STAFF PAPER

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Project	**Leases**		
Paper topic	Lessee—Statement of Financial Position		
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Objective

1. The objective of this paper is to discuss the presentation of right-of-use (ROU) assets and liabilities to make lease payments in a lessee's statement of financial position (SFP) for leases for which the lessee recognizes a single lease expense in its statement of comprehensive income (SCI).

Background

2. During the July 2011 joint Board meetings, the Boards discussed presentation in the lessee's SFP (for leases accounted for using the interest and amortization approach) and tentatively decided that a lessee should:

    (a) Separately present in the SFP or disclose in the notes to the financial statements ROU assets and liabilities to make lease payments. If ROU assets and liabilities to make lease payments are not separately presented in the SFP, the disclosures should indicate in which line item in the SFP the ROU assets and liabilities to make lease payments are included.

    (b) Present the ROU asset as if the underlying asset were owned.

3. The single lease expense recognition pattern was not contemplated when these decisions were reached. This paper discusses the presentation in the SFP for leases accounted for under that approach. This paper will refer to that approach as the 'single lease expense' (SLE) approach. This paper will refer to the approach

that results in the lessee recognizing interest and amortization expense as the interest and amortization (I&A) approach.

ROU Asset

4. The staff think that the current tentative decision regarding the classification of the ROU asset recognized under the I&A approach also is appropriate for the ROU asset recognized under the SLE approach. The decision to present the ROU asset as if the underlying asset were owned was based on reflecting the function or utility that the lessee obtains from having the right to use the underlying asset. This presentation also is appropriate for the ROU asset under the SLE approach because a lessee obtains the same function or utility from having the right to use the underlying asset, regardless of how the ROU asset is subsequently measured.

5. However, the staff think because the measurement basis for ROU assets under the SLE approach is different from ROU assets under the I&A approach, a lessee should provide disclosure of ROU assets under the SLE approach, at a minimum, in the notes.

Staff Recommendation

6. The staff therefore recommend that a lessee present the ROU asset under the SLE approach as if the underlying asset were owned, and that the asset be separately presented in the SFP or disclosed in the notes to the financial statements. If ROU assets are not separately presented in the SFP, the disclosures should indicate in which line item in the SFP the ROU assets are included.

Question 1

Do the Boards agree that (a) a lessee should present ROU assets under the SLE approach as if the underlying asset were owned, (b) those assets should be separately presented in the SFP or disclosed in the notes to the financial statements and (c) if ROU assets are not separately presented in the SFP, the disclosures should indicate in which line item in the SFP the ROU assets are included?

Liability to Make Lease Payments

7. The staff propose two options for presenting the lease liability under the SLE approach:

   (a) **Option A*:*** Present as a separate line item in the SFP or disclose in the notes separately. If the liability under the SLE approach is not separately presented in the SFP, the disclosure should indicate in which line item in the SFP the liability is included.

   (b) **Option B:** Same as Option A with the restriction that the liability under the SLE approach should not be presented together with other liabilities that:

      (i) Result in interest that is presented as such in the SCI; and

      (ii) Are paid with cash flows that are presented in the financing section of the statement of cash flows (SCF).

8. This paper does not include an option *requiring* a separate line item for the lease liability under the SLE approach because that would be inconsistent with the Boards' decisions to date and the feedback received in response to the 2010 ED.

9. In addition, some might think that separate presentation or disclosure of the lease liability under the SLE approach should not be required because all lease liabilities are measured in the same way. Accordingly, they might argue that separate presentation or disclosure of the liability may not provide any additional benefit to users. However, without the separate presentation or disclosure of lease liabilities relating to both approaches to accounting for leases, it would be impossible for a user to understand (a) the liability base to which the lease interest expense recognized in the SCI relates, and (b) various pieces of information presented or disclosed in the SCF and the related disclosures.

Option A — Present or disclose the lease liability separately

10. Presenting or disclosing the lease liability under the SLE approach separately either in the SFP or in the notes gives a user the ability to understand the amount of the liability to which the lease interest expense recognized in the SCI relates, without mandating another line on the SFP.

11. This option allows a lessee to present all lease liabilities together in the SFP (possibly together with other similar financial liabilities), which may be viewed as appropriate given that those liabilities relate to lease transactions and are measured in the same way. It also would allow the lessee to present the liability under the SLE approach together with other liabilities that do not include other lease liabilities. In any event, the lessee would disclose the liability under the SLE approach in the notes to the financial statements, if not presented separately in the SFP.

Option B — Present or disclose the lease liability separately with restriction

12. The liability under the SLE approach results in the lessee recognizing lease expense and not interest expense in the SCI. In a separate paper, the staff recommends that the lease cash flows under the SLE approach would be presented in the operating section of the SCF (see agenda paper 3B/240 Lessee–Statement of Cash Flows).

13. Because of those differences, one might argue that the liability under the SLE approach should not be combined with other liabilities that:
    (a) Result in interest that is presented as such in the SCI; and
    (b) Are paid with cash flows that are presented in the financing section of the SCF.

14. Preventing lease liabilities under the SLE approach from being presented together with other liabilities that give rise to interest expense in the SCI or financing cash flows in the SCF maintains the relationship that exists between liabilities in the SFP, interest or finance costs in the SCI, and financing cash flows in the SCF. By permitting the presentation of the liability under the SLE approach together with liabilities that result in interest or finance costs (and cash flows) in other statements, the relationship between the primary financial statements would potentially be difficult to understand. This restriction would preclude a lessee from presenting all lease liabilities in the same line in the SFP.

15. If the restriction described in paragraph 13 were not part of the guidance but the Boards required separate disclosure of the liability under the SLE approach in the

notes (that is, Option A), a user could understand to which liabilities the interest costs and financing cash flows of the entity relate. However, Option A relies on the user knowing to look for that disclosure in the notes, making the adjustments correctly and incurring the costs to do so.

Staff Recommendation

16. The staff have a split recommendation between Option A and Option B. All staff members agree that either presenting or disclosing the liability to make lease payments under the SLE approach (Option A) would be useful. It is useful because the relationship between interest or finance costs and the liabilities that give rise to that cost can be important to the user's assessment of that entity's cost of funding. However, the staff have different views about restricting the presentation of lease liabilities on the SFP. Some view cohesiveness across the primary financial statements as important and, thus, recommend preventing the lessee from presenting the lease liability under the SLE approach with other financial liabilities that result in interest or finance costs being presented as such in the SCI and SCF. Others see no basis for the restriction because all liabilities to make lease payments are measured in the same way; that is, they do not think that a lessee should be prevented from presenting all lease liabilities together in the SFP. They note that the information presented in the primary financial statements are not at present cohesive in a number of other respects so they do not see any real benefit in adding this restriction.

Question 2

Some staff members support Option A—present or disclose lease liabilities under the SLE approach separately, while some staff members support Option B—present or disclosure lease liabilities under the SLE approach separately and restrict the presentation of those liabilities in the SFP. Which Option for the presentation of the lease liability under the SLE approach do the Boards support for the SFP?