STAFF PAPER

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Project	**Leases**		
Paper topic	Disclosures for leases excluded from the receivable and residual approach		
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Objective

1. The objective of this paper is to discuss the disclosure requirements for lessors that have leases of investment property that are excluded from the scope of the receivable and residual approach.

Background

2. During the October 19, 2011, joint Board meeting, the Boards tentatively decided that a lessor's lease of an investment property would not be within the scope of the receivable and residual approach. Instead, for such leases, the lessor should continue to recognize and depreciate the underlying asset and recognize lease income over the lease term.
3. As a result of the above decision, the staff thinks additional disclosure considerations should be discussed and decided upon for leases of investment property excluded from the scope of the receivable and residual approach.

Existing guidance

4. Existing U.S. GAAP and IFRSs have separate disclosure requirements for operating leases that are different from disclosures required for sales-type leases and direct finance/finance leases.
5. Section 840-10-50 requires all lessors to disclose a general description of the lessor's leasing arrangements as well as its accounting policy for, and impact of, contingent rental income.
6. Paragraph 840-20-50-4 requires the following disclosures for operating leases:

> a. The cost and carrying amount, if different, of property on **lease** or held for leasing by major classes of property according to nature or function, and the amount of accumulated depreciation in total as of the date of the latest balance sheet presented
>
> b. Minimum future rentals on noncancelable leases as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years
>
> c. Total contingent rentals included in income for each period for which an income statement is presented.

7. Paragraph 56 of IAS 17, *Leases,* requires the following disclosures for operating leases:

> (a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:
>
> (i) not later than one year;
>
> (ii) later than one year and not later than five years;
>
> (iii) later than five years.

(b) total contingent rents recognised as income in the period.

(c) a general description of the lessor's leasing arrangements.

8. Paragraph 73(d) of IAS 16, *Property, Plant and Equipment*, requires for each class of property, plant, and equipment, that the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) be disclosed at the beginning and the end of the period.
9. Additionally, paragraph 79 of IAS 40, *Investment Property*, also requires the following disclosures for investment property carried at cost:

> …an entity that applies the cost model…shall disclose:
>
> (a) the depreciation methods used;
>
> (b) the useful lives or the depreciation rates used;
>
> (c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
>
> (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period…
>
> (e) the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably, it shall disclose:
>
> > (i) a description of the investment property;
> >
> > (ii) an explanation of why fair value cannot be determined reliably; and
> >
> > (iii) if possible, the range of estimates within which fair value is highly likely to lie.

Staff analysis

10. The staff observes that existing operating lease disclosures are similar under both IFRSs and U.S. GAAP. The staff thinks that those disclosures are relevant and necessary because of the Boards' tentative decision that lessors of investment property should continue to recognize the underlying asset and recognize lease income over the lease term.
11. The staff also notes that during the November 1, 2011, joint Board meeting, the Boards decided that lessors under the receivable and residual approach would provide disclosures the staff think would also be relevant to leases of investment property excluded from the receivable and residual approach. Those disclosures are:

    (a) Future undiscounted cash flows related to the right to receive lease payments (see recommendation in paragraph 181(a) of this memo)

    (b) A tabular disclosure of income from leases that provides various components of lease income (see recommendation in paragraph 181(b) of this memo)

    (c) Information about lease agreements, including:

    - (i) Terms in which variable lease payments are determined
    - (ii) Existence of options to renew or terminate lease agreements
    - (iii) Information about any options to purchase the underlying asset (see recommendation in paragraph 1(d)of this memo).
12. Additionally, the staff thinks that information about the nature of lease arrangements as detailed in paragraph 181(d) of this memo provides information that is relevant for all leases and not only those for which a receivable and residual asset is recognized. Information about lease agreements can inform the users' analysis of current results as well as expectations for future results.

13. The staff also notes that under existing guidance, information about leased assets is required in both U.S. GAAP (as part of Topic 840, Leases) and IFRSs (by IAS 16, which is incorporated into IAS 17) and thinks that requirement should be part of the proposed leases standard (see recommendation in paragraph 18(c) of this memo).
14. Finally, the staff thinks that providing less information than what is currently required for operating leases when the method of accounting is similar would be viewed negatively by users of financial statements.
15. The staff notes that there are disclosures required for investment properties as part of IAS 40 such as the disclosure of fair value of investment properties carried at cost. The staff will consider those disclosures in a future paper that will discuss the definition of investment property excluded from the receivable and residual approach.

Staff Recommendation

16. The Boards' decisions regarding disclosures made by lessors under the receivable and residual approach indicate that disclosures similar to those required under today's operating leases guidance are useful. Furthermore, during the November 1, 2011, joint Board meeting the Boards decided that information about lease agreements is informative to the user. The staff thinks information about the contract (for example: renewal options, variable lease payment terms) is relevant to the user, regardless of the accounting for the contract.
17. Finally, the staff thinks that any reduction in information that is provided to users today would be a reduction in the usefulness of the proposed leases accounting guidance and would not be well received by the user community.

18. Therefore, the staff recommends that the following disclosures be included in the leases guidance for leases of investment property that are excluded from the scope of the receivable and residual approach:

(a) A maturity analysis of the undiscounted future noncancelable lease payments for a lessor's lease of investment property excluded from the scope of the receivable and residual approach. The maturity analysis should show, at a minimum, the undiscounted cash flows to be received in each of the first five years after the reporting date and a total of the amounts in the years thereafter. That maturity analysis would be separate from the maturity analysis of the payments related to the right to receive lease payments under the receivable and residual approach.

(b) Both minimum contractual lease income and variable lease payment income within the table of lease income.

(c) The cost and carrying amount of property on lease or held for leasing by major classes of property according to nature or function, and the amount of accumulated depreciation in total as of the date of the latest balance sheet presented.

(d) Information about leases that are scoped out of the receivable and residual approach consistent with paragraph 73 of the 2010 ED, updated for decisions the Boards have reached to date. That information would include:

(i) A general description of those lease arrangements

(ii) Information about the basis and terms on which variable lease payments are determined

(iii) Information about the existence and terms of options, including for renewal and termination

(iv) A qualitative description of purchase options, including information about the percentage of assets subject to such agreements

(v) Any restrictions imposed by lease arrangements.

Question
Do the Boards agree that the disclosures in paragraph 18 of this memo should be required for lessors with leases excluded from the scope of the receivable and residual approach?