Liability to make lease payments	X	• Interest expense	X

\* Refer to existing guidance in IFRSs and US GAAP for impairment

## Term options

- Include if significant economic incentive to extend lease term
- Reassessment

## Purchase options

- Include if significant economic incentive to exercise
- Reassessment

# Redeliberations – lease payments

11

## Variable lease payments

- Include index- or rate-based
- Include in-substance fixed lease payments structured as variable lease payments

## Residual value guarantees for lessees

- Include amounts expected to be payable
- Reassess if facts or circumstances indicate a significant change
- Adjust liability to make lease payments
  - profit or loss for changes related to current or prior periods
  - right-of-use asset for changes related to future periods

## Foreign exchange differences

- If related to liability to make lease payments, recognised in profit or loss

## Discount rate

- Rate the lessor charges the lessee (lessee's incremental borrowing rate if rate charged by lessor not available)
- Reassessment

# Redeliberations - others

## Sale and leaseback transactions

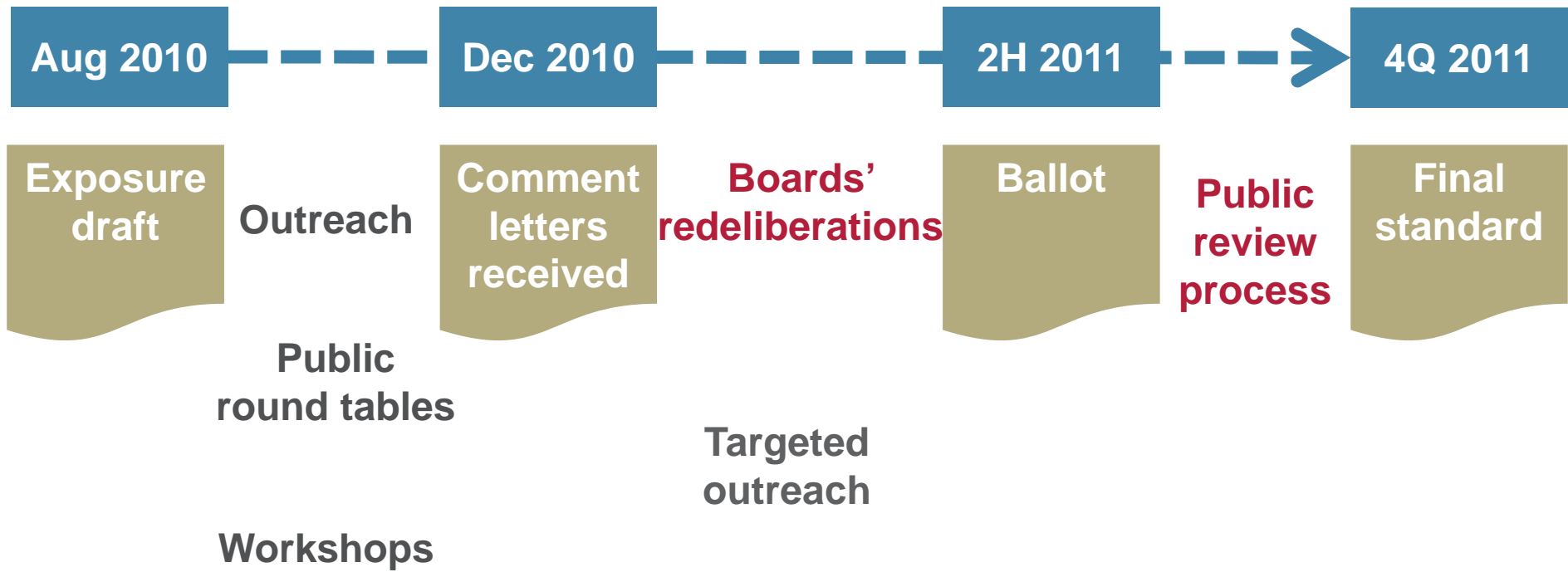
- If sale, account for as sale then leaseback
  - Use revenue recognition guidance to determine sale
- Whole asset approach

## Lease modification

- If modification to the contractual terms of a contract is substantive change, the modified lease accounted for as a new lease
  - Substantive if different determination of whether a contract is, or contains, a lease or whether a lease is a finance or other-than-finance lease

- Lessor accounting model
  - Retain existing lessor accounting models?
  - Move to a single lessor accounting model?
  - Investment properties and ‘portions’?
- Presentation
- Disclosures
- Transition
- Effective date

# Timeline



# Project team

IASB	FASB
David Humphreys, Practice Fellow	Danielle Zeyher, Project Manager
<a href="mailto:dhumphreys@ifrs.org">dhumphreys@ifrs.org</a>	<a href="mailto:dtzeyher@fasb.org">dtzeyher@fasb.org</a>
Patrina Buchanan, Senior Technical Manager	Kristin Bauer, Practice Fellow
<a href="mailto:pbuchanan@ifrs.org">pbuchanan@ifrs.org</a>	<a href="mailto:kdbauer@fasb.org">kdbauer@fasb.org</a>

Get more information at:

IASB

<http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/Leases.htm>

FASB

[http://www.fasb.org/cs/ContentServer?c=FASBContent\\_C&pagename=FASB%2FFASBContent\\_C%2FProjectUpdatePage&cid=900000011123](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=900000011123)