STAFF PAPER

January 24, 2012

Working Group Meeting

Project	**Leases**
Paper topic	Summary of Boards' current tentative decisions by topic

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CONTENTS

REEXPOSURE ANNOUNCEMENT – JULY 20-21

The Boards agreed unanimously to re-expose their revised proposals for a leases standard. Re-exposing the revised proposals will provide interested parties with an opportunity to comment on revisions that the Boards have undertaken since the publication of the Exposure Draft on leases in August 2010.

DEFINITION OF A LEASE (AP 1D/MEMO 158) – APRIL 12-13

In the *Leases* Exposure Draft, the Boards defined a lease as a contract in which the right to use a specified asset (the underlying asset) is conveyed, for a period of time, in exchange for consideration.

The Boards tentatively decided the following in relation to applying that definition, having considered feedback received from targeted outreach meetings held during March 2011 as well as feedback received in comment letters and through other outreach:

1. An entity would determine whether a contract contains a lease on the basis of the substance of the contract, by assessing whether:
    a. The fulfilment of the contract depends on the use of a specified asset; and
    b. The contract conveys the right to control the use of a specified asset for a period of time.
2. A contract would convey that right to control the use if the customer has the ability to direct the use, and receive the benefit from use, of a specified asset throughout the lease term. Guidance on separating the use of a specified asset from other services should be aligned with the Boards' tentative decisions in March 2011 relating to the separation of lease and non-lease components.
3. A "specified asset" refers to an asset that is explicitly or implicitly identifiable.
4. A physically distinct portion of a larger asset of which a customer has exclusive use is a specified asset. A capacity portion of a larger asset that is not physically distinct (for example, a capacity portion of a pipeline) is not a specified asset.

SCOPE (AP 5B/MEMO 138 AND AP 2A/MEMO 197) – MARCH 2 AND SEPTEMBER 19-21

The Boards tentatively decided that leases of intangibles are not required to be accounted for in accordance with the leases standard.

The Boards affirmed the decision in the leases Exposure Draft that the following are within the scope of the leases standard:

1. Right-of-use assets in a sublease
2. Leases of non-core assets
3. Long-term leases of land.

The Boards tentatively decided not to provide a scope exclusion from the leases standard for assets often treated as inventory, such as non-depreciating spare parts, operating materials, and supplies, and that are associated with the leasing of another underlying asset. (AP 2A/Memo 197, September 19-21)

The Boards affirmed the decision in the leases Exposure Draft that the following are not within the scope of the leases standard:

1. Leases for the right to explore for or use minerals, oil, natural gas and similar non-regenerative resources
2. Leases of biological assets, including (U.S. GAAP only) timber
3. (IFRSs only) Leases of service concession arrangements within the scope of IFRIC 12, *Service Concession Arrangements.*

The Boards directed the staff to perform additional research and present an analysis at a future meeting of whether the following are within the scope of the leases standard:

1. Leases of internal-use software in accordance with Subtopic 350-40, Intangibles–Goodwill and Other Internal-Use Software, of the *FASB Accounting Standards Codification*®

CONFIRMATION OF THE RIGHT-OF-USE MODEL (AP 5A/MEMO 137) – MARCH 2

The Boards affirmed the decision in the leases Exposure Draft to apply a right-of-use model to all lease arrangements. Under that model, a lessee in an arrangement that is, or contains, a lease would recognize an asset representing its right to use an underlying asset during the lease term and a liability representing its obligation to make lease payments during the lease term.

LESSEE ACCOUNTING (AP 2D/MEMO 171 AND AP 2I/MEMO 176) – MAY 17-19

The Boards tentatively decided that lessees should apply a single accounting approach for all leases consistent with the approach proposed in the Leases Exposure Draft. This accounting approach would require a lessee to:

1. Initially recognize a liability to make lease payments and a right-of-use asset, both measured at the present value of the lease payments.

2. Subsequently measure the liability to make lease payments using the effective interest method.

3. Amortize the right-of-use asset on a systematic basis that reflects the pattern of consumption of the expected future economic benefits.

LESSOR ACCOUNTING (AP 2F/MEMO 210, AP 2L/MEMO 216) – OCTOBER 19-20, 2011

The FASB and the IASB tentatively decided that a lessor's lease of investment property would not be within the scope of the lessor receivable and residual approach. Instead, for such leases the lessor should continue to recognize the underlying asset and recognize lease income over the lease term.

The Boards discussed the receivable and residual approach and tentatively decided that for all lease contracts within the scope of that approach, a lessor should:

1. Initially measure the right to receive lease payments at the present value of the lease payments, discounted using the rate the lessor charges the lessee, and subsequently measure at amortized cost applying an effective interest method.

2. Initially measure the residual asset as an allocation of the carrying amount of the underlying asset. The initial measurement of the residual asset comprises two amounts: (a) the gross residual asset, measured at the present value of the estimated residual value at the end of the lease term discounted using the rate the lessor charges the lessee and (b) the deferred profit, measured as the difference between the gross residual asset and the allocation of the carrying amount of the underlying asset.

3. Subsequently measure the gross residual asset by accreting to the estimated residual value at the end of the lease term using the rate the lessor charges the lessee. The lessor would not recognize any of the deferred profit in profit or loss until the residual asset is sold or re-leased.

4. Present the gross residual asset and the deferred profit together as a net residual asset.

The Boards also tentatively decided that short-term leases should also be excluded from the scope of the “receivable and residual” approach to lessor accounting.

REVENUE RECOGNITION FOR LESSORS WITH LEASES OF INVESTMENT PROPERTY (AP 5B/MEMO 222) – DECEMBER 14

The IASB tentatively decided that, for leases of investment property, a lessor should recognize rental income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which rentals are earned from the investment property.

The FASB tentatively decided that, for leases of investment property, a lessor that is not an investment property entity or investment company should recognize rental income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which rentals are earned from the investment property.

The Boards also tentatively decided that a lessor with leases of investment property not within the scope of the receivable and residual approach should recognize only the underlying investment property on its statement of financial position (as well as any accrued or prepaid rental income).

LEVERAGED LEASES (FASB ONLY) (MEMO 185) – JULY 13

The Board discussed lessor accounting for leveraged lease transactions and tentatively decided that:

1. A lessor would account for leveraged leases under the proposed new leases guidance. There would not be a different lessor approach for leveraged leases.
2. A lessor would apply the same transition guidance to current leveraged leases as required for all other leases; that is, existing leveraged lease transactions would not be grandfathered.

SUBLEASES (AP 2B/MEMO 182) – JUNE 13-15

The Boards discussed the accounting for subleases under the proposed leases requirements for lessees and lessors and tentatively decided the following:

1. A head lease and a sublease should be accounted for as separate transactions.

2. An intermediate lessor, as a lessee in a head lease arrangement, should account for its assets and liabilities arising from the head lease in accordance with the decisions-to-date for all lessees.

3. An intermediate lessor, as a lessor in a sublease arrangement, should account for its assets and liabilities arising from the sublease in accordance with the decisions-to-date for all lessors.

4. If the Boards decide that there should be more than one approach to lessor accounting, an intermediate lessor, as a lessor in a sublease, should evaluate its right-of-use asset, not the underlying asset, to determine the appropriate lessor accounting approach to apply to the sublease.

LEASE TERM (AP 5B/MEMO 130) – FEBRUARY 16-17

The FASB and the IASB tentatively decided that the lease term should be defined, for both lessees and lessors, as follows:

> The lease term is the non-cancellable period for which the lessee has contracted with the lessor to lease the underlying asset, together with any options to extend or terminate the lease when there is a significant economic incentive for an entity to exercise an option to extend the lease, or for an entity not to exercise an option to terminate the lease.

The Boards tentatively decided that a lessee and a lessor should reassess the lease term only when there is a significant change in relevant factors such that the lessee would then either have, or no longer have, a significant economic incentive to exercise any options to extend or terminate the lease.

CANCELLABLE LEASES (AP 5A/MEMO 221) – DECEMBER 14

The Boards discussed the accounting treatment for leases that (1) are cancellable by both the lessee and lessor with minimal termination payments or (2) include renewal options that must be agreed to by both the lessee and the lessor. The Boards tentatively decided that the lease proposals should be applied only to periods for which enforceable rights and obligations arise. Therefore, such cancellable leases would meet the definition of short-term leases if the initial noncancellable period, together with any notice period, is less than one year. In reaching that decision, the Boards also tentatively decided not to change their previous decisions on the definitions of short-term leases and lease term.

CONTRACT MODIFICATIONS OR CHANGES IN CIRCUMSTANCES AFTER THE DATE OF INCEPTION OF THE LEASE (AP 2B/MEMO 169) – MAY 17-19

The Boards tentatively decided to provide guidance on accounting for changes after the date of inception of the lease as follows:

1. A modification to the contractual terms of a contract that is a substantive change to the existing contract should result in the modified contract being accounted for as a new contract. The change is a substantive change if it results in a different determination of whether the contract is, or contains, a lease or, if applicable, whether the contract transfers substantially all of the risks and rewards incidental to ownership of the underlying asset.

2. A change in circumstances other than a modification to the contractual terms of the contract that would affect the assessment of whether a contract is, or contains, a lease should result in a reassessment as to whether the contract is, or contains, a lease.

VARIABLE LEASE PAYMENTS AND OTHER LEASE PAYMENT CONSIDERATIONS AP 5G/MEMO 135, AP 1A/MEMO 156, AP 1B/MEMO 157, AP 2B/MEMO 179, 5E/MEMO 191, AP 5F/MEMO 192, AP 2E/MEMO 201) – FEBRUARY 16-17, APRIL 12-13, JUNE 1, JULY 20-21, AND SEPTEMBER 19-21

Variable lease payments include any lease payments that arise under the contractual terms of a lease because of changes in facts or circumstances occurring after the date of inception of the lease, other than the passage of time.

Recognition of variable lease payments by a lessee and lessor should be subject to the same reliable measurement threshold. However, the need for such a threshold will depend on the basis for recognizing variable lease payments.

Lease payments where the variability lacks economic substance (AP 1A/Memo 156) – April 12-13

The Boards tentatively decided that the measurement of the lessee’s liability and the lessor’s receivable should include lease payments that are in-substance fixed lease payments but are structured as variable lease payments in form.

Lease payments that depend on an index or a rate (AP 5E/Memo 191 and AP 2E/Memo 201) – July 20-21 and September 19-21

The Boards discussed the measurement of lease payments that depend on an index or a rate included in the lessee’s liability to make lease payments and the lessor’s right to receive lease payments and tentatively decided that:

1. Lease payments that depend on an index or a rate should be initially measured using the index or rate that exists at the date of commencement of the lease.

2. Lease payments that depend on an index or a rate should be reassessed using the index or rate that exists at the end of each reporting period.

3. Lessees should reflect changes in the measurement of lease payments that depend on an index or a rate (a) in net income to the extent that those changes relate to the current reporting period and (b) as an adjustment to the right-of-use asset to the extent that those changes relate to future reporting periods.

4. Lessors should recognize changes in the right to receive lease payments due to reassessments of variable lease payments that depend on an index or a rate immediately in profit or loss. (AP 2E/Memo 201, September 19-21)

Embedded derivatives in lease contracts (AP 5F/Memo 192) – July 20-21

The Boards tentatively decided that an entity should assess whether a lease contract includes embedded derivatives that should be bifurcated and accounted for in accordance with applicable U.S. GAAP and IFRS guidance on derivatives.

Residual value guarantees (AP 5G/Memo 135, AP 2B/Memo 179, and AP 2F/Memo 202) – February 16-17, June 1, and September 19-21

Lessee initial measurement (AP 5G/Memo 135) – February 16-17

The Boards tentatively decided to clarify that the lease payments should include amounts expected to be payable under residual value guarantees, except for amounts payable under guarantees provided by an unrelated third party.

Lessee subsequent measurement (AP 2B/Memo 179) – June 1

The Boards discussed the subsequent measurement of residual value guarantees by lessees (excluding guarantees provided by an unrelated third party) and tentatively decided that:

1. The amounts expected to be payable under residual value guarantees included in the measurement of the lessee's right-of-use asset should be amortized consistently with how other lease payments that are included in the measurement of a right-of-use asset are amortized. That is, amortization should be on a systematic basis from the date of commencement of the lease to the end of the lease term, or over the useful life of the underlying asset, if this is shorter. The method of amortization should reflect the pattern in which the economic benefits of the right-

of-use asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method should be used.

2. The amounts expected to be payable under residual value guarantees that are included in the measurement of the lessee's liability to make lease payments should be reassessed when events or circumstances indicate that there has been a significant change in the amounts expected to be payable under residual value guarantees. An entity would be required to consider all relevant factors to determine whether events or circumstances indicate that there has been a significant change.

3. The amount of the change to the lessee's liability to make lease payments arising from changes in estimates of residual value guarantees should be recognized (a) in net income to the extent that those changes relate to current or prior periods and (b) as an adjustment to the right-of-use asset to the extent those changes relate to future periods. The allocation for changes in estimates of residual value guarantees should reflect the pattern in which the economic benefits of the right-of-use asset will be consumed or were consumed. If that pattern cannot be reliably determined, an entity should allocate changes in estimates of residual value guarantees to future periods.

Lessors (AP 2F/Memo 202) – September 19-21

The Boards discussed the accounting of residual value guarantees by lessors and tentatively decided that:

1. The leases standard would provide guidance on accounting for all residual value guarantees, regardless of whether they are provided by a lessee, a related party, or a third party.

2. A lessor would not recognize amounts expected to be received under a residual value guarantee until the end of the lease. However, the lessor would consider those guarantees when determining whether the residual asset is impaired.

Term option penalties (AP 5G/Memo 135) – February 16-17

The Boards tentatively decided that the accounting for term option penalties should be consistent with the accounting for options to extend or terminate a lease. That is, if a lessee would be required to pay a penalty if it does not renew the lease and the renewal period has not been included in the lease term, then that penalty should be included in the recognized lease payments.

LESSEE SUBSEQUENT MEASUREMENT ISSUES (AP 2A/MEMO 178 AND AP 2B/MEMO 179) – JUNE 1

Foreign exchange differences (AP 2A/Memo 178)

The Boards discussed the accounting by lessees for leases denominated in a foreign currency. The Boards tentatively decided that foreign exchange differences related to the liability to make lease payments should be recognized in profit or loss, consistently with foreign exchange guidance in existing IFRSs and U.S. GAAP.

Impairment (AP 2A/Memo 178)

The Boards discussed impairment of the lessee's right-of-use asset. The Boards tentatively decided to affirm the proposal in the *Leases* Exposure Draft to refer to existing guidance in IFRSs (IAS 36 *Impairment of Assets*) and U.S. GAAP (Topic 350 *Intangibles – Goodwill and Other*) for impairment of the right-of-use asset.

Revaluation (IASB only) (AP 2A/Memo 178)

The IASB discussed revaluation of the lessee's right-of-use asset. The IASB tentatively decided to affirm the proposals in the *Leases* Exposure Draft allowing revaluation of the right-of-use asset.

LESSOR SUBSEQUENT MEASUREMENT ISSUES (AP 2D/MEMO 200, AP 2E/MEMO 201, AND AP 2A/MEMO 205) – SEPTEMBER 19-21 AND OCTOBER 19-20

Application of financial asset guidance to the right to receive lease payments (AP 2D/Memo 200)

The Boards tentatively decided that:

1. A lessor should subsequently measure the right to receive lease payments using the effective interest method.
2. A lessor should refer to existing financial instruments guidance (IAS 39,*Financial Instruments: Recognition and Measurement,* and *FASB Accounting Standards Codification*® Topic 310, *Receivables*) to assess the impairment of that right to receive lease payments.
3. The leases standard should not contain an option for fair value measurement of the right to receive lease payments.

Impairment of the residual asset (AP 2E/Memo 201)

The Boards tentatively decided that a lessor should refer to IAS 36, *Impairment of Assets,* or Topic 360, *Property, Plant, and Equipment,* as appropriate, to assess the impairment of the residual asset.

Revaluation of the residual asset (IASB only) (AP 2E/Memo 201)

The IASB tentatively decided that revaluation of the residual asset should be prohibited.

Accounting for the residual asset when there are variable lease payments (AP 2A/Memo 205)

The Boards discussed the subsequent measurement of a lessor's residual asset when the lease contract includes variable lease payments that are not recognized as a part of the lease receivable at lease commencement.

The Boards tentatively decided that:

1. If the rate the lessor charges the lessee does not reflect an expectation of variable lease payments, the lessor would not make any adjustments to the residual asset with respect to variable lease payments.

2. If the rate the lessor charges the lessee reflects an expectation of variable lease payments, the lessor would adjust the residual asset on the basis of its expectation of variable lease payments by recognizing a portion of the cost of the residual asset as an expense when variable lease payments are recognized in profit or loss. Any difference between actual and expected variable lease payments would not result in any further adjustment to the residual asset with respect to variable lease payments.

LESSEE PRESENTATION (AP 5A/MEMO 187 AND AP 5B/MEMO 188) – JULY 20-21

Statement of financial position (AP 5A/Memo 187)

The Boards discussed presentation in the lessee statement of financial position and tentatively decided that a lessee should:

1. Separately present in the statement of financial position or disclose in the notes to the financial statements right-of-use assets and liabilities to make lease payments. If right-of-use assets and liabilities to make lease payments are not separately presented in the statement of financial position, the disclosures should indicate in which line item in the statement of financial position the right-of-use assets and liabilities to make lease payments are included.

2. Present the right-of-use asset as if the underlying asset were owned.

The Boards also decided that it is not necessary to clarify whether the right-of-use asset is a tangible or an intangible asset.

Statement of cash flows (AP 5B/Memo 188)

The Boards discussed the lessee's statement of cash flows and tentatively decided that a lessee should:

1. Classify cash paid for lease payments relating to the principal within financing activities.
2. Classify or disclose cash paid for lease payments relating to interest in accordance with applicable IFRSs or U.S. GAAP on the statement of cash flows.
3. Classify cash paid for variable lease payments not included in the measurement of the liability to make lease payments as operating activities.
4. Classify cash paid for short-term leases not included in the liability to make lease payments as operating activities.

The Boards tentatively decided that a lessee should disclose:

1. The expense recognized in the reporting period for variable lease payments not included in the liability to make lease payments.
2. The acquisition of a right-of-use asset in exchange for a liability to make lease payments as a supplemental noncash transaction disclosure.

LESSEE DISCLOSURES (AP 5C/MEMO 189 AND AP 5D/MEMO 190) – JULY 20-21

The Boards discussed lessee disclosures and tentatively decided that a lessee should disclose the following:

1. A reconciliation of the opening and closing balance of right-of-use assets, disaggregated by class of underlying asset.
2. A reconciliation of the opening and closing balance of the liability to make lease payments (unlike the Exposure Draft, a lessee would *not* be required to disaggregate the reconciliation by class of underlying asset).
3. A maturity analysis of the undiscounted cash flows that are included in the liability to make lease payments. The maturity analysis should show, at a minimum, the undiscounted cash flows to be paid in each of the first five years after the reporting date and a total of the amounts for the years thereafter. The analysis should reconcile to the liability to make lease payments.
4. Information about the principal terms of any lease that has not yet commenced if the lease creates significant rights and obligations for the lessee.

5. Information required in paragraphs 73(a)(ii)-73(a)(iii) of the Exposure Draft (the Boards will provide guidance, illustrations, or both about those requirements).

6. All expenses relating to leases recognized in the reporting period, in a tabular format, disaggregated into (a) amortization expense, (b) interest expense, (c) expense relating to variable lease payments not included in the liability to make lease payments, and (d) expense for those leases for which the short-term practical expedient is elected, to be followed by the principal and interest paid on the liability to make lease payments.

7. Qualitative information to indicate if circumstances or expectations about short-term lease arrangements are present that would result in a material change to the expense in the next reporting period as compared with the current reporting period.

The Boards also tentatively decided that a lessee should:

1. Present or disclose separately interest expense and interest paid relating to leases.

2. *Not* combine interest expense and amortization expense and present as lease or rent expense.

Additionally, the Boards tentatively decided that a lessee is not required to disclose the following:

1. The discount rate used to calculate the liability to make lease payments.

2. The range of discount rates used to calculate the liability to make lease payments.

3. The fair value of the liability to make lease payments.

4. The existence and principal terms of any options for the lessee to purchase the underlying asset, or initial direct costs incurred on a lease.

5. Information about arrangements that are no longer determined to contain a lease.

With regard to future contractual commitments:

1. The IASB tentatively decided that a lessee is not required to disclose the future contractual commitments associated with services and other non-lease components that are separated from a lease contract.

2. The FASB tentatively decided that a lessee should disclose the future contractual commitments associated with services and other non-lease components that are separated from a lease contract.

LESSOR PRESENTATION (AP 2B/MEMO 198, AP 2C/MEMO 199, AND AP 2C/MEMO 207) – SEPTEMBER 19-21 AND OCTOBER 19-20

Statement of financial position (AP 2B/Memo 198)

The Boards tentatively decided that a lessor should either:

1. Present the lease receivable and the residual asset separately in the statement of financial position, summing to a total "lease assets"; or
2. Present the lease receivable and residual asset in the statement of financial position as "lease assets," with those two amounts disclosed in the notes to the financial statements.

Statement of comprehensive income (AP 2C/Memo 207)

The Boards discussed presentation requirements for lessors in the statement of comprehensive income. The Boards tentatively decided that a lessor should present:

1. The accretion of the residual asset as interest income.
2. The amortization of initial direct costs as an offset to interest income.
3. Lease income and lease expense (for example, revenue and cost of sales) in the statement of comprehensive income either in separate line items (gross) or in a single line item (net), on the basis of which presentation best reflects the lessor's business model.

The Boards also tentatively decided that a lessor should separately identify income and expenses arising from leases by either separate presentation in the statement of comprehensive income or disclosure in the notes to the financial statements. If disclosed, the notes should reference the line item in which the income is presented.

Statement of cash flows (AP 2C/Memo 199)

The Boards tentatively decided that a lessor should classify the cash inflows from a lease as operating activities in the statement of cash flows.

LESSOR DISCLOSURES (AP 2D/MEMO 208) – NOVEMBER 1

The FASB and the IASB discussed the disclosure requirements for lessors that account for leases under the receivable and residual approach. The Boards tentatively decided to require disclosure of the following:

1. A table of all lease related income items recognized in the reporting period disaggregated into (a) profit, recognized at lease commencement (split into revenue and cost of sales if that is how the lessor has presented the amounts in the statement of comprehensive income); (b) interest income on the lease receivable; (c) interest income on the residual asset; (d) variable lease income; and (e) short-term lease income.

2. Information about the basis and terms on which variable lease payments are determined required in paragraph 73(a)(ii) of the 2010 Exposure Draft.

3. Information about the existence and terms of options, including for renewal and termination required in paragraph 73(a)(iii) of the 2010 Exposure Draft.

4. A qualitative description of purchase options in leasing arrangements, including information about the extent to which the entity is subject to such agreements.

5. A reconciliation of the opening and closing balance of the right to receive lease payments and residual assets.

6. A maturity analysis of the undiscounted cash flows that are included in the right to receive lease payments. 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 for the years thereafter. The analysis should reconcile to the right to receive lease payments. The Boards noted a potential redundancy with disclosures proposed in other active projects and agreed to avoid redundancy wherever possible.

7. In addition to the disclosure about residual asset risk and residual value guarantee proposed in the 2010 Exposure Draft, information about how the entity manages its exposure to the underlying asset, including (a) its risk management strategy in this respect, (b) the carrying amount of the residual asset that is covered by residual value guarantees, and (c) whether the lessor has any other means of reducing its exposure to residual asset risk (for example, buyback agreements with the manufacturer from whom the lessor purchased the underlying asset; options to put the underlying asset back to the manufacturer).

Additionally, the Boards tentatively decided that a lessor is *not* required to disclose the following:

1. The initial direct costs incurred in the period

2. The weighted average or range of discount rates used to calculate the right to receive lease payments

3. The fair value of the right to receive lease payments or the residual asset.

Disclosure Requirements for Lessors with Leases of Investment Property (AP 5C/Memo 223) – December 14

The Boards discussed the disclosure requirements for lessors with leases of investment property not within the scope of the receivable and residual approach. The Boards tentatively decided to require disclosure of the following:

1. A maturity analysis of the undiscounted future noncancellable lease payments. 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.

2. Both minimum contractual lease income and variable lease payment income within the table of lease income.

3. 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.

4. Information about leases that are not within the scope of the receivable and residual approach consistent with paragraph 73 of the 2010 Exposure Draft, updated for decisions the Boards have reached to date. That information would include the following:

    a. A general description of those lease arrangements

    b. Information about the basis and terms on which variable lease payments are determined

    c. Information about the existence and terms of options, including for renewal and termination

    d. A qualitative description of purchase options, including information about the percentage of assets subject to such agreements

    e. Any restrictions imposed by lease arrangements.

DISTINGUISHING BETWEEN A LEASE AND A PURCHASE OR A SALE (AP 5C/MEMO 142) – MARCH 14

The Boards discussed whether the leases standard should provide guidance for distinguishing a lease from a purchase or a sale.

The Boards tentatively decided that guidance should not be provided in the leases standard for distinguishing a lease of an underlying asset from a purchase or a sale of an underlying asset. That is, if an arrangement does not contain a lease, it should be accounted for in accordance with other applicable standards (for example, property, plant, and equipment or revenue recognition).

ACCOUNTING FOR PURCHASE OPTIONS (AP 5D/MEMO 143) – MARCH 14

The Boards discussed how lessees and lessors should account for options to purchase the underlying assets that are included within an arrangement that contains a lease.

The Boards tentatively decided that lessees and lessors should include the exercise price of a purchase option (including bargain purchase options) in the measurement of the lessee's liability to make lease payments and the lessor's right to receive lease payments, if the lessee has a significant economic incentive to exercise the purchase option. If it is determined that the lessee has a significant economic incentive to exercise the purchase option, the right-of-use asset recognized by the lessee should be amortized over the economic life of the underlying asset, rather than over the lease term.

The Boards also discussed whether a lessee and a lessor should reassess how to account for a purchase option included within an arrangement that contains a lease in subsequent periods. The Boards tentatively indicated a preference for specifying the same reassessment guidance for purchase options as was tentatively decided for options to extend or terminate a lease.

REASSESSMENT OF OPTIONS IN A LEASE (2G/MEMO 174) – MAY 17-19

The Boards discussed how lessees and lessors should reassess whether a lessee has a significant economic incentive to exercise:

1. An option to extend or terminate a lease, and
2. An option to purchase the underlying asset.

The Boards tentatively decided that a lessee and a lessor should consider contract-based, asset-based, and entity-based factors in reassessing whether a lessee has a significant economic incentive to exercise an option. The boards noted that all these factors should be considered together and the existence of only one factor does not necessarily, by itself, signify a significant economic incentive to exercise the option.

The Boards tentatively decided that the thresholds for evaluating a lessee's economic incentive to exercise options to extend or terminate a lease and options to purchase the underlying asset should be the same for both initial and subsequent evaluation, except that a lessee and lessor should not consider changes in market rates after lease commencement when evaluating whether a lessee has a significant economic incentive to exercise an option.

The Boards tentatively decided that changes in lease payments that is due to a reassessment in the lease term should result in:

1. A lessee adjusting its obligation to make lease payments and its right-of-use asset; and
2. A lessor adjusting its right to receive lease payments and any residual asset, and recognizing any corresponding profit or loss (pending the Boards' decision on lessor accounting).

SHORT-TERM LEASES (AP 5A/MEMO 140, AP 2C/MEMO 183, AND MEMO 184) – MARCH 14 AND JUNE 13-15

Short-term leases by lessees (AP 2C/Memo 183 and Memo 184) – June 13-15

The Boards discussed the accounting for short-term leases by lessees. A short-term lease is defined as follows:

> A lease that, at the date of commencement of the lease, has a maximum possible term, including any options to renew, of 12 months or less.

The Boards tentatively decided that for short-term leases a lessee need not recognize lease assets or lease liabilities. For those leases, the lessee should recognize lease payments in profit or loss on a straight-line basis over the lease term, unless another systematic and rational basis is more representative of the time pattern in which use is derived from the underlying asset.

The Boards also tentatively decided that a lessee may elect to apply the recognition and measurement requirements in the leases guidance to short-term leases.

Short-term leases by lessors (AP 5A/Memo 140) – March 14

The IASB and the FASB discussed the accounting for short-term leases by lessees and lessors. The Boards tentatively decided that:

1. A short-term lease, for lessors, is defined as:

   > A lease that, at the date of commencement of the lease, has a maximum possible term, including any options to renew, of 12 months or less.

2. Lessors may elect, as an accounting policy for a class of underlying asset(s), to account for all short-term leases by not recognizing lease assets or lease liabilities and by recognizing lease payments in profit or loss on a straight-line basis over the lease term, unless another systematic and rational basis is more representative of the time pattern in which use is derived from the underlying asset.

INCEPTION VERSUS COMMENCEMENT (AP 11B/MEMO 146) – MARCH 22-23

The Boards discussed the accounting for elements of a lease contract at the date of inception versus the date of commencement from both the lessee's and lessor's perspective.

The Boards tentatively decided that the leases standard would:

1. Require a lessee and a lessor to recognize and initially measure lease assets and lease liabilities (and derecognize any corresponding assets and liabilities) at the date of commencement of the lease.
2. Require a lessee and a lessor to use a discount rate calculated at the date of commencement when initially measuring lease assets and lease liabilities.
3. Include application guidance on the accounting for costs incurred by the lessee before the date of commencement of a lease.
4. Include application guidance on the accounting for lease payments made by the lessee before the date of commencement of a lease.
5. Include application guidance on the accounting for incentives provided by the lessor to the lessee. This would clarify that a lessee will deduct all lease incentives from the initial measurement of the right-of-use asset.

The Boards also discussed the accounting for a lease contract between the date of inception and the date of commencement of a lease when the contract meets the definition of an onerous contract. The IASB affirmed the leases Exposure Draft proposal to exclude from the scope of the leases standard leases between the date of inception and the date of commencement if they meet the definition of an onerous contract. Such leases would be accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* until the date of commencement. The FASB also indicated support for applying Topic 450, Contingencies, to those contracts that meet the definition of an onerous contract before the date of commencement but noted that this issue would be reviewed when the Board considers impairment at a future meeting.

INITIAL DIRECT COSTS (AP 11A/MEMO 145) – MARCH 22-23

The Boards discussed the definition of initial direct costs and the accounting by lessees and lessors for initial direct costs.

The Boards tentatively defined initial direct costs as follows:

> Costs that are directly attributable to negotiating and arranging a lease that would not have been incurred had the lease transaction not been made.

The Boards affirmed the decision in the leases Exposure Draft that lessees and lessors should capitalize initial direct costs by adding them to the carrying amount of the right-of-use asset and the right to receive lease payments, respectively.

TRANSFER/SECURITIZATION OF LEASE RECEIVABLES (AP 2B/MEMO 206) – OCTOBER 19-20

The Boards discussed the measurement of lease receivables held for the purpose of sale and the derecognition guidance to be applied when lease receivables are transferred or sold.

The Boards tentatively decided that a lessor:

1. Should not measure a lease receivable at fair value, even if part or all of that receivable is held for the purpose of sale.
2. Should apply existing derecognition requirements (in IFRS 9, *Financial Instruments,* or *FASB Accounting Standards Codification®* Topic 860, Transfers and Servicing) to lease receivables, but

allocate the carrying amount of a lease receivable on the basis of its fair value excluding any option elements and variable lease payments that are not transferred.

3. Should apply the disclosure requirements in IFRS 7, *Financial Instruments: Disclosures,* and Topic 860 for transferred lease receivables.

DISCOUNT RATE (AP 11H/ MEMO 152) – MARCH 22-23

The Boards discussed how lessees and lessors would determine the discount rate to use to initially measure lease payments at present value.

The Boards tentatively affirmed the proposals in the leases Exposure Draft, but clarified the following:

1. The lessee would use the rate the lessor charges the lessee when that rate is available; otherwise, the lessee would use its incremental borrowing rate.
2. The lessor would use the rate the lessor charges the lessee.
3. The rate the lessor charges the lessee could be the lessee's incremental borrowing rate, the rate implicit in the lease, or, for property leases, the yield on the property. When more than one indicator of the rate that the lessor charges the lessee is available, the rate implicit in the lease should be used.

The Boards also tentatively decided to provide application guidance for the determination of the discount rate when considering the use of a group discount rate and determining the yield on property.

REASSESSMENT OF THE DISCOUNT RATE (AP 2H/MEMO 175) – MAY 17-19

The Boards discussed whether there are circumstances that would require a lessee or a lessor to reassess the discount rate that is used to measure the present value of lease payments.

The Boards tentatively decided that the discount rate should not be reassessed if there is no change in the lease payments.

The Boards tentatively decided that the discount rate should be reassessed when the changes below are not reflected in the initial measurement of the discount rate:

1. When there is a change in lease payments that is due to a change in the assessment of whether the lessee has a significant economic incentive to exercise an option to extend a lease or to purchase the underlying asset.
2. When there is a change in lease payments that is due to the exercise of an option that the lessee did not have a significant economic incentive to exercise.

The Boards also decided that a lessee or lessor should determine a revised discount rate using the spot rate at the reassessment date and should then apply that rate to the remaining lease payments (i.e. to the remaining payments due in the initial lease plus the payments due during the extension period or upon exercise of a purchase option).

SEPARATING LEASE AND NON-LEASE COMPONENTS OF A CONTRACT (AP 11I/MEMO 153 AND AP 11J/MEMO 154) – MARCH 22-23

The Boards tentatively decided that an entity should be required to identify and separately account for the lease and the non-lease components of a contract.

The Boards tentatively decided that in allocating payments in a contract between the lease and non-lease components of the contract:

1. The lessor should allocate payments in accordance with the guidance on revenue recognition.
2. The lessee should allocate payments as follows:
   a. If the purchase price of each component is observable, the lessee would allocate the payments on the basis of the relative purchase prices of individual components;
   b. If the purchase price of one or more, but not all, of the components is observable, the lessee would allocate the payments on the basis of a residual method; or
   c. If there are no observable purchase prices, the lessee would account for all the payments required by the contract as a lease.

The Boards directed the staff to include application guidance on how a lessee should determine what would be an observable price, considering the relevance of guidance in other projects such as revenue recognition.

SALE AND LEASEBACK TRANSACTIONS (AP 11C/MEMO 147, AP 11D/MEMO 148, AP 11E/MEMO 149, AP 11F/MEMO 150, AND AP 11G/MEMO 151) – MARCH 22-23

The Boards affirmed the decision in the leases Exposure Draft that when a sale has occurred, the transaction would be accounted for as a sale and then a leaseback. If a sale has not occurred, the entire transaction would be accounted for as a financing.

The Boards tentatively decided that an entity should apply the control criteria described in the revenue recognition project to determine whether a sale has occurred.

The Boards affirmed the decision in the leases Exposure Draft that in a transaction accounted for as a sale and leaseback:

1. When the consideration is at fair value, the gains and losses arising from the transaction should be recognized when the sale occurs.
2. When the consideration is not established at fair value, the assets, liabilities, gains and losses recognized should be adjusted to reflect current market rentals.

The Boards affirmed the decision in the leases Exposure Draft that the seller/lessee would adopt the "whole asset" approach in a sale and leaseback transaction. The "whole asset" approach deems that in a sale and leaseback transaction, the seller/lessee sells the entire underlying asset and leases back a right-of-use asset relating to part of the underlying asset.

TRANSITION (AP 2G/MEMO 211, AP 2H/MEMO 212, AP 2I/MEMO 213, AP 2J/MEMO 214, AP 2K/MEMO 215, AP 10A/MEMO 218, AND AP 10B/MEMO 219) – OCTOBER 19-20, NOVEMBER 1, AND NOVEMBER 16

Lessees (AP 2G/Memo 211)

The Boards tentatively decided that for capital/finance leases existing at the beginning of the earliest comparative period presented, a lessee would not be required to make any adjustments to the carrying amount of lease assets and lease liabilities and should reclassify those lease assets and lease liabilities as right-of-use assets and liabilities to make lease payments.

The Boards tentatively decided that for operating leases existing at the beginning of the earliest comparative period presented, a lessee should:

1. Recognize liabilities to make lease payments at transition measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of the effective date for each portfolio of leases with reasonably similar characteristics. The

incremental borrowing rate for each portfolio of leases should consider the lessee's total leverage, including leases in other portfolios.

2. Recognize right-of-use assets equal to the proportion of the liability to make lease payments at lease commencement calculated on the basis of the remaining lease payments.

3. Record to retained earnings any difference between the liabilities to make lease payments and the right-of-use assets at transition.

The Boards also tentatively decided that when lease payments are uneven over the lease term, a lessee should adjust the right-of-use asset recognized at the beginning of the earliest comparative period presented by the amount of any recognized prepaid or accrued lease payments.

Lessors (AP 2H/Memo 212)

The Boards tentatively decided that for finance/sales-type and direct finance leases existing at the beginning of the earliest comparative period presented, a lessor would not be required to make adjustments to the carrying amount of the assets associated with those leases.

For operating leases existing at the beginning of the earliest comparative period presented, the Boards tentatively decided that a lessor should:

1. Recognize a right to receive lease payments, measured at the present value of the remaining lease payments, discounted using the rate charged in the lease determined at the date of commencement of the lease, subject to any adjustments required to reflect impairment.

2. Recognize a residual asset consistent with the initial measurement of the residual asset under the receivable and residual approach, using information available at the beginning of the earliest comparative period presented.

3. Derecognize the underlying asset.

The Boards also tentatively decided that when lease payments are uneven over the lease term, a lessor should adjust the cost basis in the underlying asset that is derecognized at the date of the earliest comparative period presented by the amount of any recognized prepaid or accrued lease payments.

Lessees and lessors (AP 2G/Memo 211, AP 2H/Memo 212, and AP 2I/Memo 213)

To ease the potential burden of applying the final standard in the first year of application, the Boards tentatively decided that lessees and lessors may elect the following reliefs:

1. An entity is not required to evaluate initial direct costs for contracts that began before the effective date.

2. An entity may use hindsight in comparative reporting periods including the determination of whether or not a contract is or contains a lease.

The Boards also tentatively decided that lessees and lessors should provide transition disclosures consistent with Topic 250, Accounting Changes and Error Corrections, and IAS 8, *Accounting Policies, Changes in Estimates and Errors,* without the disclosure of the effect of the change on income from continuing operations, net income, any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted. Additionally, if an entity elects any of the available reliefs, the entity should disclose which reliefs it elected.

Notwithstanding all of the above tentative decisions on transition, the Boards tentatively decided that a lessee or lessor could choose to apply the requirements in the new leases standard retrospectively in accordance with Topic 250 or IAS 8.

Sale and leaseback transactions (AP 2K/Memo 215)

The Boards reached the following tentative decisions regarding transition accounting for sale and leaseback transactions entered into prior to the effective date.

1. For a sale and leaseback transaction that resulted in capital lease (U.S. GAAP) or finance lease (IFRSs) classification, a seller/lessee would not reevaluate the sale recognition conclusion previously reached, would not remeasure lease assets and lease liabilities previously recognized on the statement of financial position, and would continue to amortize any deferred gain or loss on sale over the lease term in the statement of comprehensive income.

2. For a sale and leaseback transaction that resulted in operating lease classification or the sale recognition criteria previously were not met, a seller/lessee would reevaluate the sale conclusion based on the criteria for transfer of control of an asset in the proposed revenue standard. If the criteria were met, a seller/lessee would measure lease assets and lease liabilities in accordance with the Boards' previous tentative decisions regarding transition for leases that are currently classified as operating leases and would recognize any deferred gain or loss in opening retained earnings upon transition to the new leases guidance.

3. Alternatively, a seller/lessee may elect to apply the requirements in the proposed leases standard retrospectively.

Business combinations (AP 10A/Memo 218)

The Boards tentatively decided that, upon transition, a lessee that previously recognized assets or liabilities relating to favorable or unfavorable terms in acquired operating leases should derecognize those assets or liabilities and adjust the carrying amount of the right-of-use asset by the amount of any asset or liability derecognized.

The FASB tentatively decided that, upon transition, a lessor applying the receivable and residual approach that previously recognized assets or liabilities relating to favorable or unfavorable terms in acquired operating leases should derecognize those assets or liabilities and adjust retained earnings upon transition.

Other transition considerations (AP 2J/Memo 214 and AP 10B/Memo 219)

The Boards tentatively decided that no transition guidance was necessary for short-term leases, investment property measured at fair value, subleases, useful lives of leasehold improvements, build-to-suit leases, and in-substance purchases and sales. The Boards plan to consider whether transition guidance is necessary for investment property not measured at fair value at a future meeting.

The Boards tentatively decided that, on transition to the new leases guidance, a lessor would continue to account for the securitization of lease receivables associated with current operating leases as secured borrowings in accordance with existing U.S. GAAP and IFRSs. This tentative decision applies to a lessor regardless of whether the lessor elects a fully retrospective approach to transition.

The FASB confirmed its previous tentative decision regarding the scope of the proposed leases standard for arrangements that currently are within the scope of EITF Issue No. 01-8, *Determining Whether an Arrangement Contains a Lease*. The transition exception in Issue 01-8 would no longer be available. Consequently, an entity would be required to account for a lease in an arrangement that contains a lease based on the facts and circumstances existing at the effective date of the new leases standard, even when it previously applied the transition exception in Issue 01-8.

CONSEQUENTIAL AMENDMENTS (AP 10A/MEMO 218) – NOVEMBER 16

Business combinations (AP 10A/Memo 218)

The Boards tentatively decided the following in relation to the measurement of lease assets and lease liabilities acquired in a business combination:

1. If the acquiree is a lessee, an acquirer should recognize a liability to make lease payments and a right-of-use asset. The acquirer should measure:
    a. The liability to make lease payments at the present value of future lease payments in accordance with the proposed leases guidance, as if the associated lease contract is a new lease at the acquisition date
    b. The right-of-use asset equal to the liability to make lease payments, adjusted for any off-market terms in the lease contract.

2. If the acquiree is a lessor applying the receivable and residual approach, an acquirer should recognize a right to receive lease payments and a residual asset. The acquirer should measure:

    a. The right to receive lease payments at the present value of future lease payments in accordance with the proposed leases guidance, as if the associated lease contract is a new lease at the acquisition date

    b. The residual asset as the difference between the fair value of the underlying asset at the acquisition date and the carrying amount of the right to receive lease payments.

3. If the acquiree is a lessor of investment property, an acquirer should apply the guidance in IFRS 3 Business Combinations or Topic 805 Business Combinations that relates to acquired operating leases.

4. If the acquiree has short-term leases (that is, leases for which, at the date of acquisition, the maximum remaining term of the lease contract is 12 months or less), an acquirer not recognize separate assets or liabilities related to the lease contract at the acquisition date.

Borrowing costs (AP 2A/Memo 218)

The Boards tentatively decided that interest expense incurred in a lease should be included in the scope of IAS 23 Borrowing Costs, and Topic 835, Interest, for the purposes of determining the interest costs or borrowing costs that could be capitalized.

SHARIAH-COMPLIANT LEASE CONTRACTS (AP 2D/MEMO 168) – JUNE 13-15

The Boards discussed the accounting implications of applying a right-of-use lease model to Shariah-compliant lease contracts. The discussion was educational in nature and no decisions were made.