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|---------|-------------------------------|
| Project | <b>Leases</b>                 |
| Topic   | <b>Plan for Deliberations</b> |

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## Purpose

1. The purpose of this paper is to provide the boards with an overview of the staff's plans for the Leases project over the next few months.
2. The first section of this paper provides an overview of our proposed approach to lessor accounting. The second section includes a detailed timetable for deliberations of lessee accounting issues.

## Lessor accounting

3. In July 2008, the boards tentatively decided to defer consideration of lessor accounting and concentrate on developing an improved lessee accounting model. Consequently, the Leases discussion paper (DP) does not include any preliminary views on lessor accounting.
4. The FASB staff has undertaken some initial work on lessor accounting during the comment period of the DP. This work was discussed at board meetings in May and July 2009.
5. In May 2009, the boards discussed two different lessor accounting models (a derecognition approach and a performance obligation approach). The boards tentatively decided to develop the performance obligation approach in which the lessor retains the leased item in its statement of financial position and recognizes the following:

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- (a) an asset for its rights to receive rental payments from the lessee; and
  - (b) a liability for its performance obligations under the lease.
6. At their joint meeting in July 2009, the boards discussed presentation and measurement of the assets and liabilities arising under the performance obligation approach to lessor accounting. However, the boards directed the staff to provide additional analysis on both lessor accounting models. We plan to provide this additional analysis at the joint meeting in October 2009.
7. The FASB staff will continue to work predominantly on lessor accounting and the IASB staff will continue to work mainly on lessee accounting.

**Lessee accounting**

8. As noted in the comment letter summary, the majority of respondents to the Leases DP supported the basic right-of-use approach to lessee accounting. That is, they supported the idea that a lessee should recognize:
- (a) an asset representing its right to use the leased item for the lease term (the right-of-use asset)
  - (b) a liability for its obligation to pay rentals.
9. Consequently, the staff will start deliberations on the Leases exposure draft (ED) by asking the boards to reconfirm their support for this basic model. We do not ask you to reconfirm this tentative decision today. Instead, we think that it makes sense for the boards to discuss the basic accounting model for lessees along with the basic model for lessors in October 2009.
10. The following project plan has been developed on the assumption that the boards reconfirm the basic right-of-use model. If the boards wish the staff to develop an alternative model, we will need to reconsider this timetable. The appendix to this paper includes a more detailed list of the issues that we plan to address:

| <b>TIMELINE</b> | <b>DELIVERABLE</b> | <b>NOTES</b> |
|-----------------|--------------------|--------------|
|-----------------|--------------------|--------------|

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| TIMELINE                  | DELIVERABLE  | NOTES  |
|---------------------------|--|--|
| <b>2009</b>               |  |  |
| <b>October</b>            | Board meeting<br>Reconfirmation of approach + Timing of Initial recognition + In-substance purchases | Drafting of relevant sections of ED to be done after each meeting  |
| <b>November</b>           | Board meeting<br>Measurement + Options + Contingent rents + RVGs                                     | Drafting of relevant sections of ED to be done after each meeting  |
| <b>December</b>           | Board meeting<br>Scope + Presentation + Disclosure   | Drafting of relevant sections of ED to be done after each meeting  |
| <b>2010</b>               |  |  |
| <b>February</b>           | Board meeting<br>Other lessee issues (including sale and leaseback, transition, subleases, etc.)     | Drafting of relevant sections of ED to be done after each meeting  |
| <b>March</b>              | Board meeting<br>Sweep issues  | Drafting of relevant sections of ED to be done after each meeting  |
| <b>April</b>              | Meeting with Working Group to provide input on draft ED  | Consider this part of the fatal flaw review  |
| <b>June</b>               | Ballot and publish ED  |  |
| <b>July – October</b>     | Comment period   | Allotted time = 4 Months<br>If the boards decide to undertake field tests/visits we will undertake this work during the comment period |
| <b>October - December</b> | Staff analysis of comment letters  |  |
| <b>November</b>           | Meeting with Working Group to discuss ED   |  |
| <b>December</b>           | Comment letter analysis to the boards  |  |
| <b>2011</b>               |  |  |

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| TIMELINE       | DELIVERABLE                                     | NOTES |
|----------------|---|-------|
| January – June | Re-deliberations and drafting of final standard |       |
| June           | Ballot final standard                           |       |
| July           | Publish final standard                          |       |

11. Throughout the ED phase we will consider comments received from respondents to the discussion paper. In particular we will be looking for ways to reduce the complexity of the proposals in the discussion paper.
12. The proposed timetable is an aggressive one. Consequently, to meet the timetable we plan to draft the relevant sections of the ED following each meeting.

**Question for the boards**

| Question   |
|--|
| Do you have any questions, comments or concerns about our proposed plan for deliberations? |

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**Appendix – Detailed list of lessee accounting issues**

A1. The following table lists lessee accounting issues that will need to be addressed during the exposure draft phase and when we plan to address them.

| <b>Paper</b>   | <b>Comments</b>   | <b>Meeting</b> |
|--|---|----------------|
| <b>Approach</b>  |   |                |
| <ul style="list-style-type: none"> <li>• Reconfirmation of basic right-of-use model</li> </ul> |   | Oct 09         |
| <ul style="list-style-type: none"> <li>• Nature of right-of-use asset</li> </ul>               | <ul style="list-style-type: none"> <li>• Does it represent a portion of the underlying asset or is it a new asset?</li> <li>• Is it an intangible or a tangible?</li> <li>• As a general approach do you want to account for it as an intangible or according to the nature of the underlying asset?</li> </ul> | Oct 09         |
| <ul style="list-style-type: none"> <li>• Convergence vs cross referring</li> </ul>             | <ul style="list-style-type: none"> <li>• Do you want us to specify required accounting in lease standard or cross refer to existing applicable guidance?</li> </ul>   | Oct 09         |
| <b>Initial recognition</b>   |   |                |
| <ul style="list-style-type: none"> <li>• Timing of initial recognition</li> </ul>              | <ul style="list-style-type: none"> <li>• When should the assets and liabilities be recognized? On contract signing or delivery?</li> </ul>  | Oct 09         |
| <b>Scope</b>   |   |                |
| <ul style="list-style-type: none"> <li>• In-substance purchases</li> </ul>                     | <ul style="list-style-type: none"> <li>• What are they?</li> <li>• Are they within the scope?</li> </ul>  | Oct 09         |
| <b>Initial measurement</b>   |   |                |
| <ul style="list-style-type: none"> <li>• Right-of-use asset</li> </ul>                         | <ul style="list-style-type: none"> <li>• Cost vs FV</li> <li>• Treatment of initial direct costs</li> </ul>   | Nov 09         |
| <ul style="list-style-type: none"> <li>• Obligation to pay rentals</li> </ul>                  | <ul style="list-style-type: none"> <li>• FV vs PVLP</li> <li>• Discount rate – IBR vs IIL</li> </ul>  | Nov 09         |
| <b>Subsequent measurement</b>  |   |                |
| <ul style="list-style-type: none"> <li>• Right-of-use asset</li> </ul>                         | <ul style="list-style-type: none"> <li>• Cost vs FV</li> <li>• Depreciation model (any support for annuity depreciation?)</li> <li>• Revaluation</li> <li>• Impairment</li> </ul>   | Nov 09         |

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| Paper   | Comments   | Meeting |
|---|--|---------|
|   | <ul style="list-style-type: none"> <li>• Do we call consumption of assets depreciation/ amortization/rental expense?</li> </ul>  |         |
| <ul style="list-style-type: none"> <li>• Obligation to pay rentals</li> </ul>                       | <ul style="list-style-type: none"> <li>• FV vs amortized cost</li> <li>• Do we want to revise discount rate?</li> <li>• How should changes in obligation be accounted for (Prospective/retrospective/ catch-up)</li> <li>• FV option?</li> </ul>   | Nov 09  |
| <ul style="list-style-type: none"> <li>• Linked approach</li> </ul>                                 | <ul style="list-style-type: none"> <li>• Any support for the linked approach to subsequent measurement</li> </ul>  | Nov 09  |
| <b>Options</b>  |  |         |
| <ul style="list-style-type: none"> <li>• Approach to options</li> </ul>                             | <ul style="list-style-type: none"> <li>• Components vs single asset/liability approach</li> <li>• Measurement approach</li> <li>• Recognition approach                             <ul style="list-style-type: none"> <li>○ Most likely lease term</li> <li>○ Other basis (e.g. longest lease term with a more than 50% probability of occurring)</li> </ul> </li> <li>• Minimum contractual term + reasonably certain options + disclosure</li> </ul> | Nov 09  |
| <ul style="list-style-type: none"> <li>• Factors to consider when determining lease term</li> </ul> | <ul style="list-style-type: none"> <li>• Include lessee intentions/past practice?</li> </ul>   | Nov 09  |
| <ul style="list-style-type: none"> <li>• Reassessment of lease term</li> </ul>                      | <ul style="list-style-type: none"> <li>• When/how often should lease term be reassessed?</li> <li>• How should change in obligation be accounted for (P&amp;L vs RofU)?</li> </ul>   | Nov 09  |
| <ul style="list-style-type: none"> <li>• Lessor options</li> </ul>                                  | <ul style="list-style-type: none"> <li>• How should lessee account for lessor options?</li> </ul>  | Nov 09  |
| <ul style="list-style-type: none"> <li>• Purchase options</li> </ul>                                | <ul style="list-style-type: none"> <li>• Account for in the same way as lease term options?</li> </ul>   | Nov 09  |
| <b>Contingent rentals</b>   |  |         |
| <ul style="list-style-type: none"> <li>• Overall</li> </ul>   | <ul style="list-style-type: none"> <li>• Should all types of contingent</li> </ul>   | Nov 09  |

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| Paper  | Comments  | Meeting       |
|--|---|---------------|
| <p>approach</p>  | <p>rentals be accounted for in the same way (index, usage, performance linked)?</p> <ul style="list-style-type: none"> <li>• Include in obligation to pay rentals or simply disclose?</li> <li>• How should obligation be measured (most likely vs probability weighted)?</li> <li>• Should reassessment be required and if yes when/how often?</li> <li>• How should changes in the obligation be accounted for (P&amp;L vs RofU)</li> </ul> |               |
| <b>Residual value guarantees</b>   |   |               |
| <ul style="list-style-type: none"> <li>• Overall approach</li> </ul>   | <ul style="list-style-type: none"> <li>• Components vs single asset/liability approach</li> <li>• How should obligation be measured (most likely vs probability weighted vs maximum amount)?</li> <li>• Should reassessment be required and if yes when/how often?</li> <li>• How should changes in the obligation be accounted for (P&amp;L vs RofU)</li> </ul>  | <p>Nov 09</p> |
| <ul style="list-style-type: none"> <li>• Lessee interest in upside residual value</li> </ul>                           | <ul style="list-style-type: none"> <li>• Include as separate asset/disclose/include as reduction to obligation to pay rentals</li> </ul>  | <p>Nov 09</p> |
| <b>Scope</b>   |   |               |
| <ul style="list-style-type: none"> <li>• Differentiating service contracts from leases (IFRIC 4, EITF 01-8)</li> </ul> | <ul style="list-style-type: none"> <li>• What differentiates a lease from a service contract? Is it delivery?</li> <li>• Is the guidance in IFRIC 4/EITF 01-8 sufficient?</li> <li>• Do we need to provide additional guidance?</li> <li>• Are the right types of contracts captured?</li> </ul>  | <p>Dec 09</p> |
| <ul style="list-style-type: none"> <li>• SIC 27</li> </ul>   | <ul style="list-style-type: none"> <li>• Should the guidance in SIC 27 be incorporated into the new standard?</li> </ul>  | <p>Dec 09</p> |

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| Paper  | Comments   | Meeting |
|--|--|---------|
|  | <ul style="list-style-type: none"> <li>How can it be incorporated?</li> </ul>  |         |
| <ul style="list-style-type: none"> <li>Reconcile the scope of FAS 13 and IAS 17</li> </ul>   | <ul style="list-style-type: none"> <li>Should intangible assets be included in the scope?</li> </ul>   | Dec 09  |
| <ul style="list-style-type: none"> <li>Existing scope exclusions</li> <li>Reference to other types of leases, but dealt with separately (eg investment properties, biological assets)</li> </ul> | <ul style="list-style-type: none"> <li>Should they be retained?</li> </ul>   | Dec 09  |
| <ul style="list-style-type: none"> <li>Non core/short term leases</li> </ul>   | <ul style="list-style-type: none"> <li>Should we include scope exclusions?</li> </ul>  | Dec 09  |
| <ul style="list-style-type: none"> <li>Incorporating other EITFs, IFRIC, NIFRIC, FSP, etc. in regards to leases</li> </ul>   |  | Dec 09  |
| <ul style="list-style-type: none"> <li>Definition of a lease</li> </ul>  |  | Dec 09  |
| <b>Presentation</b>  |  |         |
| <ul style="list-style-type: none"> <li>Right-of-use asset</li> </ul>   | <ul style="list-style-type: none"> <li>Nature of underlying vs intangible? With other underlying assets or separate presentation?</li> </ul> | Dec 09  |
| <ul style="list-style-type: none"> <li>Obligation to pay rentals</li> </ul>  | <ul style="list-style-type: none"> <li>Require separate presentation from other financial liabilities?</li> </ul>                            | Dec 09  |
| <ul style="list-style-type: none"> <li>Income statement</li> </ul>   | <ul style="list-style-type: none"> <li>Interest + depreciation (amortization) vs rental expense</li> </ul>                                   | Dec 09  |
| <ul style="list-style-type: none"> <li>Cash flow statement</li> </ul>  | <ul style="list-style-type: none"> <li>How presented in cash flow statement?</li> </ul>  | Dec 09  |
| <b>Disclosure</b>  |  |         |
| <ul style="list-style-type: none"> <li>What disclosures are required under the new approach?</li> </ul>  |  | Dec 09  |



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| Paper  | Comments  | Meeting |
|--|---|---------|
| <b>Sale and leaseback</b>  |   |         |
| <ul style="list-style-type: none"> <li>• Reconfirm treatment of sale and leaseback transactions</li> </ul>                     | <ul style="list-style-type: none"> <li>• What is the asset?</li> <li>• Derecognize when control has passed</li> <li>• Gain recognition?</li> </ul>  | Feb 10  |
| <b>Transition</b>  |   |         |
| <ul style="list-style-type: none"> <li>• Reconfirm transition decision</li> </ul>  | <ul style="list-style-type: none"> <li>• How to account for uneven payments</li> <li>• Interaction with business combinations</li> </ul>            | Feb 10  |
| <b>Leases that include service elements</b>  |   |         |
| <ul style="list-style-type: none"> <li>• Guidance on splitting payments for services from payments for right to use</li> </ul> | <ul style="list-style-type: none"> <li>• Should we provide guidance?</li> <li>• What if cannot make split (capitalize whole or payment)?</li> </ul> | Feb 10  |
| <b>Subleases</b>   |   |         |
| <ul style="list-style-type: none"> <li>• Accounting for subleases</li> </ul>   | <ul style="list-style-type: none"> <li>• Interaction with lessor accounting</li> </ul>  | Feb 10  |
| <b>Consequential amendments</b>  |   |         |
| <ul style="list-style-type: none"> <li>• Consider consequential amendments</li> </ul>  |   | Feb 10  |