

AGENDA PAPER

IFRS Advisory Council Meeting

LONDON 14-15 October 2013 **Agenda ref 10**

TOPIC *Leases – the way forward*

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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

Leases – the way forward

1. Presentation for October 2013 Advisory Council meeting is attached.
2. We also include paper 10A as background reading for this session. The paper summarises outreach meetings with investors and analysts on proposed accounting by lessees, for the period May – September 2013. This summary is also posted on the Leases project website.

International Financial Reporting Standards



Leases project

Overview of feedback on the proposals to date

Patrina Buchanan
Technical Principal

This material has been prepared to help stakeholders understand the current status of the leases project of the IASB and the FASB. The views expressed are those of the project staff. Official positions of the IASB and the FASB are reached only after extensive due process and deliberations.

For more detailed information about the changes proposed to lease accounting, please refer to the Leases Exposure Draft published on 16 May 2013 available at www.ifrs.org.



Agenda

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- Lessee accounting
- Measurement
- Lessor accounting
- Scope
- Other aspects

Note: The feedback included in this material summarises feedback received at outreach meetings and round tables until 30 September. It does not include feedback received in comment letters, nor at round table or other meetings held after 30 September. The IASB and the FASB have received almost 600 comment letters on the Exposure Draft to date, the analysis of which is not yet complete.



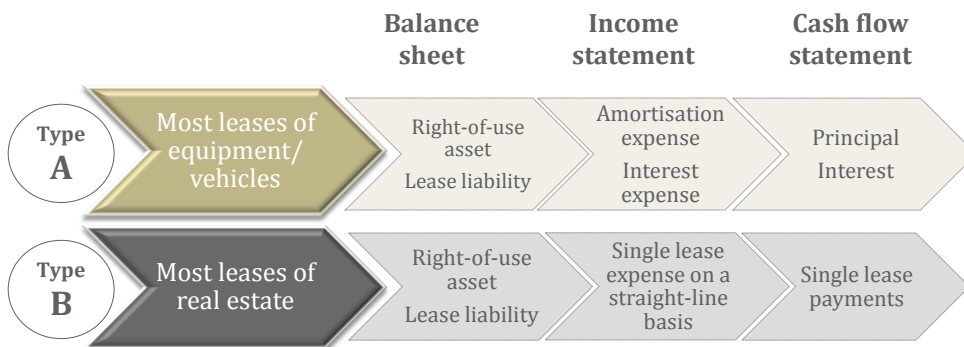
Lessee accounting

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Lessee accounting overview

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Feedback (as of 30 September)

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- Investors and analysts
 - General support for proposals
 - Leases create assets and liabilities
 - Current disclosures insufficient
 - Proposals an improvement to financial reporting
 - Industry-specific analysts agree with income statement proposals
 - Some concerns
 - Any change affects trend information
 - Some prefer ‘whole asset’/ongoing commitments approach to measurement
 - Some prefer single model—treat all leases as financing



Feedback (as of 30 September)

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- Preparers
 - Most agree leases create assets and liabilities
 - Some specific concerns about complexity
 - Dual model
 - Materiality / short-term / small ticket leases
 - Very few indicate behavioural changes
 - Some don't support the proposals
 - Costs outweigh benefits
- Others (regulators; standard setters; audit firms)
 - Support recognition of assets and liabilities on the balance sheet
 - Prefer single model—treat all leases as financing
 - Some audit firms—cost/benefit concerns



Measurement

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Measurement

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Fixed payments

- non-cancellable period

Residual value guarantees

- expected amount

Variable lease payments

- Excluded if linked to sales or use
- Included if payments linked to index/rate

Options

- Excluded unless significant economic incentive to exercise option



Feedback (as of 30 September)

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- Investors and analysts
 - Most agree with measurement simplifications in 2013 ED
 - Need robust disclosures about VLPs and options

- Preparers and others
 - Agree with measurement simplifications in 2013 ED
 - Some specific concerns
 - Interpretation of ‘significant economic incentive’
 - Meaning of ‘in-substance fixed payments’
 - Reassessment



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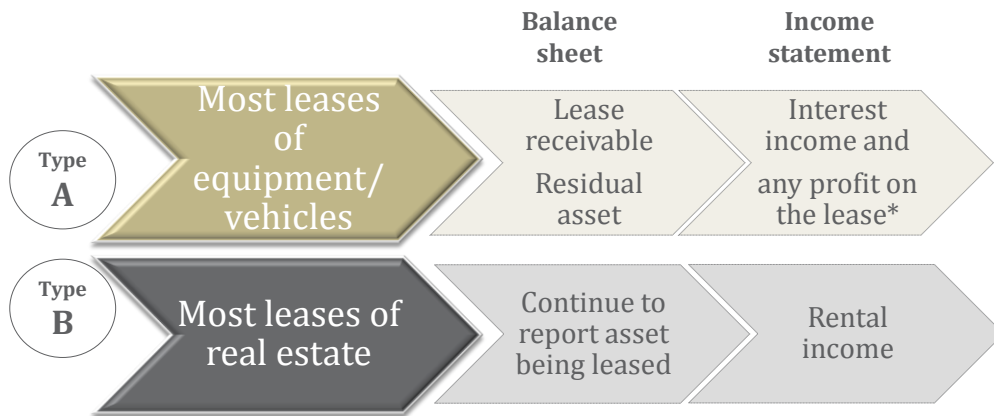
Lessor accounting

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Lessor accounting model

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* Portion of overall profit on equipment/vehicle that relates to lease recognised when asset made available to lessee.

Portion of profit that relates to residual recognised only when equipment/vehicle sold or released at end of lease.



Feedback (as of 30 September)

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- Investors and analysts
 - Concerns about applying Type A accounting to leases of longer-lived assets (eg rail cars, drilling rigs, satellites, aircraft)
 - Particularly, effect on the income statement
 - Some suggest no change to lessor accounting
 - Better information about credit risk and asset risk useful



Feedback (as of 30 September)

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- Lessors and others
 - Some agree that proposals better reflect business model, others disagree
 - Some requests for change (eg impairment testing)
 - Some specific concerns about:
 - Complexity (eg reassessment)
 - Volatility in the income statement
 - Some suggest no change to lessor accounting
 - Costs outweigh benefits



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Scope

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Feedback (as of 30 September)

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- General agreement with changes to the definition of a lease
 - Additional guidance/clarification/examples requested about control
- Some concerns about proposals to split lease and service components
- Materiality / short-term / small ticket leases



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Other aspects

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Feedback (as of 30 September)

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Disclosures

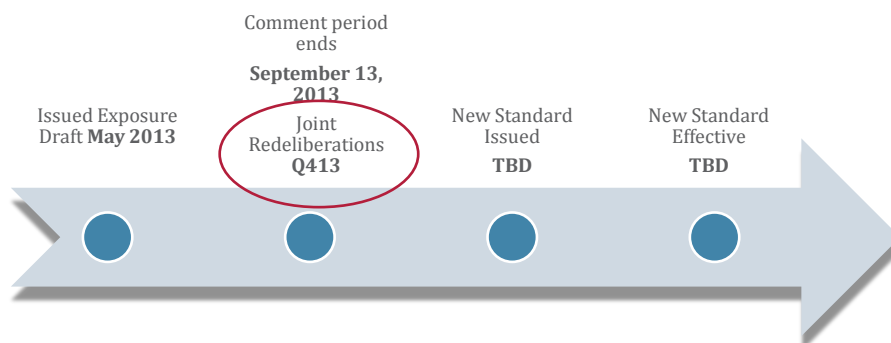
- Preparers: disclosures are excessive
- Investors and analysts: some additional disclosure requests

Transition

- Transition should be simplified
- Long implementation time needed

Next Steps

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Thank you

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