
Project **Leases**

Topic **Cover note**

Purpose of this paper

1. This paper:
 - (a) provides an overview of the agenda papers to be discussed at the February 2011 IASB/FASB meeting relating to the proposals in the *Leases* exposure draft (ED).
 - (b) sets out the topics to be discussed at future board meetings that will enable the boards to finalise a standard on leases by mid-2011.

Summary of papers

2. The staff have prepared the following papers for discussion:

Distinguishing between leases and services (refer to Appendix A for an overview)

- (a) Three papers regarding the principles underlying the definition of a lease. The objective of these three papers is to identify proposed amendments to the principles for defining a lease and to recommend that the staff perform targeted outreach after the February 2011 IASB/FASB meeting to obtain feedback on the proposed amendments. These three papers are:

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IASB/FASB Staff paper

- (i) ***Principles relating to the definition of a lease (agenda paper 5C/memo 131)***, including an overview of responses on the proposals in the ED for defining a lease, a summary of the staff recommendations included in agenda papers 5D/memo 132 and 5E/memo 133, and two appendices of proposed amendments to the principles for defining a lease, on which the staff recommend seeking feedback;
 - (ii) ***Principles relating to the definition of a lease: Specified asset (agenda paper 5D/memo 132)***, including staff recommendations for performing targeted outreach on proposals for how the principle of a ‘specified asset’ could be clarified in the final standard; and
 - (iii) ***Principles relating to the definition of a lease: Right to Control the Use of an Asset (agenda paper 5E/memo 133)***, including staff recommendations for performing targeted outreach on how the principle of ‘control’ could be clarified in the final standard.
- (b) ***Types of leases—the case for other-than-finance leases (agenda paper 5F/memo 134)***, including staff recommendations for performing targeted outreach on how, if two types of leases exist:
- (i) the indicators for distinguishing between the two types of leases should be defined; and
 - (ii) profit or loss should be recognised.

Measurement

- (c) ***Accounting for options to extend or terminate a lease (agenda paper 5B/memo 130)***, describing responses to the proposals in the ED to define the lease term as the longest possible term that is more likely than not to occur, and staff recommendations on how the definition of the lease term should be amended, and when reassessment of the lease term should be required, in the final standard.

IASB/FASB Staff paper

- (d) *Accounting for variable lease payments* (agenda paper 5A/memo 129), describing responses to the proposals in the ED to include variable lease payments in the measurement of assets and liabilities arising from a lease using an expected outcome technique, and staff recommendations on how the recognition of variable lease payments should be amended in the final standard.
- (e) *Other Lease Payment Considerations* (agenda paper 5G/memo 135), describing how other lease payments (eg residual value guarantees, term option penalties and potential disguised minimum lease payments) should be recognised and measured in a lessee's liability to make lease payments and a lessor's lease receivable.

Overview

- 3. Many respondents, specifically preparers, auditors and standard setter organisations, identified considerable linkage between concerns that they had on the proposals for:
 - (a) the definition of a lease;
 - (b) the pattern for recognising profit or loss for leases;
 - (c) estimates of lease terms; and
 - (d) estimates of variable lease payments.
- 4. Specifically, they expressed concerns about:
 - (a) the increased stress placed on the criteria for distinguishing a service from a lease because of the requirement to recognise:
 - (i) lease assets and lease liabilities for all arrangements that contain a lease; and
 - (ii) profit or loss for leases on a 'financing' rather than 'straight-line' basis.

IASB/FASB Staff paper

- (b) the cost and complexity of the combination of proposals for lease term and variable lease payments (eg the estimation of variable lease payments in option renewal periods).
5. The staff think that the papers prepared for the February 2011 IASB/FASB meeting address many of these concerns raised. Some of those papers also provide an overview of the views that users have on potential simplifications suggested by a number of respondents to the ED.

Next steps

6. The staff plan to bring the following papers to future board meetings:
- (a) Separation of lease and non-lease components
 - (b) Lessee right-of-use model (including short-term leases)
 - (c) Scope exclusions
 - (d) Distinguishing a lease from a contract that represents a purchase or sale
 - (e) Measurement
 - (f) Purchase options
 - (g) Inception vs commencement
 - (h) Other leasing arrangements
- (a) Presentation
 - (b) Transition
 - (c) Disclosure
 - (d) Consequential amendments
 - (e) Other