

Meeting documentation

World Standard-setters Meeting

Smaller group discussions: Leases



World Standard-setters Meeting

Monday 23 and Tuesday 24 September 2013
The Grange City Hotel (London)

Smaller group discussion
Leases

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International Financial Reporting Standards

Revised Exposure Draft— Leases World Standard Setters

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.

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Agenda

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

Note: The feedback included in this material is as of 10th September. It does not include feedback received in comment letters, nor at round table or other meetings held after 10th September.

International Financial Reporting Standards

Lessee accounting

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Proposed right-of-use model

A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration

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    graph LR
      Lessor((Lessor)) -- "Right-of-use asset" --> Lessee((Lessee))
      Lessee -- "Lease payments" --> Lessor
  
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Recognition of assets and liabilities

Definition of an asset:
A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Control over right-of-use asset

- Physical possession of (access to) leased asset
- Lessor cannot retrieve leased asset

Definition of a liability:
A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Unconditional obligation to pay

- Lessee cannot return leased asset (terminate lease) and avoid paying without breaching contract

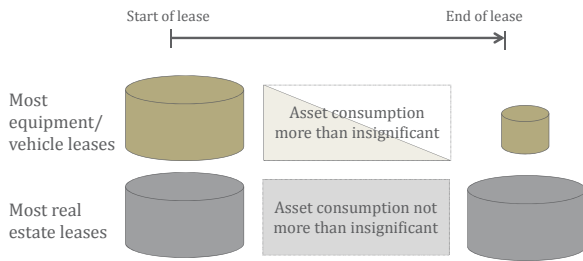
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Lessee accounting overview

		Balance sheet	Income statement	Cash flow statement
Type A	Most leases of equipment/vehicles	Right-of-use asset Lease liability	Amortisation expense Interest expense	Principal Interest
Type B	Most leases of real estate	Right-of-use asset Lease liability	Single lease expense on a straight-line basis	Single lease payments

Dual approach

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Feedback (as of 10th September)

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- Investors and analysts
 - General support for proposals
 - Agreement that leases create assets and liabilities
 - Current disclosures insufficient
 - Proposals will be an improvement to financial reporting
 - Industry-specific analysts generally agree with income statement proposals
 - Some concerns
 - Some concerned with any change to current accounting
 - Some prefer 'whole asset'/ongoing commitments approach to measurement
 - Some concerns about dual model

Feedback (as of 10th September)

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- Preparers
 - General agreement that leases create assets and liabilities
 - Some specific concerns about complexity
 - Dual model
 - Materiality
 - Very few indicate behavioural changes

Questions: lessee accounting

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- A dual approach adds complexity to the proposals. Do you think that some leases are economically different from other leases? If so, do you believe that a dual lessee accounting approach results in benefits in improved financial reporting that outweigh the additional costs of having a dual approach?
- If the answer to Q1 is 'yes', do you agree with the lessee accounting proposals, in which most real estate (property) leases would be reported differently from most other leases in a lessee's income statement and cash flow statement?
- Do you have suggestions for changes regarding the lessee accounting model that would help to simplify the proposals without significantly impacting the usefulness of the information?

Measurement

Initial measurement

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* Discount rate = rate charged in the lease (or, if not readily determinable, lessee's incremental borrowing rate).

Payments included in the lease liability

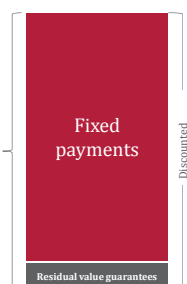
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Fixed payments

- non-cancellable period

Residual value guarantees

- expected amount



Measurement simplifications

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Short-term leases

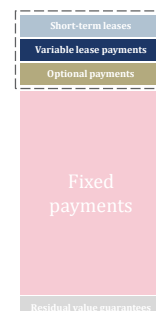
- Option to exclude leases of less than 12 months

Variable lease payments

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

Options

- Excluded unless significant economic incentive to exercise option



Feedback (as of 10th September)

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- Investors and analysts
 - General agreement with measurement simplifications
 - Important to have robust disclosures about VLPs and options
- Preparers
 - General agreement with measurement simplifications
 - Some specific concerns
 - Interpretation of 'significant economic incentive'
 - Meaning of 'in-substance fixed payments'
 - Reassessment

Questions: measurement

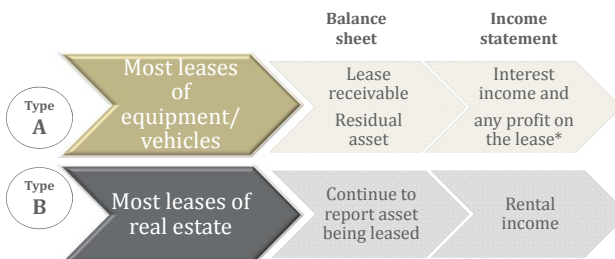
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1. Do you agree with the boards' proposals regarding the determination of the lease term, the measurement of variable lease payments and the discount rate used to measure lease assets and liabilities at lease commencement?
2. Should the lease term, variable lease payments linked to an index or rate and the discount rate be reassessed after lease commencement?
3. Do you have suggestions for changes regarding measurement that would help to simplify the proposals without significantly impacting the usefulness of the information?

Lessor accounting

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 10th September)

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- Investors and analysts
 - Some concerns about applying Type A accounting to longer-lived assets (eg rail cars, drilling rigs, satellites, aircraft)
 - Particularly, effect on the income statement
 - Better information about credit risk and residual asset risk would be useful
- Lessors
 - Many equipment/vehicle lessors agree that proposals reflect how they price their leases.
 - Some specific concerns about:
 - Complexity
 - Volatility in the income statement
 - Not providing users with useful information

Questions: lessor accounting

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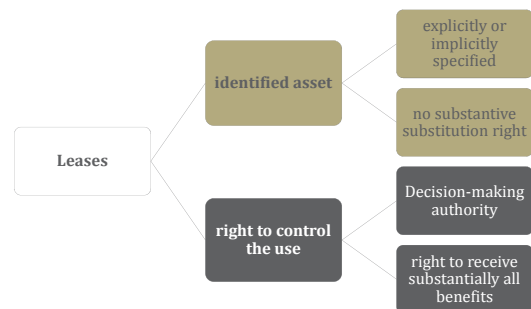
1. The board are of the view that the lessor accounting proposals will provide a more faithful depiction of how different types of leases are priced by lessors and, thus, provide better information about a lessor's leasing activities to users of financial statements. Do you agree with the lessor accounting proposals?
2. Do you have suggestions for changes regarding the lessor accounting model that would help to simplify the proposals without significantly impacting the usefulness of the information?

Scope

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation

Scope of leases proposals

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Feedback (as of 10th September)

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- General agreement with changes to the definition of a lease
 - Some request additional guidance/clarification about control
- Some question why leases on-balance sheet when other commitments are not

Questions: Scope

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1. Do you agree with the proposals regarding the definition of a lease? Do you think any additional guidance is needed and, if so, what should they be?
2. Do you have suggestions for changes regarding scope that would help to simplify the proposals without significantly impacting the usefulness of the information?

Other aspects

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Other aspects

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- Disclosures for lessee and lessor
 - Qualitative information about leases
 - Rollforward information about balance sheet amounts
 - Maturity analysis of undiscounted lease payments
- Transition
 - Modified or full retrospective approach

Questions: Scope

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1. Do you have any specific concerns about the other proposals in the Exposure Draft, and in particular the proposals regarding transition and disclosure?
2. Do you have suggestions for changes regarding any other aspects that would help to simplify the proposals without significantly impacting the usefulness of the information?

Thank you

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