



Exposure Draft *Leases*

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation

- Ask you for:
 - Feedback on proposed changes to lessor accounting
 - Explore alternatives using specific examples
 - Please use the following link for the survey
http://www.surveymonkey.com/s/user_lease_survey

Reasons for proposals - Lessors

Criticisms: Current accounting

- Concern that IASB was not addressing lessee and lessor models together
- Current lessor model inconsistent with proposed lessee model



Solution: Proposed accounting

- A 'right-of-use' model for both lessees and lessors

Lessor accounting – proposed approach

Does the lessor retain significant risks or benefits of the underlying asset?

No

Derecognition approach

Balance sheet

- Right to receive lease payments X
- Residual asset X

Profit & loss

- Revenue X
 - Cost of sales (X)
- (gross or net based on business model)
- Interest income X

Yes

Performance Obligation approach

Balance sheet

- Right to receive lease payments X
 - Underlying asset X
 - Lease liability (X)
- Net lease asset/liability X

Profit & loss

- Lease income X
- Depreciation expense (X)
- Interest income X

Lessor accounting – current alternatives

Finance lease	Operating lease	Operating lease - FV
<u>Balance sheet</u> <ul style="list-style-type: none"> Lease receivable X 	<u>Balance sheet</u> <ul style="list-style-type: none"> Underlying asset X 	<u>Balance sheet</u> <ul style="list-style-type: none"> Underlying asset X
<u>Profit & loss</u> <ul style="list-style-type: none"> Interest income X 	<u>Profit & loss</u> <ul style="list-style-type: none"> Lease income X Depreciation expense (X) 	<u>Profit & loss</u> <ul style="list-style-type: none"> Lease income X Fair value gain or loss X

Questions for you – Example 1

1-week rental of a Ford Focus by Hertz

- **Which of the five approaches would best reflect the economics of this transaction? Why?**
 - Derecognition
 - Finance lease
 - Performance obligation
 - Operating lease
 - Operating lease at FV

Questions for you – Example 2

3-year Boeing 737 lease by Boeing. The estimated useful life is 25 years.

- **Which of the five approaches would best reflect the economics of this transaction? Why?**
 - Derecognition
 - Finance lease
 - Performance obligation
 - Operating lease
 - Operating lease at FV

Questions for you – Example 3

5-year lease of a retail outlet in One New Change by Land Securities.

- **Which of the five approaches would best reflect the economics of this transaction? Why?**
 - Derecognition
 - Finance lease
 - Performance obligation
 - Operating lease
 - Operating lease plus FV

Questions for you – Example 4

20-year Boeing 737 lease by:

1. Barclays
2. Boeing

- **Which of the five approaches would best reflect the economics of these transactions? Why?**
 - Derecognition
 - Finance lease
 - Performance obligation
 - Operating lease
 - Operating lease at FV

Questions for you – Example 5

Siemens leases out its X-ray machine for 9 years. The machine's useful life is 10 years.

- **Which of the five approaches would best reflect the economics of this transaction? Why?**
 - Derecognition
 - Finance lease
 - Performance obligation
 - Operating lease
 - Operating lease at FV

Questions for you – Example 6

The Queen leases out land to developers for 99 years

- **Which of the five approaches would best reflect the economics of this transaction (if the Queen was to prepare IFRS statements)? Why?**
 - Derecognition
 - Finance lease
 - Performance obligation
 - Operating lease
 - Operating lease at FV

Additional questions for you

- How do you use information in lessors' balance sheets? Do you currently make any adjustments to the balance sheet?
- How useful is the proposed income pattern in lessor's income statement?
- How critical is disclosure about the residual values of underlying assets (PP&E) to your analysis?
- Do you think that the proposed accounting approach will provide more useful information for lessors? Why or why not?
- Do you have any other comments regarding the proposals for lessors accounting?

Proposed disclosures:

- Narrative of assumptions and estimates
- Information on future cash flows and the way they are managed
 - qualitative discussion (nature, timing and uncertainty)
 - quantitative disclosure (extent of the amount)
- A maturity analysis of the minimum and the total lease payments included in the assets and liabilities
- Roll-forward of right-of-use asset / liability to make lease payments (lessees)
- Roll-forward of right to receive payments / lease liability or residual asset (lessors)

Questions or comments?

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.

