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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: 19 January 2009, London

Project: LEASE ACCOUNTING

Subject: Leases: Cover note (Agenda Paper 13)

Introduction

1. At the November 2008 Board meetings, the Boards attempted to resolve any differences of preliminary views related to the Leases Discussion Paper and discussed other lessee issues in greater detail. Appendix A to this memo discusses areas (in addition to the accounting for subleases) where different preliminary views remain.
2. One of the biggest areas where the FASB and the IASB disagree is how to address the accounting for subleases.
 - The FASB asked the staff to **further analyze the accounting for subleases** for their consideration before publication of the Leases DP. The FASB also asked the staff to analyze how a model for sublessors might apply broadly to all lessors.
 - The IASB agreed to **defer the consideration of sublease accounting** until after publication of the DP.
3. In addition, some FASB members raised questions about whether in-substance purchases should be in the scope of the leases project. Therefore, IASB agenda paper 13A (FASB Memorandum No. 27) provides some analysis on the following topics:

- Reconsideration of the scope of the leases project
 - Overview of lessor accounting under the right-of-use model
 - Consideration of sublessor accounting.
4. IASB agenda paper 13B (FASB Memorandum No. 28) provides an alternate staff view for the consideration of sublessor accounting.
 5. The FASB plans to discuss agenda papers 13A and 13B (Memorandums 27 and 28) first, followed by the IASB, and then both Boards will have a joint sweep meeting on Thursday, January 22. The following is the current timing to discuss agenda papers 13A and 13B:

Date	Project milestone
Monday, January 12	FASB Small Group Meetings
Wednesday, January 14	FASB Board Meeting
	Summary of FASB decisions to be distributed to IASB
Monday, January 19	IASB Board Meeting
	Summary of IASB decisions to be distributed to FASB
Thursday, January 22	Joint Sweep Meeting

Next steps

6. The IASB received a pre-ballot draft of the Leases DP in December. Comments were due on Monday, January 5, 2009. If the IASB proposes no significant changes to the draft DP, they are ready to proceed to a ballot draft.
7. At the Thursday, January 22 joint sweep meeting, the Boards will have to make a decision as to how to proceed with the draft DP.
 - Issue the DP in its current state (taking into account Board comments and going through with the ballot process). Issuance of the DP could occur in Q1 2009. (The FASB would need to authorize the staff to proceed to ballot draft).
 - Add additional high-level discussion to the DP regarding subleases and lessor accounting prior to issuance. Issuance of the DP would be delayed past Q1 2009. (The FASB would need to authorize the staff to proceed to ballot draft).

- Continue to develop the lessor right-of-use model prior to issuance of the DP. Issuance of the DP would be delayed. It is difficult to anticipate how long the delay would be.
8. The Boards will also need to decide what to do if they do not agree on the next steps for the issuance of the DP.

Appendix A – areas of difference between the FASB and the IASB

9. At the November 2008 Board meetings, the Boards attempted to resolve any differences of preliminary views and discussed other lessee issues in greater detail. The following are areas (in addition to the area of subleases, which is discussed in AP 13A/Memo 27) where different preliminary views remain between the FASB and the IASB:
- Contingent rent (measurement)
 - a) FASB – The Board decided that a lessee would measure contingent rentals based on the lessee’s **best estimate of the expected lease payments over the term of the lease**. A lessee would determine its best estimate by considering the range of possible outcomes and the likelihood of each, but the lessee is not required to probability-weight the various possible outcomes in determining the expected lease payments. However, if lease rentals are contingent on changes in an index or rate, such as the consumer price index or the prime interest rate, the lessee would measure the contingent rentals using the index or rate existing at the inception of the lease in its initial determination of the best estimate of expected lease payments.
 - b) IASB – The Board decided that contingent rentals should be included in the initial measurement of the lessee’s obligation to pay rentals using an **expected outcome technique**.

- Subsequent measurement of assets and liabilities:
 - a) FASB – A majority of the Board believed that there were differences between leases that are in-substance purchases and leases that only convey a right to use that may merit differences in the subsequent measurement or presentation. Accordingly, the Board instructed the staff to include questions for financial statement users in the Discussion Paper (DP) to assess whether users believe that leases that are in-substance purchases should be measured or presented differently from leases that only convey a right to use.
 - b) IASB - Amortize/depreciate the right-of-use asset, apportion the lease payments between a finance charge and a reduction of the outstanding obligation, and present interest expense and amortization/depreciation in the income statement. No difference between leases that are in-substance purchases and a right to use.
- Changes in cash flow estimates (method and rate):
 - a) FASB – The Board decided to account for changes in cash flow estimates using a catch-up approach using the *original incremental borrowing rate*.
 - b) IASB - The Board decided to account for changes in cash flow estimates using a catch-up approach using the *current* interest rate. However, the Board did not reach a view on whether the interest rate should be revised at each reporting date or only when there is a change in estimated cash flows.

- Changes in cash flow estimates (credit to asset or P&L):
 - a) FASB – A lessee would recognize changes in the lease obligation through:
 1. A corresponding adjustment to the carrying value of the right-of-use asset to the extent that the change arises from updated expectations about the lease term (for example, a revised assessment of the likelihood that the entity will exercise a renewal option)
 2. Profit or loss to the extent that the change arises from updated expectations about the measurement of contingent rentals or residual value guarantees.
 - b) IASB – All changes in the estimate of the liability would go to the right-of-use asset.
- Presentation of right-of-use assets separately from (but adjacent to) owned assets:
 - a) FASB – leases should be presented as either in-substance purchases or rights to use
 - b) IASB – leases should be presented based on the nature of the underlying asset
- Presentation of right-of-use liabilities separately from other financial liabilities:
 - a) FASB – yes
 - b) IASB – no.