

# STAFF PAPER

## FASB | IASB Meeting

**28/29 February 2012**

FASB education session 15 February 2012 /  
IASB education session 27 February 2012

Project	Leases		
Paper topic	Cover note		
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This paper has been prepared by the staff of the IFRS Foundation and the FASB for discussion at a public meeting of the FASB or IASB. It does not purport to represent the views of any individual members of either board. Comments on the application of US GAAP or IFRSs do not purport to set out acceptable or unacceptable application of U.S. GAAP or IFRSs. The FASB and the IASB report their decisions made at public meetings in FASB Action Alert or in IASB Update.

1. This paper does the following:
  - (a) summarises the Boards' progress in the leases project.
  - (b) provides an overview of the papers for the February 2012 meeting, together with a summary of the staff recommendations.
  - (c) describes next steps toward publishing the *Leases* re-exposure document.

## Progress report

### Where we are in the project

2. The Boards published a *Leases* Exposure Draft (2010 ED) in August 2010, with a comment period that ended on 15 December 2010.
3. The Boards commenced deliberations of the proposals in the 2010 ED in February 2011, taking into account feedback received from respondents to the ED and through other outreach (for example, roundtables and workshops held during the comment period).
4. In July 2011, the Boards decided that that they would re-expose the leases proposals given the extent of changes proposed since publishing the 2010 ED.

IASB Agenda ref	<b>2</b>
FASB Agenda ref	<b>224</b>

5. The Boards have now substantially completed the redeliberations process. At the February 2012 joint meeting, we expect to have the last substantive discussions on the proposals before moving into the drafting phase of this stage of the project.
6. The Boards have reached converged decisions in all respects, with one exception. Regarding lessee disclosures, the IASB tentatively decided that a lessee would *not* be required to disclose the future contractual commitments associated with services and other non-lease components that are separated from a lease contract. The FASB tentatively decided that a lessee would be required to provide such disclosures.
7. In addition, although both Boards tentatively decided to test lease assets for impairment in accordance with their respective impairment standards, in practice, differences could arise because those impairment standards are different.
8. The diagram on the following page summarises where the Boards are and the main changes from the 2010 ED.

## Where we are

	What the proposals apply to	How the proposals measure a lease contract	Special applications	Presentation, disclosure and transition
	<ul style="list-style-type: none"> <li>• Definition of a lease</li> <li>• Scope exemptions</li> <li>• Non-lease components of a contract</li> </ul>	<ul style="list-style-type: none"> <li>• Lessee accounting</li> <li>• Lessor accounting</li> <li>• Variable lease payments (VLPs)</li> <li>• Lease term</li> <li>• Discount rate</li> </ul>	<ul style="list-style-type: none"> <li>• Short-term leases</li> <li>• Lessors with leases of property</li> <li>• Sale and leaseback</li> </ul>	<ul style="list-style-type: none"> <li>• Lessee presentation, disclosure and transition</li> <li>• Lessor presentation, disclosure and transition</li> </ul>
<b>Main changes from 2010 ED</b>	<ul style="list-style-type: none"> <li>• Concept of control used within the definition of a lease changed to align more closely with other standards/EDs</li> <li>• Non-lease components separated from lease components and accounted for according to other standards</li> </ul>	<ul style="list-style-type: none"> <li>• Lessee accounting model: similar to 2010 ED</li> <li>• Lessor accounting model: receivable and residual approach, similar to derecognition approach in 2010 ED except residual accreted</li> <li>• VLPs excluded from lease asset and liability unless linked to index or rate</li> <li>• Lease term includes extension periods only when lessee has significant economic incentive to exercise</li> </ul>	<ul style="list-style-type: none"> <li>• Short-term leases (maximum term of &lt;12 months): option to apply operating lease accounting</li> <li>• Leases of property: lessor required to apply operating lease accounting, regardless of whether property measured at cost or FV</li> <li>• Sale and leaseback: determine if a sale according to revenue recognition proposals</li> </ul>	<ul style="list-style-type: none"> <li>• Lessee disclosure: breakdown of lease expense into its components</li> <li>• Lessor disclosure: management of residual asset risk</li> <li>• Transition: simplified retrospective approach (reduces front-loaded expense effect that arose from 2010 ED proposals)</li> </ul>
<b>Discuss in February</b>		<ul style="list-style-type: none"> <li>• Lessee accounting: discuss subsequent measurement of ROU asset</li> </ul>	<ul style="list-style-type: none"> <li>• Lessor accounting: definition of property</li> </ul>	

IASB Agenda ref	<b>2</b>
FASB Agenda ref	<b>224</b>

## Overview of papers for the February 2012 joint meeting

### Summary of working group meeting

9. **Agenda Paper 2A/225 – Working Group Meeting Summary:** On January 24, 2012, members and staff of the FASB and the IASB met with members of the Joint Leases Working Group to discuss lessee and lessor accounting issues. The Working Group comprises preparers, users, auditors, and academics. Their views and comments from the meeting are summarized in this paper.

### Lessee accounting

10. **Agenda Paper 2B/226 – Lessee accounting—introduction and overview:** This paper sets out the reasons for discussing again the subsequent measurement of the right-of-use (ROU) asset, additional feedback received on the Boards' tentative decisions, a discussion of the rights and obligations that arise from a lease contract, a summary of the questions for the Boards, and a summary of the staff recommendations regarding lessee accounting.
11. **Agenda Paper 2C/227 – Lessee accounting approaches:** This paper sets out three different approaches to subsequently measuring the ROU asset by the lessee:
  - (a) **Approach A:** the Boards' current tentative decisions that treats a lease contract as being equivalent to the purchase of an intangible asset, which is financed separately.
  - (b) **Approach B:** the 'interest-based amortization' approach that treats a lease contract differently from the purchase of a non-financial asset, which is financed separately. Lease contracts give rise to ROU assets, which are a distinct class of non-financial assets that are amortised differently from other non-financial assets.
  - (c) **Approach C:** the 'underlying asset' approach that treats a lease contract as being equivalent to the purchase of an intangible asset, which is financed separately.

IASB Agenda ref	<b>2</b>
FASB Agenda ref	<b>224</b>

12. **Agenda Paper 2D/228 – Lessee accounting – Illustrations:** This paper sets out illustrations to assist the Boards in their assessment of each of the approaches discussed in agenda paper 2C/227.

#### Lessor accounting

13. **Agenda Paper 2E/229 – Leases excluded from the scope of the receivable and residual approach:** This paper considers the definition of *investment property* for the purposes of determining which leases to exclude from the scope of the receivable and residual approach to lessor accounting.

#### Consequences of Boards' decisions

14. **Agenda Paper 2F/230 – Consequences of lessee accounting discussion and lessor investment property decision:** This paper sets out the staff's initial thinking regarding the following two issues:
- (a) **Issue 1**—whether there are any consequences for lessor accounting resulting from the outcome of the Boards' lessee accounting discussions.
  - (b) **Issue 2**—whether there are any consequences for lessee accounting derived from the Boards' tentative decision to exclude leases of investment property from the scope of the receivable and residual approach.

#### Next steps

15. The staff expects that the decisions made at the February 2012 joint meeting will be the last substantive decisions. At the March 2012 joint meeting, the staff will bring some sweep issues (for example comment period, interim disclosures) and any issues that arise as a result of the decisions made at the February 2012 joint meeting. Once all decisions have been made, the staff plans to proceed to drafting the revised Exposure Draft for publication later in 2012.