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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 15 May 2007, London

Project: Leases

Subject: Cover paper (Agenda paper 2)

Purpose of meeting and overview of papers

1. The Boards have previously discussed the assets and liabilities arising from a simple lease contract. At this meeting, the analysis is extended to a lease contract where the lessee has either an option to extend the term of the lease for an additional period, or an option to terminate the lease early.
2. These papers and the meeting are intended to be educational only. No Board decisions are requested. A further session on leases of this type is planned for a subsequent Board meeting, when the Boards will be asked to make tentative decisions on the appropriate accounting model to develop. A more detailed analysis of the how each of the four approaches meet the qualitative characteristics of financial statements will be provided at this subsequent meeting.
3. Paper 2A/7A sets out examples of leases containing of options to extend or terminate the lease, and discusses some of the factors that affect whether lessees will exercise these options. It also considers whether there are fundamental differences between options to extend and options to terminate a lease.

4. The paper then analyses the rights and obligations of each party to the lease, and considers how these meet the definitions of asset and liability in the Framework and CON 6.

5. Paper 2B/7B commences by describing an accounting model for such options that follows from the elements analysis in Paper 2A/7A, described as Approach 1. It then notes certain concerns with this approach, and sets out three alternatives. Approach 2 is based on an alternative analysis of the elements definitions; approaches 3 and 4 place more emphasis on meeting the qualitative characteristics required by the Framework and CON 6, together with an emphasis on measurement simplicity.