IASB Agenda ref	3
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STAFF PAPER

March 2014

FASB | IASB Meeting

Project	**Leases**		
Paper topic	Cover Memo		
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Introduction and Objective of the Meeting

1. The purpose of this paper is to provide an overview of the agenda papers prepared for the March 2014 joint Board meeting relating to the leases project.

2. The objective of the March 2014 meeting is to reach decisions on the lessee accounting model, the lessor accounting model, consideration of possible ways of providing cost relief for small-ticket leases, definition of lease term and the short-term lease exemption.

Overview of Agenda Papers

3. The staff has prepared the following papers for discussion:

    (a) **Lessee Accounting Model** (Agenda Paper 3A/FASB Memo 268), which discusses the following four approaches for the lessee accounting model:

        (i) *Approach 1* – Proposes a single approach, according to which a lessee would account for all leases as the purchase of a ROU asset on a financed basis. Accordingly, a lessee would account for all leases as Type A leases (that is, recognizing amortization of the ROU asset separately from interest on the lease liability).

(ii) *Approach 1A* – Proposes a dual approach that would *permit* (but not require) lessees to account for most property leases as Type B leases (that is, recognizing a single lease expense rather than amortization and interest separately). This approach proposes two possible ways to determine which leases of property would be eligible for Type B accounting.

(iii) *Approach 2* – Proposes a dual approach, with lease classification similar to that proposed in the 2013 ED, but offers targeted simplifications and improvements to the lease classification test. A lessee would account for all leases of assets other than property as Type A leases and most property leases as Type B leases.

(iv) *Approach 3* – Proposes a dual approach, with lease classification determined in accordance with the principle in existing lease requirements (that is, determining whether a lease is effectively an installment purchase by the lessee). Under this approach, a lessee would account for the vast majority of existing capital (U.S. GAAP)/finance (IFRS) leases as Type A leases, and the vast majority of existing operating leases as Type B leases.

(b) **Lessee Balance Sheet Presentation** (Agenda Paper 3B/FASB Memo 269), which discusses presentation of the lessee's ROU asset and lease liability in a lessee's balance sheet for Type A and Type B leases.

(c) **Lessor Accounting Model** (Agenda Paper 3C/FASB Memo 270), which discusses the following three approaches with respect to classifying leases as either Type A or Type B within the dual lessor accounting model:

(i) *Approach 1* – An approach that would determine lessor lease classification (Type A vs. Type B) based on whether the lease is effectively a financing or a sale, rather than an operating lease (that is, the concept underlying existing U.S. GAAP and IFRS lessor accounting). A lessor would make that determination by assessing whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset.

(ii) *Approach 2* – This approach would determine lessor lease classification as Type A or Type B in the same manner as Approach 1. However, this approach would preclude recognition of selling profit and revenue at lease commencement for any Type A lease that does not transfer control of the underlying asset to the lessee, consistent with the requirements for a sale in the forthcoming revenue recognition standard.

(iii) *Approach 3* – An approach that would determine lessor lease classification (Type A vs. Type B) based on the lessor's business model.

(d) **Lessor Type A Accounting** (Agenda Paper 3D/FASB Memo 271), which discusses the following two approaches for accounting for Type A leases by lessors:

(i) *Approach A* – To retain the receivable and residual approach proposed in the 2013 ED for all Type A leases, subject to possible simplifications.

(ii) *Approach B* – To eliminate the receivable and residual approach proposed in the 2013 ED and instead apply an approach substantially equivalent to existing IFRS finance lease accounting (and U.S. GAAP sales-type/direct finance lease accounting) to all Type A leases, subject to potential minor drafting improvements. A lessor would be required to present lease receivables separately from residual assets either on the balance sheet or in the notes.

(e) **Examples—Lessee and Lessor Accounting Models** (Agenda Paper 3E/FASB Memo 272), which illustrates the application of the possible approaches regarding lease classification for both lessees and lessors.

(f) **Lessee Small-Ticket Leases** (Agenda Paper 3F/FASB Memo 273), which discusses the following alternatives to provide relief in applying the leases guidance to small-ticket leases held by a lessee:

(i) Providing explicit materiality requirements within the leases guidance.

(ii) Permitting the leases guidance to be applied at a portfolio level.

(iii) Providing an explicit recognition and measurement exemption for leases of small, non-specialized assets (a “sub-set” of small-ticket leases).

(g) **Lease Term** (Agenda Paper 3G/FASB Memo 274), which discusses the accounting for options to extend or to terminate a lease, both at lease commencement and during the lease term. This paper also discusses the accounting for purchase options.

(h) **Lessee Accounting: Short-Term Leases** (Agenda Paper 3H/FASB Memo 275), which discusses the short-term lease recognition and measurement exemption for lessees that was proposed in the 2013 ED.