Project **Leases**

Topic **Break-out session**

Introduction

1. At this session, we seek your feedback on three areas of the leases project. This paper deals with the first two areas. Agenda paper 3A will deal with the third part.

Lessee: right-of-use model

2. The proposed lessee accounting model removes the existing requirement to classify leases as finance lease or operating leases. The boards propose that all leases are accounted for in the same way. The lessee recognises a right-of-use asset and an obligation to pay rentals. These are measured as the present value of the lease payments discounted using the lessee's incremental borrowing rate. The right-of-use asset is amortised over the lease term and interest is accrued on the obligation to pay rentals. The incremental borrowing rate does not change over the lease term.

Question 1 – Lessee model
Do you support this proposed change of having one model for all lessees?

Lessee: options to extend and terminate and contingent rentals

3. The boards have tentatively decided to include options to extend and contingent rentals in the lessee's obligation to pay rentals under the proposed lessee accounting model to provide users with information on the future cash flows arising from a lease contract.

   (a) Options to extend/terminate: Lessees will estimate the longest possible lease term that is more likely than not to occur and recognise a right-of-use asset and an obligation to pay rentals based on that term. The lease term is reassessed at each reporting date on the basis of any new facts or circumstances if there are changes in facts and circumstances that indicate that there is a material change in the obligation.

   (b) Contingent rentals: Lessees will include in the obligation to pay rentals the amount expected to be paid under contingent rental arrangements (eg leases whose rentals that are linked to usage, an index or lessee performance). The obligation is reassessed at each reporting date if there are changes in facts and circumstances that indicate that there is a material change in the obligation.

4. The boards acknowledge that recognising and measuring options to extend or terminate and contingencies will involve estimates. Therefore, they propose lessees to disclose:

   (a) narrative assumptions and estimates; and

   (b) a maturity analysis to inform users about liquidity risks arising from leases. An example of the lessee's maturity analysis is below:

	Contractual obligations[1]	Total obligations[2]
	CU	CU
20X0	XX	XX

[1] Contractual obligations are the minimum, non-cancellable, gross cash outflows that the lessee has contracted.
[2] Total obligations include options and contingent rentals that the lessee expects to be more likely than not to be exercised.

	Contractual obligations[1] CU	Total obligations[2] CU
20X1	XX	XX
20X2	XX	XX
20X3	XX	XX
20X4	XX	XX
Thereafter	XX	XX
Total	XXX	XXX

Question 2 – Contingent rentals and options

a) Do you support the board's proposed approach on:

i) Options to extend or terminate?

ii) Contingent rentals?