



**International  
Accounting Standards  
Board**



**Financial Accounting  
Standards Board**

*This document is provided as a convenience to observers at IASB/FASB joint international working group meeting on leasing, to assist them in following the working group's discussion. It does not represent an official position of the IASB or the FASB. IASB and FASB Board positions are set out in their respective Standards.*

*Note: These notes are based on the staff paper prepared for the IASB/FASB working group. Paragraph numbers correspond to paragraph numbers used in the staff paper. However, because these notes are less detailed, some paragraph numbers are not used.*

## **INFORMATION FOR OBSERVERS**

**Meeting:                    Joint International Working Group on Leasing  
15 February 2007, London**

**Topic:                      PROJECT OVERVIEW AND SUMMARY OF PAPERS  
(Agenda Paper 1)**

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### **Introduction**

1. The purpose of this paper is to provide a brief overview of the leasing project and explain the purpose of this working group meeting. This paper also explains the form and content of the papers distributed to working group members.

### **Project overview**

2. In July 2006, the Boards of the IASB and FASB added a joint leasing project to their agendas. The aims of this project are:

- To produce an improved leasing standard that faithfully reports the economics of leasing transactions;
- To develop a principles based standard; and
- To produce a converged standard that can be applied internationally.

3. The first milestone in this process will be the publication of a discussion paper in 2008. The discussion paper will include a comprehensive overview of the possible approaches to a leasing standard. It will incorporate the preliminary views of both Boards and will invite those with an interest in lease accounting to comment on the views expressed in the paper.
4. Following the publication of a discussion paper and consideration of the responses received, the Boards would normally expect to publish an exposure draft. Any exposure draft published will set out specific proposals for the form of a new leasing standard and will invite those with an interest in lease accounting to comment on the draft standard.

### **Purpose of this meeting**

5. The purpose of this meeting is to obtain the views of working group members on the conceptual analysis that the staff has carried out to date and identify any practical or operational issues arising from the staff's proposals.
6. The working group will not be asked to reach a consensus view or vote on any of the proposals in the working papers.
7. To date the staff's analysis has concentrated on identifying the rights and obligations and the assets and liabilities that arise in a lease contract. This analysis will form the basis of this working group meeting.
8. A brief summary of the main stages planned for the project is set out in the following table.

<b>This meeting</b>	
Rights and obligations, assets and liabilities	<p>Identify the legal rights and obligations that arise when a lessee and lessor enter into a lease contract; and decide how these meet the definitions of asset and liability. Includes leases with options to renew or terminate.</p> <p>Measurement issues will not be considered at this stage.</p>

<b>Next stages</b>	
Measurement	Consider the alternative measurement attributes of the assets and liabilities identified (fair value, amortised cost, other current values) and decide the most appropriate attribute for measuring each.
Scope	How should a lease be defined? Are leases of intangible items similar to lease of tangible items? Should other arrangements similar to leases be included in the scope of the new standard?
Lessor accounting	Consider the measurement of assets and liabilities recognised by the lessor, and how revenue should be recognised over the term of the lease.
Disclosures	Consider the disclosures that will be necessary to provide sufficient explanation of leasing transactions in the financial statements of lessees and lessors.

## **Summary of papers**

9. The following is a brief summary of the agenda papers for the working group meeting.

### **Agenda paper 2 – History of lease accounting**

10. This paper will not be discussed at the working group meeting. Consequently, it is not essential reading. However, the paper provides an interesting overview of the history of lease accounting with a particular focus on the underlying models and bases for conclusions used in standards issued prior to Statement 13 and IAS 17. This paper also briefly summarises lease accounting guidance after the initial issuance of Statement 13 and IAS 17.

### **Agenda paper 3 – Academic research on lease accounting**

11. This paper reviews and summarises the academic research on lease accounting. As with agenda paper 2, it will not be discussed at the working group meeting and is not essential reading. However, it provides interesting background to the leasing project.

#### **Agenda paper 4 – Asset and liability definitions – existing versions and working drafts of proposed revisions**

12. This paper provides working group members with background information on the asset and liability definitions used by both Boards when developing standards. The paper includes a description of the current definitions of assets and liabilities under the IASB's Conceptual Framework and the FASB's Concepts Statements.
13. The paper also discusses draft changes to the asset and liability definitions proposed as part of the Boards' work on a revised conceptual framework.
14. Although this paper will not be discussed at the working group meeting, the staff believe that an understanding of the asset and liability definitions is essential for working group members. Consequently, the staff recommend that working group members read this paper.

#### **Agenda paper 5 – Identification of assets and liabilities arising in a simple lease**

15. The purpose of this paper is to identify the assets and liabilities that arise in a simple lease contract. The paper starts by examining the rights and obligations of the lessee and lessor that arise from the exchange of promises in a simplified lease contract and then considers whether these rights, obligations, and promises meet the definitions of assets and liabilities in the IASB Framework and FASB Concepts Statement No. 6, *Elements of Financial Statements* (CON 6).
16. This paper also considers whether the exchange of promises give rise to assets and liabilities under the revised definitions of assets and liabilities proposed in the Conceptual Framework project.
17. This paper includes a number of detailed questions for working group members that will be discussed at the meeting.

#### **Agenda paper 6 – Analysis of different accounting models for a simple lease**

18. The purpose of this paper is to describe a number of alternative accounting models that have been suggested for lease contracts and compare the assets and liabilities recognised under these models to those identified in paper 5. The conclusions reached

in this paper are based upon a conceptual analysis of the assets and liabilities arising in a simple lease contract.

19. This paper includes a number of detailed questions for working group members that will be discussed at the meeting.

#### **Agenda paper 7 – Characteristics and terms of common lease contracts**

20. This paper provides the working group with a summary of the characteristics and terms of a number of different lease contracts. These examples will be used by the staff on a continuing basis to analyse the accounting models described in these agenda papers. The staff will ask the working group members to consider and comment on whether:

- There are any other types of lease contracts and their underlying terms that are substantially different from the examples and should be considered by the staff; and
- For the lease contracts presented, are there any pertinent terms that are missing or are there any deviations in terms and characteristics that should be considered?

#### **Agenda paper 8 – Initial recognition of assets and liabilities in lease contracts**

21. The purpose of this paper is to discuss the timing of when the assets and liabilities identified in paper 5 should be initially recognised in the financial statements—on signing of the lease contract, on delivery of the leased item to the lessee, or some other point in time?

#### **Agenda paper 9 – Identification of assets and liabilities in a lease with an option**

22. The purpose of this paper is to analyse a lease arrangement that provides the lessee with an option to extend the lease. This paper builds upon the analysis of the simple lease in paper 5.

23. This paper first identifies the rights and obligations of the lessee and lessor that arise as a result of the exchange of promises in a lease contract that incorporates a lessee option to renew or extend the lease term. It then considers which of the additional

rights and obligations identified meet the definitions of assets and liabilities in the IASB Framework and CON 6.

24. This paper also considers whether the exchange of promises give rise to assets and liabilities under the revised definitions of assets and liabilities proposed in the Conceptual Framework project.

25. This paper includes a number of detailed questions for working group members that will be discussed at the meeting.

**Agenda paper 10 - Analysis of different accounting models for a lease with a lessee option to renew**

26. The purpose of this paper is to examine how the accounting models described in paper 6 would treat a lessee option to extend the lease term.

27. This paper includes a number of detailed questions for working group members that will be discussed at the meeting.

**Agenda paper 11 – Options to terminate a lease**

28. Paper 9 analyses the rights and obligations that arise where the lessee has an option under the lease agreement to extend the lease term. This paper compares the conclusions reached in paper 9 with the rights and obligations that arise where the lease arrangement contains a provision giving the lessee the option to terminate the lease before the end of the lease term.

29. This paper includes a number of detailed questions for working group members that will be discussed at the meeting.