



Project **Leases**

Topic **Derecognition model - Disclosures**

Purpose

1. The purpose of this paper is to address disclosure requirements under a derecognition approach to lessor accounting.
2. The Appendix includes the boards' tentative decisions on disclosure requirements under the performance obligation approach with a marked version of what the staff have suggested under a derecognition approach.

Staff Analysis

3. The staff have used the boards' tentative decisions made on disclosure requirements under the performance obligation approach as a starting point for the proposed disclosures under a derecognition approach. The staff have considered whether any changes are necessary to these requirements.
4. The table below compares the lessor disclosure requirements tentatively decided by the boards at the April 2010 joint meeting under the performance obligation approach to the recommended disclosures under a derecognition approach to lessor accounting.

	Proposed disclosures under the performance obligation model	Staff recommendation under a derecognition model

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	Proposed disclosures under the performance obligation model	Staff recommendation under a derecognition model
	<i>General information about lessor's leasing activities</i>	
1.	Disclosure principles	Retain
2.	Accounting policies and basis for selection	Retain
3.	<p>Nature of leases, including</p> <ul style="list-style-type: none"> a) A general description of those leasing arrangements b) The existence and terms of renewal, termination, and purchase options c) A description of how the effect of contingent rentals on the carrying amounts of the lease receivable and performance obligation is determined d) Initial direct costs incurred. 	Retain - but delete reference to performance obligation
4.	<p>Short-term leases:</p> <p>The fact that a lessor applied a simplified form of lease accounting for short-term leases, if applicable. The lessor would also disclose the gross amount recognised in the statement of financial position that was accounted for under the simplified accounting model.</p>	Retain
5.	<p>Subleases:</p> <p>Intermediate lessors should disclose in their financial statements the nature and amount of significant subleases.</p>	Retain
6.	<p>Leased assets:</p> <p>A description of any restrictions placed on leased assets as a result of any lease arrangements and a description of the existence and terms of any residual value guarantees.</p>	Retain – it would apply to residual assets
7.	<p>Lease receivables:</p> <p>A maturity analysis on an annual basis for the first five years, and a lump figure for the remaining amounts, comparing the potential differences in cash flow attributable to those that are the minimum contractual receivables and those that are the total estimated lease receivable.</p> <p>A lessor would not be required to disclose the fair value of its</p>	Retain

	Proposed disclosures under the performance obligation model	Staff recommendation under a derecognition model
	lease receivable.	
7.	<p>Performance obligations:</p> <p>The disclosures required by the Revenue Recognition project for its performance obligations. For example, a lessor would disclose a maturity analysis surrounding the satisfaction of performance obligations. For all remaining performance obligations in contracts expected to be completed after one year from contract inception, an entity would disclose the amount of the transaction price allocated to the performance obligations that are expected to be satisfied between one and two years, between two and three years, and after three years from the end of the reporting period.</p>	Delete – no performance obligations
	<i>Composition</i>	
8.	<p>A reconciliation between opening and closing balances for its receivable and its performance obligation.</p> <p>That reconciliation would follow the disaggregation principle in the Financial Statement Presentation project to provide useful information.</p>	<p>a) Retain for receivable</p> <p>b) Delete for performance obligation</p> <p>c) Add requirement to present a reconciliation of opening and closing balances for residual assets</p>
	<i>Assumptions and uncertainties</i>	
9.	<p>Narrative disclosures of judgements and specific disclosures on judgements related to:</p> <p>a) contingent rentals</p> <p>b) residual value guarantees</p> <p>c) purchase and term options</p> <p>d) amortisation method</p> <p>e) discount rate.</p>	Retain - Add for the measurement of residual assets

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	Proposed disclosures under the performance obligation model	Staff recommendation under a derecognition model
10.	Disclosures about assumptions about major sources of estimations that have a significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within next financial year. Shall include details of: nature and carrying amount of assets and liabilities as at end of reporting period.	Retain
11.	For IFRS preparers, information relating to risks surrounding a lease receivable in accordance with IFRS 7 <i>Financial Instruments: Disclosures</i> , and for U.S. GAAP preparers, information in accordance with the proposed Accounting Standard Update relating to credit quality upon final issuance to help users to evaluate the nature and extent of the amount, timing, and uncertainty of future cash flows arising from lease contracts, and the way in which the lessor manages those uncertainties.	Retain
12.	Liquidity risks: Maturity analysis of receivable, showing remaining contractual maturities and total obligations on an annual basis for the next 5 years and a lump sum figure for the remaining amounts.	Retain

Question 1

Do the boards agree with the staff recommendations on the right column of the table above?

Question 2

Are there any additional disclosures the boards would require under a derecognition approach to lessor accounting?

Appendix A: Draft proposed disclosure for lessor under the performance obligation approach with a marked version of changes under a derecognition approach

Disclosure principles

- A1. An entity shall disclose the quantitative and qualitative financial information that:
- (a) identifies and explains the amounts recognised in its financial statements arising from lease contracts; and
 - (b) enables users to evaluate the nature and extent of the amount, timing and uncertainty of cash flows arising from lease contracts and how the entity manages those cash flows.
- A2. If the specific disclosures required by this and other IFRSs do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective.

Lessor

- A3. A lessor shall disclose information that explains that the nature of lease contracts, if leasing arrangements are a significant part of the lessor's business activities in terms of revenue, net income, or assets. This may include information relating to:
- (a) A general description of those leasing arrangements
 - (b) The existence and terms of renewal, termination and purchase options that were considered when determining the lease term
 - (c) A description of how the effect of contingent rentals on the carrying amounts of the lease receivable ~~and performance obligation~~ is determined.
- A4. A lessor shall disclose any significant estimates and assumptions used in determining the lease term. In addition, a lessor shall disclose the basis for selecting particular assumptions and any changes in assumptions that have a

material impact in the determination of the underlying data and estimates in a lease arrangement.

- A5. To provide information relating to the leased **residual** asset in an arrangement, the lessor shall disclose in accordance with paragraph 360-10-50-1 (or IAS 16). The lessor shall also disclose the existence and terms of any residual value guarantees in the lease arrangement
- A6. To provide information relating to the lease receivable in an arrangement, the lessor shall disclose the following:
- (a) a maturity analysis of the lease receivable to show remaining contractual maturities and other obligations including contingent rentals on an annual basis for the first five years from the reporting date and thereafter for all the remaining amounts.
 - (b) information related to the accumulated allowance for uncollectible lease payments attributable the lessor's lease receivable.
- ~~A7. To provide information relating to the recognition of revenue attributable to the lessor's performance obligation, the lessor shall provide applicable disclosures in accordance with XXXX-XX [Revenue Recognition standard] required for performance obligations.~~
- A8. To provide information that explains the amounts on the financial statements, the lessor shall disclose a roll-forward reconciling the opening to closing balances for each class¹ of lease receivable and ~~performance obligation~~ **residual asset**.
- A9. If an entity applies the simplified form of lease accounting for leases that have a maximum possible lease term of less than 12 months, it shall disclose:
- (a) the fact that it applied the simplified form of lease accounting; and

¹ We have included this as class of assets because both our presentation paper proposes to disclose based on nature of the underlying asset and because IAS 16 *Property, plant and equipment* and Topic 360 *Property, Plant and Equipment* require an entity to disclose its property, plant and equipment by classes of assets.

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- (b) the gross amount recognized in the statement of financial position that were accounted for using the simplified accounting model.