IASB/FASB Joint Meeting - week beginning 19 April 2010
FASB ED session - April 14, 2010

IASB agenda reference	**2I**
FASB memo reference	**90**

Project **Leases**

Lessor accounting: Impairment of assets

Topic **Supplement**

1. In this paper the staff will address the concerns expressed by board members at the meeting yesterday on how to deal with impairment by lessors under the performance obligation model.

2. Under the performance obligation model, the lessor has two assets:

   (a) a receivable; and

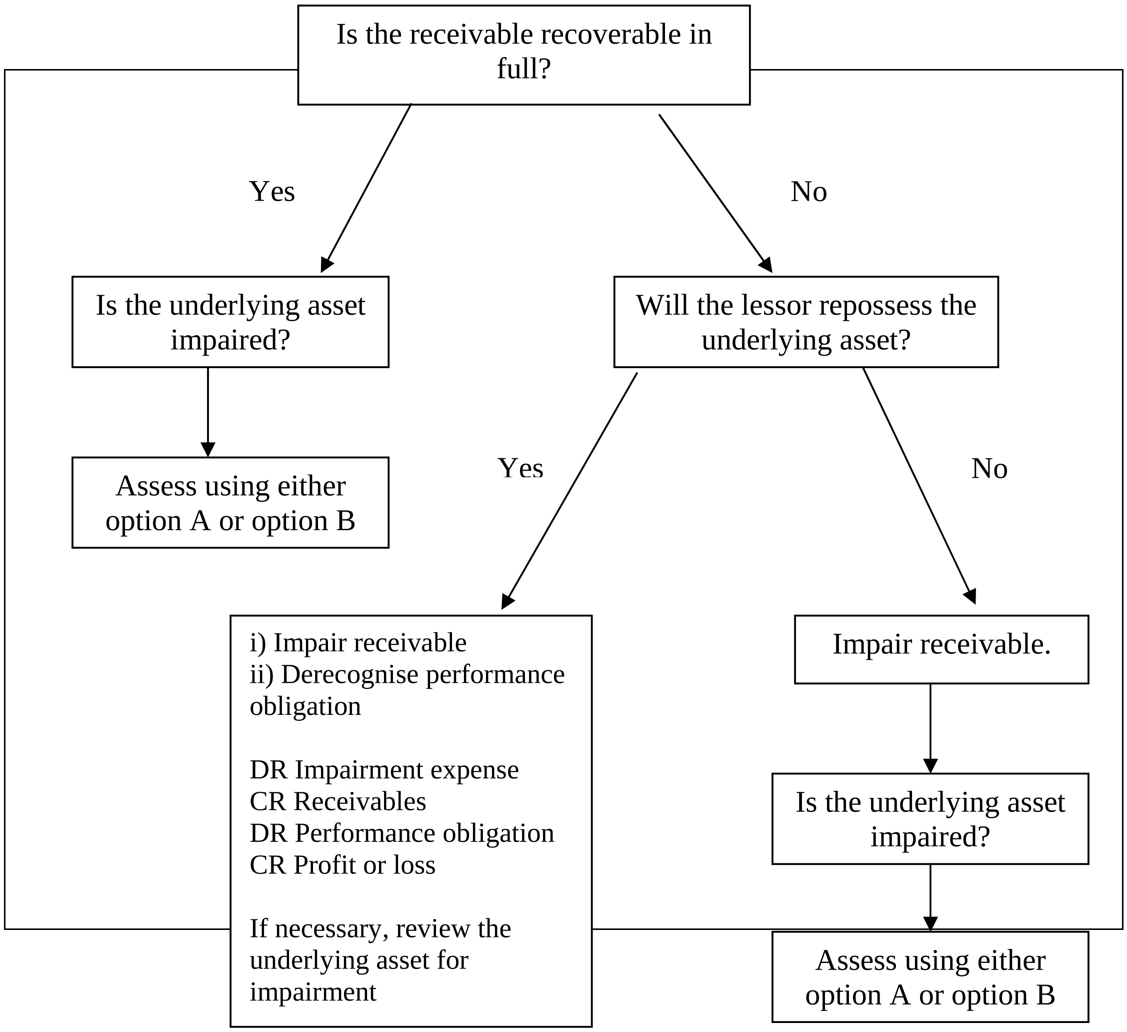
   (b) the underlying asset.

3. If there is an indication that either asset has been impaired, the lessor will be required to review for impairment.

4. We will continue to refer to options A and B which are the same as in IASB AP 2B/FASB Memo 83.

Option A	Option B
Net amount = Underlying asset + Performance obligation	Net amount = Underlying asset + Performance obligation + Receivables
Receivables	

5. The following flow chart summarises the process for reviewing the assets arising in a lease for impairment



6. If the lessor thinks that the receivable may be impaired, but they are able to repossess the underlying asset, the lessor may no longer have a performance obligation. If this is the case, the lessor will derecognise the performance obligation and impair the receivable. The problems associated with having one set of cash flows supporting two assets (the receivable and the underlying asset) disappears The underlying asset can be reviewed for impairment on a stand-alone basis.

7. If, however, the lessor still has a performance obligation or it is the underlying asset that is impaired the problem associated with having one set of cash flows

supporting two assets still exists. In these situations the boards will still need to consider how to review the assets for impairment, either option A or option B.

8. The reasons for supporting each option are the same as in IASB AP 2B/FASB Memo 83 (set out below) except that we have added some additional thoughts discussed by the board members during the 21 April 2010 meeting.

9. Why option A?

   (a) Reflects that the receivables are to some extent separable from the underlying asset. For example, the lessor can securitise the receivables;

   (b) Results in each asset (the underlying asset and the receivables) being assessed for impairment in accordance with requirements relevant to their nature. For example, impairment requirements on financial assets have been developed to focus on the credit worthiness of financial assets as opposed to long-lived non-financial assets. If option B is adopted, a lease which covers most of the useful life of the underlying asset would be reviewed for impairment using the impairment rules for non-financial assets despite the fact that the risks associated with such a lease are predominately financial in nature (eg credit risk).

10. Why option B?

    (a) Because the lessor's receivables, underlying asset and the performance obligation are so interlinked, the lessor should consider these items as a single unit of account. This view is consistent with why the boards tentatively decided that these items are linked and should be presented gross with net total; and

    (b) The performance obligation cannot be separated from the receivables. This is because there is no receivable if the lessor does not provide the underlying asset to the lessee (perform its obligation).

    (c) This option works better in some situations where the carrying amount of the underlying asset is less than that of the performance obligation.

Under option A, the net of the underlying asset and the performance obligation could be negative.

Question 1
Do the boards support the flowchart for assessing impairment? In assessing impairment the lessor should apply: a) Option A: assess two units of accounts: i) receivables and ii) the net of the underlying asset and performance obligation **or** b) Option B: assess impairment on the net of receivables, performance obligation and the underlying asset?