



Project	Leases
Topic	Lessee Disclosures – Appendix B - Illustrations

Objective

1. The objective of this Appendix is to provide the Boards with an illustrative example of the staff recommendations concerning disclosure and presentation matters during the joint board meeting commencing the week of July 18, 2011.
2. This Appendix is organized in the following way:
 - (a) Mark-up of the disclosure requirements in the Exposure Draft (ED) based on the staff's recommendations
 - (b) Sample disclosure based on the staff's recommendations
 - (c) Demonstration of the effect of classification of variable lease payments and interest
 - (d) Possible format of information to facilitate analysis
 - (e) Presentation of lessee expenses in the Statement of Comprehensive Income (SCI)

Mark-up of the disclosure requirements in the ED based on the staff recommendations

3. The preliminary draft wording included in this appendix has been prepared by the staff to help the Boards reach decisions regarding lessee disclosure

This paper has been prepared by the technical staff of the IFRS Foundation and the FASB for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

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requirements. The Boards have not yet made decisions about the views reflected in this appendix, and, therefore, the wording is subject to change. This appendix shows marked changes from what was originally proposed in paragraphs 73-77, 83, and 85 of the Exposure Draft on leases.

Information that identifies and explains the amounts in the financial statements

73. An entity shall disclose:

(a) the nature of its lease arrangements, including:

(i) a general description of those lease arrangements.

(ii) the basis and terms on which ~~contingent rentals~~ variable lease payments are determined and the related expense recognized.

(iii) the existence and terms of options, including for renewal and termination. A lessee shall provide narrative disclosure about the options that were recognized as part of the right-of-use asset and those that were not.

~~(iv) the existence and principal terms of any options for the lessee to purchase the underlying asset.~~

(v) information about assumptions and judgments relating to amortization methods and changes to those assumptions and judgments.

(vi) the existence and terms of residual value guarantees.

~~(vii) initial direct costs incurred during the reporting period and included in the measurement of the right-of-use asset or right to receive lease payments.~~

(viii) the restrictions imposed by lease arrangements, such as those relating to dividends, additional debt and further leasing.

(b) information about the principal terms of any lease that has not yet commenced if the lease creates significant rights and obligations for the entity. (Some staff recommend retaining this requirement rather than including the requirement to include information about leases not yet commenced in the maturity analysis added to paragraph 85 below)

74. An entity shall identify the nature and amount of significant subleases included in the disclosures provided in accordance with paragraph 73.

75. An entity that accounts for short-term leases using the practical expedient in accordance with paragraphs ~~xx and xx~~ shall disclose that fact and, for lessees, the amount recognized in the statement of ~~financial position~~ comprehensive income for such short-term leases.

76. A lessee that enters into a sale and leaseback transaction shall disclose that fact, disclose the terms and conditions for that transaction and identify any gains or losses arising from such transactions separately from gains or losses on other disposals of assets.

77. A lessee shall disclose:

(a) a reconciliation of opening and closing balances of right-of-use assets and ~~liabilities to make lease payments~~, disaggregated by class of underlying asset, in a tabular format. The reconciliation shall separately show the total cash lease payments paid during the period. The reconciliation shall, at a minimum, show each of the following, if applicable:

(i) Right-of-use assets added;

(ii) Amortization of right-of-use assets;

(iii) Foreign currency translation adjustments;

(iv) Right-of-use assets acquired in business combinations and right-of-use assets disposed;

(v) Impairments; and

(vi) Any other line items that would be useful in understanding the change in the balance.

(b) a reconciliation of opening and closing balances of the total liability to make lease payments in a tabular format. The reconciliation shall, at a minimum, show each of the following, if applicable:

(i) Liabilities added for the addition and reassessment of leases;

(ii) Accretion of the liability for interest;

(iii) Cash paid;

(iv) Foreign currency translation adjustments;

(v) Liabilities to make lease payments assumed in business combinations and liabilities to make lease payments disposed; and

(vi) Any other line items that would be useful in understanding the change in the balance.

XX. A lessee shall disclose the amount of interest paid and amount of interest expense if not presented separately in the financial statements.

[Paragraphs 78-82 of the ED have been omitted from this analysis as such paragraphs contain lessor disclosure requirements.]

Information about the amount, timing and uncertainty of cash flows arising from leases

83. An entity shall disclose information about significant assumptions and judgments and any changes in assumptions and judgments relating to renewal options, contingent rentals, term option penalties, residual value guarantees and the discount rate used when determining the present value of lease payments.

[Paragraph 84 of the ED has been omitted from this analysis as it references disclosure requirements of other topics/standards]

85. A lessee shall disclose a maturity analysis of

(a) the liabilities to make lease payments showing the undiscounted cash flows on an annual basis for the first five years and a total of the amounts for the remaining years. The maturity analysis shall ~~distinguish~~ reconcile the minimum obligations specified in the lease ~~(that is, excluding contingent rentals and expected payments under term option penalties and residual value guarantees)~~ and to the amounts recognized in the statement of financial position.

(b) the future undiscounted cash flows on an annual basis for the first five years and a total of the amounts for the remaining years related to leases not yet commenced separate from the maturity analysis of the liability to make lease payments.

Sample disclosure based on the staff's recommendations

4. During the FASB education session, the staff was asked to prepare what a sample lessee disclosure may look like. Additionally, the staff has been asked to demonstrate how it might illustrate disaggregation or aggregation of information as it pertains to leases. The staff has provided the following illustration:

Background

The following is a sample disclosure based on the lessee disclosure requirements as amended above. The disclosure example reflects a manufacturer who leases both buildings and equipment. The entity has decided that it would disaggregate some information about one significant lease, its primary manufacturing facility, while aggregating information about other leases. For simplicity, this entity does not engage in sale leaseback activity nor does it have any material subleases.

Disclosure

XYZ Corp enters into the majority of its leases for the right to use buildings and equipment. XYZ Corp has a number of leases with variable lease payments in which contingent amounts are based primarily on the number of units produced by the equipment leased. Expense during the year related to the variable lease payments totaled CU665.

73. (a) (i) & (ii)

The majority of XYZ Corp's leases have terms that require XYZ Corp to pay a cancellation fee upon termination of the lease. For building leases, many of the arrangements would require the entity to pay a number of subsequent months' worth of lease payments after notification of lease termination. A minority of these arrangements require the company to pay a set fee for cancellation. XYZ Corp would incur a six month penalty for terminating its lease of its primary manufacturing facility.

Equipment lease agreements primarily include cancellation fees that do not exceed five per cent of the total lease payments committed to at inception of the lease.

73. (a) (iii)

Substantially all building lease arrangements include renewal options for an additional two to five years principally at market rates. XYZ Corp's primary manufacturing facility, which has a minimum lease term concluding in 20Y2 has an option to renew for three years.

73 (a)(iii)

A number of equipment leases have residual value guarantees that the Company may be required to pay at the end of the lease term dependent on both usage and the condition of the equipment. Amounts for residual guarantees that the entity expects to pay are included in the liability to make lease payments.

73(a)(vi)

The Company's lease agreement for its primary manufacturing facility contains a restriction on the amount of debt the Company may have in relation to its equity.

73(a)(vii)

Leased assets are depreciated using a straight-line method.

73(a)(v)

Interest expense related to liabilities to make lease payments totals CUXX. Cash paid attributable to interest payments for leases for the period totals CUXX.

Added per staff recommendation

The following is an analysis of the change in beginning and ending balances of leased assets and the liability to make lease payments:

<i>(Amounts in thousands)</i>	Buildings	Equipment
December 31, 20X3	9,753	9,667
Addition of leased assets	2,488	775
Amortization of leased assets	(2,105)	(2,003)
Impairment of leased assets	(3)	(23)
Foreign currency translation adjustments	XX	XX
Effect of acquisition	XX	XX
December 31, 20X4	<u>10,133</u>	<u>9,753</u>
Liability to make lease payments		
January 1, 20X4	20,198	
New leases	3,179	
Accretion of expense (Interest)	1,311	
Cash paid	(5,010)	
Foreign currency translation adjustments	XX	
Effect of acquisition	XX	
December 31, 20X4	<u>19,678</u>	

77(a) & (b)

The following is the schedule of maturities of the liabilities to make lease payments and leases not yet commenced:

<i>(Amounts in thousands)</i>	Future payments of liability to make lease payments	Leases not yet Commenced
Fiscal Year		
20X5	4,275	250
20X6	4,212	250
20X7	3,106	250
20X8	3,043	-
20X9	2,986	-
Thereafter	<u>7,477</u>	<u>-</u>
Total future lease payments	25,099	750
Discount of future lease payments	<u>(5,421)</u>	
Present value of recognized lease payments	<u>19,678</u>	

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XYZ Corp had a total of CUXX of short-term lease expense during the period.

Discount rates used in determining the present value of future lease payments are generally the incremental borrowing rates based on the circumstances and economic environment at the time of lease commencement. A minority of leases are discounted using the rate that the lessor is explicitly charging through the lease agreement.

Demonstration of the effect of classification of variable lease payments and interest

5. During the FASB Education Session, questions arose as to how the Statement of Cash Flows (SCF) would be affected based on different potential classifications of variable lease payments (VLPs) and interest. The staff has summarized the effects of the classification of VLPs and interest in the SCF in the following table:

	Is cash payment of VLP separately presented or disclosed?	Is VLP expense separately presented or disclosed?	Is the VLP payment included in the rollforward ?	Is interest expense and interest cash payment presented or disclosed?	Is the interest expense included in the roll-Forward?
SCF with VLP in operating	No	Disclosed	No	Yes, disclosed	Yes
SCF with VLP in financing	Not necessarily	Disclosed and perhaps presented in the SCF as an adjusting operating item	Maybe (the staff thinks it should be consistent with the cash flow treatment)	Yes, disclosed	Yes (expense would be a separate line, payment could be)
SCF with VLP and interest in financing	Not necessarily	Disclosed and perhaps presented in the SCF as an adjusting operating item	Maybe (the staff thinks it should be consistent with the cash flow treatment)	Yes, may also be separately presented in SCF (Note: Difference exists between U.S. GAAP and IFRSs)	Yes (expense would be a separate line, payment could be)

6. Additionally, the staff has provided the following illustration of the effects to the SCF and rollforward of the liability to make lease payments to demonstrate the different scenarios as summarized in the preceeding table (Note: the illustration below assumes that the variable lease payments due are fully paid within the period. Additional adjustments would be made in operating activities to the extent that payments are due but remain payable as of the period end date).

SCF if VLP are not in Financing	
Net Income	X
Adjustments	
Amortization	4108
Operating	<u>X+4108</u>
Financing	
Payment of Lease	(3760)
<i>Supplemental Cash flow disclosure</i>	
Interest Paid on Lease	(1250)
Amounts added to lease assets in exchange for lease liability	3263

SCF if VLP are in Financing	
Net Income	X
Adjustments	
Amortization	4108
Variable Lease Expense	665
Operating	<u>X+4108+665</u>
Financing	
Payment of Lease	(4425)
<i>Supplemental Cash flow disclosure</i>	
Interest Paid on Lease	(1250)
Amounts added to lease assets in exchange for lease liability	3263

SCF if VLP and interest are in Financing	
Net Income	X
Adjustments	
Amortization	4108
Variable Lease Expense	665
Interest on Lease	1250
Operating	<u>X+4108+665+1250</u>
Financing	
Payment of Lease	(5675)
<i>Supplemental Cash flow disclosure</i>	
Interest Paid on Lease	(1250)
Amounts added to lease assets in exchange for lease liability	3263

7. The staff thinks that if VLPs are included in the financing section of the SCF, the boards should consider whether the liability to make lease payments does include the VLP not at commencement of the lease but as incurred. If so, the staff thinks that both the liability to make lease payments in the SFP and the analysis of the change in the balance would include incurred VLPs. The following illustrates this distinction in the analysis of the change in the balance of the liability:

Liability to make lease payments (excluding VLPs)	
January 1, 20X4	20,198
New leases	3,179
Accretion of expense (Interest)	1,311
Cash paid	(5,010)
December 31, 20X4	<u><u>19,678</u></u>

Liability to make lease payments (including VLPs as incurred)	
January 1, 20X4	20,198
New leases	3,179
Accrual of VLPs Incurred	665
Accretion of expense (Interest)	1,311
Cash paid	(5,675)
December 31, 20X4	<u><u>19,678</u></u>

Possible format of information to facilitate analysis

8. During the FASB Education Session the Board discussed the format of the information provided to facilitate the adjustment of expense recorded for leases under the proposed requirements to a “cash basis rent” type metric. An illustrative disclosure should the Boards decide to require such information may be similar to the following:

Expenses related to leases are as follows:

Amortization Expense	XXX
Interest Expense	XXX
Variable Lease Expense	XXX
Short term leases Expense	XX
	<u>XXXX</u>

Total Cash paid on the liability to make lease payments (which excludes amounts paid for variable lease payments and short term leases) was CUXXXX. Within the amount paid is CUXXX of interest.

Presentation of expense in the Statement of Comprehensive Income

9. During the FASB Education session, the presentation of expenses related to leases in the SCI was discussed. The staff has summarized how it believes the various expenses may be presented without further presentation guidance.

Lease Expense	Presented By Nature
Amortization Expense (ROU Asset)	Within Amortization and Depreciation
Variable Lease Expense	Within Lease (Rent) Expense
Short-Term Lease Expense	Within Lease (Rent) Expense
Interest Expense (Lease Liability)	Within Interest Expense/Finance Costs

Lease Expense	Presented By Function (for example, manufacturer)
Amortization Expense (ROU Asset)	Within COGS (or allocated across line items)
Variable Lease Expense	Within COGS (or allocated across line items)

Short-Term Lease Expense Within COGS (or allocated across line items)

Interest Expense (Lease Liability) Within Interest Expense/Finance Costs

10. If all lease expense were combined as *rent expense*, a by function statement of comprehensive income would present that expense embedded within COGS or allocated across line items. This *rent expense* would include interest expense.