

STAFF PAPER

November 2013

FASB | IASB Meeting

Project	Leases		
Paper topic	Redeliberations Plan		
CONTACT(S)	Danielle Zeyher	dtzeyher@fasb.org	+1 203 956 5265
	Patrina Buchanan	pbuchanan@ifrs.org	+44 207 246 6468

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.

3Introduction

1. The purpose of this paper is to provide an overview of the staff proposals for redeliberations on the leases revised Exposure Draft (2013 ED). The proposed redeliberations plan, which sets out the staff's recommended sequencing and grouping of topics for redeliberations, is the output of considering feedback received in comment letters and at outreach meetings, described in Agenda paper 3A/FASB memo 259. The staff is seeking the Boards' views on this plan.
2. This paper provides an overview of:
 - (a) The five main topics identified in feedback received on the 2013 ED and the staff proposals for redeliberations of those topics; and
 - (b) Details of additional topics for redeliberations.

The IASB is the independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRSs. For more information visit www.ifrs.org

The Financial Accounting Standards Board (FASB) is the national standard-setter of the United States, responsible for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities. For more information visit www.fasb.org

Main topics identified

3. Constituents have consistently identified five main topics in their feedback on the 2013 ED. These topics formed the basis of the agenda for the roundtables held in September and October 2013. These main topics are:
 - (a) Lessee accounting model
 - (b) Lessor accounting model
 - (c) Lease classification
 - (d) Definition and scope
 - (e) Measurement.

Lessee accounting model

4. Constituents' views are mixed regarding the lessee accounting model.
5. Many constituents, including a majority of investors and analysts, agree that a lessee should recognize a right-of-use (ROU) asset and a lease liability on its balance sheet for all leases of more than 12 months. Many other constituents disagree with that proposal.
6. Constituents' views also are mixed regarding the income statement and cash flow statement proposals. Some support a single lessee accounting model; others support a dual lessee accounting model. Of those who support a dual lessee accounting model, some suggest changes to the proposed classification guidance, while others suggest a different principle to distinguish between different leases.
7. Many are concerned about the complexity of the proposed lessee accounting model.
8. During redeliberations, the staff will ask the Boards to consider possible ways forward on the lessee accounting model, which will include consideration of costs, complexity, and benefits (including decision-usefulness). When considering the lessee

IASB Agenda ref	3B
FASB Agenda ref	260

accounting model, the staff also intend to ask the Boards to discuss the lessor accounting model, as well as possible scope simplifications. The staff think that consideration of the lessor accounting model and possible scope simplifications could be relevant when making decisions about the lessee accounting model.

Lessor accounting model

9. Constituents' views also are mixed regarding the lessor accounting model.
10. Some constituents support changing the existing lessor accounting model in IAS 17 *Leases* and Topic 840, *Leases*:
 - (a) Some want better information about a lessor's exposure to asset risk and credit risk for some equipment leases.
 - (b) Some support consistency between the lessee and lessor accounting models. Consequently, those constituents think that the lessor accounting model needs to change if the lessee accounting model changes.
 - (c) Some request consistency between the lessor accounting model and the revenue recognition guidance.
11. The majority of constituents, however, do not support changing the existing lessor accounting model. They are of the view that the existing lessor model is not fundamentally flawed, and the costs of implementing the proposals for Type A leases would outweigh the benefits. Those constituents do not think that consistency between the lessee and lessor accounting models is necessary.
12. During redeliberations, the staff will ask the Boards to consider possible ways forward on the lessor accounting model, again considering costs, complexity, and benefits (including decision-usefulness).

IASB Agenda ref	3B
FASB Agenda ref	260

Lease classification

13. The 2013 ED proposes that classification of a lease would largely depend on the nature of the underlying asset. An entity would classify most leases of property as Type B leases, and most leases of assets other than property as Type A leases. Views are again mixed on lease classification. Many are concerned about the complexity of the proposed lease classification guidance. Some suggest no lease classification (that is, a single model) and others suggest different ways to distinguish between leases for both lessees and lessors.
14. Lease classification is an integral part of any dual lessee or lessor accounting model. Accordingly, during redeliberations, the staff will ask the Boards to consider lease classification when discussing the lessee and the lessor accounting models.

Definition and scope

15. Constituents generally support the proposed changes regarding the definition of a lease. Nonetheless, many request additional clarity, explanation, and examples in order to consistently apply the definition. Specifically, constituents request clarification in determining when a contract contains a lease or solely provides a service, determining when a lessee directs the use of the underlying asset, and assessing whether substitution rights are substantive.
16. Some constituents are concerned about the proposals to separate lease and nonlease components, particularly for contracts for which observable standalone prices are not available for the components.
17. There is general support for the short-term lease policy election. Some constituents suggest expanding “short-term” to two or three years. Others suggest aligning the determination of whether a lease is a short-term lease with the determination of lease term.

18. More generally, the majority of constituents are concerned about the costs of applying the proposals to the large volume of “small ticket” leases that many entities have. Some suggest permitting an entity to apply the proposals to a portfolio of similar leases as is permitted for revenue contracts within the revenue recognition project.
19. The staff intend to ask the Boards to discuss these topics in the following manner during redeliberations:
- (a) Possible scope simplifications for “small ticket” / immaterial leases (including short-term leases) will be discussed when the Boards discuss the lessee and lessor accounting models. The staff think that consideration of possible scope simplifications may be relevant when making decisions about the lessee and lessor accounting models.
 - (b) The remaining topics (for example, the definition of a lease and separating lease from nonlease components) will be discussed later in redeliberations.

Measurement

20. Most constituents support the changes that were made in the 2013 ED with respect to the initial measurement of lease assets and lease liabilities, although some have concerns about specific measurement aspects. A majority of constituents, however, expressed concerns about the costs and complexity associated with some of the subsequent measurement proposals, principally with respect to reassessment. The staff, therefore, intend to ask the Boards to discuss the following areas relating to initial and subsequent measurement during redeliberations:
- (a) The definition of lease term, including reassessment
 - (b) Reassessment of variable lease payments linked to an index or a rate
 - (c) In-substance fixed lease payments

IASB Agenda ref	3B
FASB Agenda ref	260

- (d) Accounting for residual value guarantees (lessee and lessor), including reassessment
- (e) Discount rate.

Other topics to be discussed during redeliberations of the 2013 ED

21. The staff have identified the following additional topics to be discussed during redeliberations of the 2013 ED:

- (a) Sale and leaseback transactions
- (b) Presentation
- (c) Disclosure
- (d) Transition
- (e) Effective date
- (f) Cost/benefit (see paragraph 22)
- (g) Other:
 - (i) Business combinations
 - (ii) FASB-only:
 1. Nonpublic entities
 2. Related party leases
 3. Leveraged leases
 4. Other consequential amendments.
 - (iii) IASB-only—Consequential amendments to IAS 40.

22. The Boards will consider the costs and benefits of the changes being proposed when discussing each topic throughout the redeliberations. The IASB and the FASB will also make an overall cost/benefit assessment in compliance with their respective due

IASB Agenda ref	3B
FASB Agenda ref	260

process procedures. The cost/benefit topic identified above in paragraph 21 refers to the FASB’s due process requirement to discuss the costs and benefits of the project at a public meeting.

Timeline and strategy

23. The following table contains the staff’s recommended sequencing and grouping of topics for redeliberations:

Lessee model, lessor model, lease classification, scope simplifications (for example, short-term leases and unit of account (portfolio))
Measurement: lease term, reassessment of variable lease payments, in-substance fixed payments, residual value guarantees, discount rate.
Scope: definition of a lease, separating lease and nonlease components, scope exclusions
Sale and leaseback, leveraged leases
Presentation and disclosure
Transition
Other topics: business combinations, FASB: nonpublic entities, related party leases, other consequential amendments, IASB: consequential amendments to IAS 40.
Effective date and cost/benefit

Discussion point – Proposed redeliberations plan
Do the Boards agree with the direction of the proposed redeliberations plan?