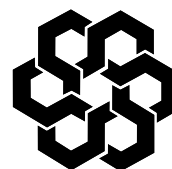




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*This document is provided as a convenience to observers at the IASB and FASB Joint board meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (IASB) or Statements or other pronouncements (FASB).*

*Note: These notes are based on the staff paper prepared for the joint board meeting. Paragraph numbers correspond to paragraph numbers used in the board paper. However, because these notes are less detailed, some paragraph numbers are not used.*

## INFORMATION FOR OBSERVERS

**Board Meeting:** Joint IASB-FASB Meeting, 28 April 2006, London

**Project:** Leasing (Agenda Paper 4)

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## Leases – A Discussion of Options Available to the Boards

### INTRODUCTION

1. At its public meeting held on 28 March, 2006, the Board of the IASB discussed a draft proposal to add a leasing project to its agenda. [Sentence deleted]. No decision was made at the March meeting as the proposal has not yet been discussed by the Standards Advisory Council (SAC) or the Trustees<sup>1</sup>.
2. At its Education Session held on 5 April, 2006, the Board of the FASB also discussed the draft proposal.

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<sup>1</sup> It is expected that this proposal will be discussed at the SAC meeting to be held in June.

3. The purpose of this paper is to provide a summary of the discussions held by the two Boards and to present three possible approaches to how any leasing project could be carried forward.
4. FASB and IASB Board members are asked to conclude on which of the three approaches should be adopted if a formal decision to add a leasing project to the Boards' agendas is taken.

## **SUMMARY OF DISCUSSIONS**

### *The IASB Board Meeting – 28 March 2006*

5. The majority of IASB Board members were supportive of the proposal to add a leasing project to the Board's agenda. The aim of the first stage of the project would be to issue a discussion paper containing preliminary views.
6. There was general agreement that it would be preferable for the project to be a joint project with the FASB.
7. The need for consultation with users and others at an early stage in the project, possibly through an advisory group or focus groups, was emphasised.

### *The FASB Education Session – 5 April 2006*

8. At the April 5, 2006 Education Session, most FASB Board members expressed support for undertaking a comprehensive project to improve lease accounting.
9. In addition, most FASB Board members seemed to have a preference for a joint project with the IASB. However, most Board members expressed concern over the FASB Board's capacity to take on such a project at this time. FASB Board members expressed differing views on how to compensate for the lack of Board capacity. However, no conclusion on the best way forward was reached at the meeting.

## THE WAY FORWARD

10. It is clear from the above discussions, that both Boards are supportive of the proposal to add a project on lease accounting to their agendas (subject, of course, to consultation with SAC for the IASB). In addition, there is a clear preference for this to be a joint project.
11. Given the concerns raised by FASB Board members regarding Board capacity, the staff believe that there are three possible approaches to taking this project forward, namely:
  - **Option 1** – Add a joint project to the agenda with the first phase primarily involving the staff working with a working group of leasing experts and a group of users of financial statements with the intent to bring a complete package for Board consideration in the first half of 2007.
  - **Option 2** – Add a modified joint project to the agenda with the IASB taking the lead.
  - **Option 3** –Defer an agenda decision on lease accounting until some of the projects on the Boards’ agendas have been completed or substantially completed with a view to making the project a joint project at that time.
12. Each of these options is considered further below.

### *Option 1 – Add a joint project to the agenda with the delay of Board involvement*

13. The Boards could decide to move ahead with a joint project, with the first phase not requiring significant Board resources.
14. The first phase would involve the staff spending time (maybe as much as one year) researching the project and developing ideas. This research phase might include:
  - Discussing lease accounting issues with a working group of leasing experts and a group of users of financial statements.
  - Identifying and analysing the conceptual and practical issues involved in further developing the ideas in the 1999 G4+ 1 Special Report

- Developing a lease accounting model that is consistent with the current frameworks and developing standards.
  - Holding voluntary education sessions for Board members.
15. An additional benefit of this research phase would be that more progress will have been made on the conceptual framework and revenue recognition projects which will be of benefit to the leasing project. Indeed, research carried out on the leasing project may also benefit these projects.
  16. Clearly some input from the Boards will be required but the staff propose that this be restricted to two Board members from the IASB and two Board members from the FASB acting in an advisory capacity.

*Option 2 – Add a modified joint project to the agenda with the IASB taking the lead*

17. The Boards could decide to proceed with the leasing project as a modified joint project with the IASB taking the lead. The project team would include staff from the FASB.
18. Clearly, both Boards have expressed a preference for a joint project rather than a modified joint project. However, if the Boards are unwilling to accept a delay in starting the project this may be an acceptable approach.

*Option 3 – Defer an agenda decision*

19. The Boards could decide to defer any agenda decision until a number of major projects currently on the Boards' agendas would be completed, be nearing completion or have made significant progress. By 2007 it is hoped that the FASB will have made significant progress on Pensions (Part 1), Business Combinations, Fair Value Measurements, and Liabilities & Equity. Similarly, the IASB should have made significant progress on Borrowing costs, FVM guidance, SMEs, IAS 37, Business Combinations, Insurance and Consolidations by 2007.
20. Deferring an agenda decision until more Board time is available would hopefully enable both Boards to devote sufficient time to the project for it to be a joint project.

21. However, there is a risk with this option that current projects will slip leading to further delays in the leasing project.

## **STAFF RECOMMENDATION**

22. The staff recommend that the Boards adopt option 1 – add a joint project to the agenda with the delay of Board involvement.
23. The staff believe that this project meets the criteria for inclusion on the Boards' agendas. Sufficient staff resources are now available at both the IASB and the FASB to begin work on this project. The only impediment is availability of Board time.
24. Option 1 enables progress to be made on a lease accounting project by utilising available staff resources now, while minimizing Board involvement for up to one year. The staff believe that the research phase proposed in this option will provide a useful and efficient opportunity for the staff to develop ideas and discuss proposals with constituents with the plan to produce a package for Board consideration in the first half of 2007.
25. In addition, the staff believes that it is important that a leasing project be added to the agenda at this time (as opposed to one year from now). A decision made now will send a signal to constituents that the IASB and the FASB are serious about undertaking a comprehensive project to address lease accounting.