



**International
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This document is provided as a convenience to observers at the Global Preparers Forum meeting, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff papers prepared for the GPF meeting. Paragraph numbers correspond to paragraph numbers used in the GPF agenda paper.

INFORMATION FOR OBSERVERS

Global Preparers Forum Meeting: July 2008, London

Project: Leases

(Agenda Paper 4)



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LEASES

The views expressed in this presentation are those of the presenter and do not represent positions of the International Accounting Standards Board (IASB).



Leases

- **A very important industry**
 - Annual volume 2006 - \$634bn (excludes real estate)
 - Leasing volume as a percentage of all investment in plant and equipment (market penetration) is significant in many countries

Country	% Market Penetration 2006
United States	27.7
Germany	23.6
Brazil	16.9
Japan	9.3



History

- **Added to agenda July 2006**
- **Joint project with FASB**
- **Aim**
 - **To produce a converged standard on lease accounting**



Reasons for change

- **Assets and liabilities that meet framework definitions are not recognised**
- **Difficult to define operating/finance lease split**
- **Similar transactions are accounted for very differently**
 - Leads to structuring
- **FAS 13 and IAS 17 are out of date**
- **Opportunity for convergence**

Memorandum of understanding (MOU)



- February 2006 agreement between FASB and IASB to work towards convergence
- Updated April 2008
- Agreed goal to complete projects within the scope of the MOU by mid-2011
- Significantly shorter timetable for leases

Proposed approach - Overview



- Presented at July Board meeting
 - Defer lessor accounting
 - Adapt finance lease model in IAS 17 and apply it to leases currently classified as operating leases
 - Remove requirement to classify leases as operating or finance
- All leases give rise to:
 - Right of use asset
 - Obligation to pay rentals

Proposed approach - Options



- Leases often contain options to extend the lease term or terminate the lease early

Staff proposals

- Options should not be recognised separately
- Assets and liabilities recognised based upon an assessment of the lease term
- Optional periods included in the lease term if it is reasonably certain the right to use in that period will be exercised

Proposed approach – Contingent rentals



- Not all lease rentals are fixed; some rentals are contingent on factors such as:
 - Indices
 - Sales of the lessee
 - Usage

Staff proposal

- Expense contingent rentals in the period they are incurred

Proposed approach – Measurement



- Lessee's right of use asset

Staff proposals

- Initial measurement
 - Present value of minimum lease payments
- Subsequent measurement
 - Amortise over lease term

Proposed approach – Measurement



- Lessee's obligation to pay rentals

Staff proposals

- Initial measurement
 - Present value of minimum lease payments
 - Discounted at interest rate implicit in the lease or the incremental borrowing rate
- Subsequent measurement
 - Apportion rentals between the finance charge and a reduction of the outstanding liability

Proposed approach – Lease classification



- **Current standard requires leases to be classified as finance leases or operating leases**

Staff proposal

- **A single model for all leases**
 - **Classification requirement removed**

Questions for Forum Members



Q1 What do you think of the proposal to defer lessor accounting? Will the different accounting models for lessors and lessees create accounting problems for your company?

Questions for Forum Members



Q2 What do you think about the proposed treatment of options? What guidance (if any) will you need to determine the lease term?

Questions for Forum Members



Q3 Do you have leases that include significant contingent rentals? What effect will the proposed treatment of contingent rentals have on the assets and liabilities recognised by your company?

Questions for Forum Members



Q4 It has been suggested that short term/immateral leases should be excluded from the scope of any new standard. Do you agree with this suggestion? How would you define those leases that should be excluded from the scope?

Questions for Forum Members



Q5 Do you have any other comments, concerns or suggestions about the proposed approach?