



**International
Accounting Standards
Board**

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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

GPF Meeting: *March 2009, London*

Project: *Leases*
(Agenda Paper 6)

March 2009

International Financial Reporting Standards



Leases
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Agenda paper 6

IASC Foundation

The views expressed in this presentation are those of the presenter,
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Leases discussion paper

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- Plan to publish by end of March
- Presents preliminary views on a new accounting model for lessees
- Includes issues that will need to be addressed in a new lessor accounting standard



Approach

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- No classification as a finance lease or operating lease
- The lessee has purchased a right to use the asset and is paying for that right with its rental payments
- The lessee recognises:
 - A right-of-use asset
 - An obligation to pay rentals



Measurement

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	Obligation to pay rentals	Right-of-use asset
Initial measurement	Present value of lease payments discounted using the lessee's incremental borrowing rate	Cost = Present value of lease payments discounted using the lessee's incremental borrowing rate
Subsequent measurement	Amortised cost	Amortised cost



Leases with options

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- Rejected components approach
- Adopted **single** asset and liability approach
- Address uncertainty about lease term through recognition

Example

- A machine is leased for 10 years
- Lease includes an option to extend for an additional 5 years
- Lessee must decide whether to recognise:
 - an obligation to pay 10 years of rentals
 - an obligation to pay 15 years of rentals



Leases with options

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- Determine **most likely** lease term
- Consider contractual, non-contractual and business factors
- Reassessment at each reporting date
- Recognise change in obligation as an adjustment to the right-of-use asset
- Purchase options
 - The ultimate renewal option
 - Account for in the same way as a renewal option



Contingent rentals & Residual value guarantees

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- Obligation to pay contingent rentals included in measurement of obligation to pay rentals
- Reassessment at each reporting date
- Changes arising from reassessment
 - IASB – as an adjustment to the right-of-use asset
 - FASB – in profit or loss
- Residual value guarantees
 - Account for in the same way as contingent rentals



Next steps

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- Comments on discussion paper due July 2009
- Review comments received and develop exposure draft
- Take decision on scope and timing of lessor accounting standard
- Publish exposure draft Q2 2010
- Final standard Q2 2011



Questions or comments?

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Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

