

AGENDA PAPER

IFRS Advisory Council Meeting

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Agenda ref 4

TOPIC

The Leases project – the way forward
The IASB is seeking advice from the Advisory Council

PRESENTERS

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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.

Purpose of this session

- We are seeking the advice of the Advisory Council in preparing to make decisions in the final phase of the *Leases* project.
- We attach materials for the February 2014 IFRS Advisory Council meeting, which include the following:
 - A presentation, which sets out some background to the project and an overview of the possible ways forward for lessee accounting.
 - A letter of recommendation from the CMAC (the IASB's investor advisory group) regarding lessee accounting.
 - A summary of the feedback received from investors and analysts in outreach meetings held between May and September 2013.
- At this meeting, we intend to focus on lessee accounting, given the importance and significance of the proposed changes to existing lessee accounting. We do not intend to discuss lessor accounting at this meeting, in the light of the feedback received on the 2013 *Leases* Exposure Draft.

Ways forward on lessee accounting

- The IASB is working with the FASB on the leases project to determine the most appropriate way to move the project forward and finalise a new leases standard. The boards together discussed three possible approaches for lessee accounting at their January 2014 joint board meeting—the boards expect to make decisions on the lessee accounting model at their March 2014 joint board meeting.
- The leasing activities of many entities in different industry sectors are significant. Within industry sectors, the amount of assets and liabilities reported by entities can vary widely because of individual entities' buy versus lease strategies. For this reason, many investors and analysts adjust lessees' financial statements to report leases on the balance sheet.
- The IASB has received broad support from the investor community regarding the recognition of assets and liabilities—since the last Advisory Council meeting, the IASB received the attached letter of recommendation from the CMAC stressing the importance of moving forward with the project and finalising a new leases standard. For this reason,

all three of the approaches being considered by the boards as possible ways forward for lessee accounting would require the recognition of assets and liabilities for leases of more than 12 months.

- We are seeking the advice of Council members in weighing up these various possible ways forward on lessee accounting. More specifically, what are your views on the following:
 - In considering the possible ways forward, there is a delicate balance in weighting what IASB members might consider to be a higher quality solution and a solution that might be considered more acceptable because it results in less change. What are your views on how best to manage this delicate balance?
 - Whatever the IASB decides to do in moving forward to finalise a new leases standard, we expect strong opposition – primarily from preparers – mainly because of the significance of the change to many lessees’ balance sheets and the costs associated with that change. What are your views on how best to deal with the opposition that is likely to arise?
 - Although agreeing that a lessee should report leases on its balance sheet, there is a possibility that the IASB and the FASB might reach different conclusions regarding how a lessee reports lease expenses in its income statement. What level of importance should the IASB place on reaching a converged solution regarding the recognition of lease expenses when finalising the project?

Additional background information

- Further information is available as follows:
 - The materials refer to discussions that the IASB and the FASB had on lessee accounting at their January joint board meeting. The board paper discussed at that meeting on lessee accounting—agenda paper 3D—is available on the IASB’s website <http://www.ifrs.org/Meetings/Pages/IASB-Jan-14.aspx>.
 - Comment letters received by the IASB and the FASB on the proposals in the 2013 ED are also available <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>.