

## STAFF PAPER

June 12-14, 2012

## FASB | IASB Meeting

FASB Education Session June 6, 2012  
IASB Education Session June 6, 2012

Project	Leases		
Paper topic	Cover memo		
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## Introduction

1. This paper does the following:
  - (a) Summarizes the Boards' progress in the leases project
  - (b) Provides an overview of the papers for the June 2012 meeting
  - (c) Describes next steps toward publishing the *Leases* re-exposure document.

## Progress report

2. The Boards published a *Leases* Exposure Draft (2010 ED) in August 2010, with a comment period that ended on December 15, 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 they would re-expose the leases proposals given the extent of changes proposed since publishing the 2010 ED.

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5. At the February 2012 joint meeting, the Boards directed the staff to undertake outreach on possible approaches for amortising the right-of-use asset by the lessee. This was to assist the Boards in reaching a decision on which lessee accounting approach to propose in the re-exposure document.
6. In May 2012, the staff provided the Boards with a summary of those outreach activities conducted during April and May 2012. The purpose of the June meeting is to make decisions about the lessee accounting model and any consequences for the lessor accounting model.
7. The diagram on the following page summarises where the Boards are on the project and the main changes from the 2010 ED.

# Where we are



## Main changes from 2010 ED

- Concept of control used within the definition of a lease changed to align more closely with other standards/EDs
- Non-lease components separated from lease components and accounted for according to other standards

- Lessee accounting model: similar to 2010 ED
- Lessor accounting model: receivable and residual approach, similar to derecognition approach in 2010 ED except residual accreted
- VLPs excluded from lease asset and liability unless linked to index or rate
- Lease term includes extension periods only when lessee has significant economic incentive to exercise

- Short-term leases (maximum term of <12 months): option to apply operating lease accounting
- Leases of property: lessor required to apply operating lease accounting, regardless of whether property measured at cost or FV
- Sale and leaseback: determine if a sale according to revenue recognition proposals

- Lessee disclosure: breakdown of lease expense into its components
- Lessor disclosure: management of residual asset risk
- Transition: simplified retrospective approach (reduces front-loaded expense effect that arose from 2010 ED proposals)

## Discuss in June

- Lessee accounting: discuss different expense recognition approaches
- Lessor accounting: discuss consequences of discussions on lessee accounting

## Overview of papers for the June 2012 joint meeting

8. **Agenda Paper 3A/234 – Overview of papers to be discussed at this meeting:**  
This paper summarizes the papers to be discussed at the June 2012 joint meeting, provides a flow chart to walk through the linkage between the papers, and includes all of the questions that the Boards will be asked at the June 2012 joint meeting.
9. **Agenda Paper 3B/235 – Lessee accounting approaches:** This paper sets out three approaches to lessee accounting, two of which propose a single lessee accounting model and one which proposes different lease expense recognition patterns for different leases.
10. **Agenda Paper 3C/236 – Lessor accounting – consequences of lessee decisions:**  
This paper considers the consequences for lessor accounting as a result of the Boards' redeliberations on lessee accounting.
11. **Agenda Paper 3D/237 – How to determine 'the line' for different types of leases:** This paper discusses the application of Approach 3 in agenda paper 3B/235—that is, the approach that proposes different lease expense recognition patterns for different leases. More specifically, it sets out alternatives for where 'the line' could be drawn that would determine the different lease expense recognition patterns, assuming that the Boards support an approach with different lease expense recognition patterns for different leases.

## Next steps

12. The staff expects that the decisions made at the June 2012 joint meeting will be the last substantive decisions to be made before re-exposing the lease accounting proposals. At the July 2012 joint meeting, the staff will bring some sweep issues (for example, comment period and interim disclosures) and any issues that arise as a result of the decisions made at the June 2012 joint meeting (for example, presentation and disclosure papers if the Boards decide to change their current tentative decisions regarding lessee accounting). Once all decisions have been

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made, the staff plans to proceed to drafting the revised Exposure Draft for publication later in 2012.