STAFF PAPER

March 2014

REG FASB | IASB Meeting

Project	**Leases**		
Paper topic	Examples—Lessee and Lessor Accounting Models		
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Purpose of this Paper

1. The objective of this paper is to illustrate the application of the possible approaches regarding lease classification for both lessees and lessors. The staff are proposing four possible approaches for lessee accounting and three possible approaches for lessor accounting, as discussed in more detail in Agenda Paper 3A/FASB Memo 268—Lessee Accounting Model, and Agenda Paper 3C/FASB Memo 270—Lessor Accounting Model.

2. The possible lessee accounting approaches proposed are as follows:

   (a) *Approach 1* – A lessee would classify all leases as Type A leases.

   (b) *Approach 1A* – A lessee would classify leases in the same manner as in Approach 2 ("2013 ED Simplified"). A lessee can choose to apply Type B accounting to most leases of property; all other leases would be accounted for as Type A. Alternatively, a lessee could account for all leases as Type A leases, as in Approach 1.

   (c) *Approach 2* – A lessee would classify leases as Type A or Type B using a simplified version of the lease classification test proposed in the 2013 ED ("2013 ED Simplified").

(d) *Approach 3* – A lessee would classify leases as Type A or Type B consistently with the principle underlying existing U.S. GAAP and IFRS (that is, whether the lease is effectively an installment purchase of the underlying asset by the lessee). A lessee would determine whether the lease is effectively an installment purchase by assessing whether the lease effectively transfers control of the underlying asset to the lessee ("Transfer of Control to the Lessee").

3. The possible lessor accounting approaches proposed are as follows:

(a) *Approach 1* – A lessor would classify leases based on whether the lease is effectively a sale or a financing, rather than an operating lease (that is, the concept underlying existing U.S. GAAP and IFRS). A lessor would make that determination by assessing whether the lessor transfers substantially all the risks and rewards incidental to ownership of the underlying asset. The staff would expect results to be consistent with the "Existing IFRS" analysis column in the examples presented.

(b) *Approach 2* – A lessor would classify a lease 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. The staff would expect results to be consistent with the "Existing IFRS" analysis column in the examples presented.

(c) *Approach 3* – A lessor would classify leases based on the lessor's business model ("Lessor Business Model").

4. This paper provides examples of how Lessee Approach 2 and Lessee Approach 3, as well as all three lessor approaches, would be applied to a variety of lease scenarios. Lessor Approaches 1 and 2 should generally result in the same analysis and outcome as under existing IFRS (resulting in finance leases being Type A leases, and operating leases being Type B leases). However, for those lessor Type A leases that are Type B for lessees, Approach 2 would preclude a lessor from recognizing selling profit at lease commencement

or recognizing lease revenue on a gross basis (that is, sales or product revenue and cost of goods sold).

5. The paper provides the staff's interpretation of the corresponding lease classification under the 2013 ED proposals, existing IFRS, and existing U.S. GAAP for comparison purposes. Other than under existing U.S. GAAP, for each example presented, the lease classification would be the same regardless of whether it is the lessor or lessee performing the evaluation. Topic 840 includes additional criteria a lessor must meet in order to reach a sales-type or direct-financing lease classification than is required for a lessee to reach a capital lease classification. However, in practice, lessees and lessors can come to different lease classification conclusions based on different assumptions as to the discount rate, significant economic incentive to exercise options in the contract, or estimates of fair value even when the evaluation criteria are the same. In addition, lessee and lessor lease classification conclusions can differ based on explicit differences, such as in the definition of lease payments.

6. The examples chosen were selected by the staff based principally on their ability to illustrate classes of transactions that were discussed frequently during outreach on the 2013 ED. Broadly, the examples are as follows:

   (a) *Examples 1 and 1a* – An equipment lease scenario (example derived from the 2013 ED) both with and without a purchase option that the lessee has a significant economic incentive to exercise.

   (b) *Example 2* – Commercial property lease scenario (example derived from the 2013 ED).

   (c) *Examples 3, 3a, and 3b* – Three railcar lease scenarios, including one of a typical term occurring near the beginning of the asset's economic life, a long-term lease of a more specialized railcar, and a typical term lease occurring at the end of the asset's economic life.

   (d) *Example 4 and 4a* – Two telecommunications tower lease scenarios, one without complex features, the second for which the lessee has a significant economic incentive to exercise multiple renewal options.

(e) *Example 5* – A common automobile lease scenario.

(f) *Example 6* – A common aircraft lease scenario.

The following examples illustrate how an entity might apply some of the possible approaches for lessee and lessor accounting, existing IFRS and existing U.S. GAAP to particular lease scenarios based on the limited facts presented. Additional facts would often be required to fully evaluate the lease, which could change the evaluations following each example.

Example 1 (Based on Example 11 – Equipment Lease Classification from 2013 ED): A lessee enters into a 2-year lease of a new, non-customized item of equipment that contains no renewal or purchase options, which has a total economic life of 12 years. The lease payments are CU9,000 per year, the present value of which is CU16,700, calculated using the rate the lessor charges the lessee. The fair value of the equipment at the commencement date is CU60,000. The estimated fair value of the underlying asset at the end of the lease term is CU46,000. The lessee does not guarantee any portion of the expected residual value, nor does the lessor obtain any third-party residual value support.

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2[1])	Existing U.S. GAAP
Analysis: The underlying asset is not property, the lease term is for more than an insignificant portion of the total economic life of the equipment, and the present value ("PV") of the lease payments is more than insignificant relative to the fair value ("FV") of the equipment at lease commencement. **Conclusion:** Type A Lease	**Analysis:** The underlying asset is not property. **Conclusion:** Type A Lease	**Analysis:** The lease does not contain a purchase option, nor does the lease transfer title of the equipment to the lessee. In addition, the lessee does not have the ability to obtain substantially all of the remaining benefits of the asset as a result of the lease because the lease term is for less than a major part of the equipment's remaining economic life and the PV of the lease payments is not substantially all of the FV of the equipment. **Conclusion:** Type B Lease	**Analysis:** Assuming that the short-term nature of the lease compared to the total economic life of the equipment indicates that the lessor's business model is to manage the asset over its entire economic life and lease the asset multiple times, that would indicate a Type B lessor business model. **Conclusion:** Type B Lease	**Analysis:** The lease is not for a major part of the remaining economic life of the equipment, the PV of the lease payments is not substantially all of the FV of the equipment, title does not transfer to the lessee as a consequence of the lease, nor does the lease contain a purchase option reasonably certain of exercise. **Conclusion:** Operating Lease (Type B Lease)	**Analysis:** The lease is not for at least 75% of the remaining economic life of the equipment, the PV of the lease payments is not 90% or more of the FV of the leased asset, title does not transfer to the lessee as a consequence of the lease, nor does the lease contain a bargain purchase option reasonably assured of exercise. **Conclusion:** Operating Lease (Lessee and Lessor[2])

[1] Existing IFRS, Lessor Approach 1, and Lessor Approach 2 should result in the same lease classification (finance/Type A vs. operating/Type B). However, as outlined in Agenda Paper 3C/FASB Memo 270, the accounting for selling profit on some leases would differ between Approach 1 and Approach 2. In general, for any lease classified as Type B under Lessee Approach 3, *upfront* recognition of selling profit would be precluded under Lessor Approach 2.

[2] Lease classification is not always symmetrical under existing U.S. GAAP. In general, an operating lease to a lessee will be an operating lease to a lessor; however, a capital lease to a lessee can be a sales-type lease, a direct financing lease, a leveraged lease, or an operating lease to the lessor depending on the specific lease arrangement.

Example 1a (Based on Example 11 – Equipment Lease Classification from the 2013 ED): A lessee enters into a 2-year lease of a new, non-customized item of equipment that contains no renewal options, which has a total economic life of 12 years. The lease payments are CU9,000 per year, the present value of which is CU16,700, calculated using the rate the lessor charges the lessee. The fair value of the equipment at the commencement date is CU60,000. The lease contains a bargain purchase option that allows the lessee to purchase the asset at the end of the lease term for a 70% discount from the expected residual value of the equipment at that date.

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2)	Existing U.S. GAAP
Analysis: The lessee has a significant economic incentive to exercise a purchase option in the contract.	**Analysis:** The underlying asset is not property and the lessee has a significant economic incentive to exercise a purchase option in the contract.	**Analysis:** The lessee has a significant economic incentive to exercise a purchase option in the contract.	**Analysis:** The bargain purchase option offered to the lessee is outside the lessor's business norm. Therefore, this overrides the lessor's typical business model (described in Example 1).	**Analysis:** The lease contains a purchase option that the lessee would be reasonably certain to exercise given the significance of the discount.	**Analysis:** The lease contains a bargain purchase option that is reasonably assured to be exercised by the lessee.
Conclusion: Type A Lease	**Conclusion:** Type A Lease	**Conclusion:** Type A Lease	**Conclusion:** Type A Lease	**Conclusion:** Finance Lease (Type A Lease)	**Conclusion:** Capital Lease (Lessee)/Sales-Type Lease[3] (Lessor)

[3] Assuming collectability is reasonably predictable and there are no significant uncertainties with respect to potential unreimbursed costs for the lessor.

Example 2 (Based on Example 12 – Commercial Property Lease Classification from the 2013 ED): A lessee enters into a 15-year lease of an office building, which has a remaining economic life of 40 years at the commencement date. The lease payments are CU30,000 per year, the present value of which is CU300,000, calculated using the rate the lessor charges the lessee – assume CU150,000 is allocated to each of the land and building lease elements. The fair value of the combined property at the commencement date is CU400,000. The estimated fair value of the combined property at the end of the lease term is CU530,000. The lease contains no purchase or renewal options. The land component accounts for 35% of the combined property fair value at lease inception. (*Therefore, existing U.S. GAAP would require separate classification analysis for the land and building elements. Existing IFRS, as well as the proposed lessor and lessee approaches, would require consideration of whether a separate classification evaluation of the land and building elements is needed.*)

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2)	Existing U.S. GAAP
Analysis: The underlying asset is property, the lease term is not for a major part of the remaining economic life of the building, and the PV of the lease payments is not substantially all of the FV of the property at lease commencement.	**Analysis:** The land and building may be assessed separately. The evaluation for each would be consistent with the evaluation under the "Based on Topic 840/IAS17 (Transfer of Control)" column.	**Analysis:** The land and building may be assessed separately. The lease contains no purchase option, nor does it transfer title to the property to the lessee. In addition, it is clear that the lessee does not have the ability to obtain substantially all the benefits of the building or the land as a result of the lease based on the lease term and the nature of the property (which is expected to appreciate in value during the lease term).	**Analysis:** In general, due to the nature of property, a property lessor aims to obtain a desired return on the property over the entire period it intends to hold the property, which would indicate a Type B lessor business model.	**Analysis:** The land and building may be assessed separately. The lease is not for a major part of the remaining economic life of the building, the PV of the lease payments is not substantially all of the FV of the property, title does not transfer to the lessee as a consequence of the lease, nor does the lease contain a purchase option reasonably certain of exercise.	**Analysis:** The land element will be an operating lease because there is no purchase option, nor does the lease transfer title to the lessee. The building element is also an operating lease because the lease is not for at least 75% of the remaining economic life of the building and the PV of the lease payments allocated to the building element is not 90% or more of the FV of the leased building.
Conclusion: Type B Lease	**Conclusion:** The building element and the land element would both be Type B leases	**Conclusion:** The building element and the land element would both be Type B Leases	**Conclusion:** Type B Lease	**Conclusion:** The building element and the land element would both be operating leases (Type B Leases)	**Conclusion:** The building element and the land element would both be operating leases (Lessee and Lessor)

Example 3 (Railcar – typical lease): A lessee enters into a 7-year lease of a standard railcar, which has a total economic life of 40 years (and a remaining economic life of 25 years at lease commencement). The lease payments are CU5,700 per year, the present value of which is CU30,000, calculated using the lessee's incremental borrowing rate of 8% (that is, the rate the lessor charges the lessee is not readily determinable by the lessee). The fair value of the railcar at the commencement date is CU77,000. The estimated fair value of the asset at the end of the lease term is CU55,000. The lease contains no purchase or renewal options and does not transfer title to the railcar to the lessee. The lessee does not provide any residual value guarantees, nor does the lessor obtain any third-party residual value support.

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2)	Existing U.S. GAAP
Analysis: The underlying asset is not property, the lease term is for more than an insignificant portion of the total economic life of the railcar, and the PV of the lease payments is more than insignificant in relation to the FV of the railcar at lease commencement. **Conclusion:** Type A Lease	**Analysis:** The underlying asset is not property. **Conclusion:** Type A Lease	**Analysis:** The lease does not contain a purchase option, nor does it transfer title to the railcar to the lessee at any point. Because the lease term is not for a major part of the remaining economic life and the PV of the lease payments is not substantially all of the FV of the railcar at lease commencement it is clear that the lessee will not obtain substantially all the remaining benefits of the asset as a result of the lease. **Conclusion:** Type B Lease	**Analysis:** Railcar lessors typically lease their assets many times over their economic life and price their contracts at market to obtain a return on those assets over their economic life. These assets are generally their "stock-in trade." **Conclusion:** Type B Lease	**Analysis:** The lease is not for a major part of the remaining economic life of the railcar; the PV of the lease payments is not substantially all of the FV of the railcar, title does not transfer to the lessee as a consequence of the lease, nor does the lease contain a purchase option reasonably certain of exercise. **Conclusion:** Operating Lease (Type B Lease)	**Analysis:** The lease is not for at least 75% of the remaining economic life of the railcar; the PV of the lease payments is not 90% or more of the FV of the railcar, title does not transfer to the lessee as a consequence of the lease, and the lease does not contain a bargain purchase option. **Conclusion:** Operating Lease (Lessee and Lessor)

Example 3a (Railcar – long-term lease): A lessee enters into a 30-year lease of a new speciality (for example, chemical transport) railcar, which has a total economic life of 40 years. The lease payments are CU10,000 per year, the present value of which is CU107,469, calculated using the lessee's incremental borrowing rate of 8.5% (that is, the rate the lessor charges the lessee is not readily determinable by the lessee). The fair value of the railcar at the commencement date is CU120,000. The estimated fair value of the railcar at the end of the lease term is CU20,000. The lease contains a fair market value purchase option, but no renewal options, and does not transfer title to the railcar to the lessee. The lessee does not provide any residual value guarantees, nor does the lessor obtain any third-party residual value support.

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2)	Existing U.S. GAAP
Analysis: The underlying asset is not property, the lease term is for more than an insignificant portion of the total economic life of the railcar, and the PV of the lease payments is more than insignificant in relation to the FV of the railcar at lease commencement. **Conclusion:** Type A Lease	**Analysis:** The underlying asset is not property. **Conclusion:** Type A Lease	**Analysis:** The lease does not contain a purchase option, nor does it transfer title to the railcar. However, given the combination of the lease term as compared to the remaining economic life, the fact the railcar has a specialized nature, and the PV of the lease payments as compared to the FV of the railcar, the lessee has the ability to obtain substantially all of the railcar's remaining benefits during the lease term. **Conclusion:** Type A Lease	**Analysis:** Assuming this railcar lessor has a typical business model (as described in Example 3), this lease would be expected to be significantly different from of the lessor's normal lease terms given the length of the lease and the presence of an option to purchase the railcar. **Conclusion:** Type A Lease	**Analysis:** The PV of the lease payments is 89.6% of the FV of the underlying asset and the lease term is 75.0% of the asset's remaining economic life. Under IAS 17, we would expect this lease to be classified as a finance lease. **Conclusion:** Finance Lease (Type A Lease)	**Analysis:** The PV of the lease payments is not 90% or more of the FV of the railcar (89.6%), title does not transfer to the lessee as a consequence of the lease, and the lease does not contain a bargain purchase option. However, the lease is for at least 75% of the remaining economic life of the railcar. **Conclusion:** Capital Lease (Lessee)/Sales-Type Lease (Lessor)[4]

[4] Assuming collectability is reasonably predictable and there are no significant uncertainties with respect to potential unreimbursed costs for the lessor.

Example 3b (Railcar – typical lease at end of economic life): A lessee enters into a 5-year lease of a standard railcar, which has a total economic life of 40 years (and a remaining economic life of 5 years at lease commencement). The lease payments are CU3,000 per year, the present value of which is CU12,300, calculated using the lessee's incremental borrowing rate of 7% (that is, the rate the lessor charges the lessee is not readily determinable by the lessee). The fair value of the railcar at the commencement date is CU15,000. The estimated fair value of the railcar at the end of the lease term is CU4,500 (based on estimated scrap value of materials). The lease contains no purchase or renewal options and does not transfer title to the railcar to the lessee. The lessee does not provide any residual value guarantees, nor does the lessor obtain any third-party residual value support.

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2)	Existing U.S. GAAP
<u>Analysis</u>: The underlying asset is not property, the lease term is for more than an insignificant portion of the total economic life of the railcar (12.5%), and the PV of the lease payments is more than insignificant in relation to the FV of the railcar at lease commencement.	**<u>Analysis</u>:** The underlying asset is not property.	**<u>Analysis</u>:** Despite the fact that the lease term is for all of the remaining economic life of the railcar, it is otherwise clear in this example that the lessee does not have the ability to obtain substantially all the remaining benefits of the railcar (that is, because of the significant scrap value) **Note:** If the lessee was unaware of the scrap value of the railcar, it may reasonably conclude the lease is a Type A lease.	**<u>Analysis</u>:** Railcar lessors typically lease their assets many times over their economic life and price their contracts at market to obtain a return on those assets over their economic life. These assets are generally their "stock-in trade". The fact that the lease is coming at the end of the railcar's economic life does not affect lease classification under this approach.	**<u>Analysis</u>:** Effectively the same analysis as for the "Based on Topic 840/IAS 17 (Transfer of Control)" alternative.	**<u>Analysis</u>:** Under existing U.S. GAAP, neither the economic life test, nor the PV of the lease payments test, would be applied because the asset is in the last 25% of its total economic life. The lease does not contain a bargain purchase option, nor does it transfer title to the lessee.
<u>Conclusion</u>: Type A Lease	**<u>Conclusion</u>:** Type A Lease	**<u>Conclusion</u>:** Type B Lease (based on knowledge of the significant scrap value)	**<u>Conclusion</u>:** Type B Lease	**<u>Conclusion</u>:** Operating Lease - based on knowledge of the significant scrap value (Type B Lease)	**<u>Conclusion</u>:** Operating Lease (Lessee and Lessor)

Example 4 (Cellular Tower): A lessee enters into a 5-year lease of a new cellular tower, which has a total economic life of 20 years. The lease payments are CU18,000 per year, the present value of which is CU74,000, calculated using the lessee's incremental borrowing rate of 7% (that is, the rate the lessor charges the lessee is not readily determinable by the lessee). The fair value of the cell tower at the commencement date is CU150,000. The estimated fair value of the tower at the end of the lease term is CU105,000. The lease contains no purchase or renewal options and does not transfer title to the tower to the lessee. The fair value of the land is only 13% of the total fair value of the leased property at lease commencement (*which means U.S. GAAP preparers would not separate the integral equipment and land elements of this lease under Topic 840; for purposes of this example it is assumed that the lessee and the lessor would not separate the elements under any approach when classifying the lease*). Assume there are no residual value guarantees provided by the lessee or any other third-party.

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2)	Existing U.S. GAAP
Analysis: The underlying asset is not property, the lease term is for more than an insignificant portion of the total economic life of the tower, and the PV of the lease payments is more than insignificant in relation to the FV of the tower at lease commencement.	**Analysis:** The underlying asset is property, therefore, the analysis should be the same as under the "Based on Topic 840/IAS 17 (Transfer of Control)" column.	**Analysis:** The lease neither transfers title to the tower, nor provides a purchase option to the lessee. Given the lease term and lease payments as compared to the remaining economic life of the tower and fair value of the property, it is clear that the lessee will not obtain substantially all the remaining benefits of the tower.	**Analysis:** Cellular tower lessors generally manage their cellular towers to obtain a return over the life of those assets, and do not consider themselves in the business of financing the customer's purchase of those towers. This indicates a Type B lessor business model.	**Analysis:** The lease term is not for a major part of the remaining economic life of the tower, nor is the PV of the lease payments substantially all the FV of the tower at lease commencement. In addition, the lease does not contain a purchase option reasonably certain of exercise, nor does it transfer title to the tower to the lessee.	**Analysis:** The lease is not for at least 75% of the remaining economic life of the tower, the PV of the lease payments is not 90% or more of the FV of the tower, title does not transfer to the lessee as a consequence of the lease, and the lease does not contain a bargain purchase option.
Conclusion: Type A Lease	**Conclusion:** Type B Lease	**Conclusion:** Type B Lease	**Conclusion:** Type B Lease	**Conclusion:** Operating Lease (Type B Lease)	**Conclusion:** Operating Lease (Lessee and Lessor)

Example 4a (Cellular Tower - Longer Term): A lessee enters into a 5-year lease of a cellular tower, which has a total economic life of 20 years (and a remaining economic life of 15 years at the lease commencement date). The lease contains two five-year renewal options that the lessee has a significant economic incentive to exercise. Therefore, the lease term is 15 years. The lease payments are CU12,000 per year, the present value of which is CU103,000, calculated using the lessee's incremental borrowing rate of 8% (that is, the rate the lessor charges the lessee is not readily determinable by the lessee). The fair value of the tower (and land element) at the commencement date is CU110,000. The fair value of the land is only 10% of the total fair value of the leased property (*which means U.S. GAAP preparers would not separate the integral equipment and land elements of this lease; for purposes of this example it is assumed that the lessee and the lessor would not separate the elements under any approach when classifying the lease*).

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2)	Existing U.S. GAAP
Analysis: The underlying asset (the tower) is not property, the lease term is for more than an insignificant portion of the total economic life of the tower; and the PV of the lease payments is more than insignificant in relation to the FV of the tower at lease commencement. **Conclusion:** Type A Lease	**Analysis:** The underlying asset is property, therefore, the analysis should be the same as under the "Based on Topic 840/IAS 17 (Transfer of Control)" column. **Conclusion:** Type A Lease	**Analysis:** The lease does not transfer title, nor provide the lessee with a purchase option. However, because the lease term is for a major part of the remaining economic life of the tower and the PV of the lease payments is substantially all the FV of the property at lease commencement, the lessee has the ability to obtain substantially all of the remaining economic benefits of the property as a result of the lease. **Conclusion:** Type A Lease	**Analysis:** Cellular tower lessors generally manage their cellular towers to obtain a return over the life of those assets, and do not consider themselves in the business of financing customer's purchase of those towers. This lease is not outside of the lessor's business norm. **Conclusion:** Type B Lease	**Analysis:** The lease term is for a major part of the remaining economic life of the tower and the PV of the lease payments is substantially all the FV of the property at lease commencement. **Conclusion:** Finance Lease (Type A Lease)	**Analysis:** The lease is for at least 75% of the remaining economic life of the tower and the PV of lease payments is 90% or more of the FV of the property. The lease does not transfer title to the integral equipment (that is, real estate), nor does it contain a bargain purchase option. **Conclusion:** Capital Lease (Lessee)/ Operating Lease[5] (Lessor)

[5] Lease of combined land/other real estate element cannot get sales-type lease accounting unless it transfers title to the lessee, must either be direct financing (if no manufacturer/dealer – i.e., selling profit) or operating (if there is manufacturer/dealer profit).

Example 5 (Automobile Lease): A lessee enters into a 3-year lease of a new automobile through the manufacturer's captive finance subsidiary. The lease contains no renewal options. The lease contains an option to purchase the automobile at the end of the lease at the then market value. The economic life of the automobile is 8 years. The lease payments are CU6,000 per year, the present value of which is CU16,300, calculated using the rate the lessor charges the lessee of 5%. The fair value of the automobile at the commencement date is CU30,000.

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2)	Existing U.S. GAAP
Analysis: The underlying asset is not property, the lease term is for more than insignificant portion of the economic life of the automobile, and the PV of the lease payments is more than insignificant relative to the FV of the automobile at lease commencement. **Conclusion:** Type A Lease	**Analysis:** The underlying asset is not property. **Conclusion:** Type A Lease	**Analysis:** The lease does not transfer title to the lessee, nor does it contain a bargain purchase option. In addition, the lessee would not be expected to have the ability to obtain substantially all of the remaining benefits of the automobile as a result of the lease based on the relevant indicators as well as the valid expectation that the automobile will have significant value at the end of the lease term. **Conclusion:** Type B Lease	**Analysis:** The lessor uses leases as an alternative means to sell its manufactured automobiles. The lessor does not re-lease used automobiles, but rather sells them after the initial lease. Therefore, the lessor's business model is principally one of providing finance to lessees in order to sell its automobiles. This indicates a Type A lessor business model. **Conclusion:** Type A Lease	**Analysis:** The lease is not for a major part of the remaining economic life of the automobile, the PV of the lease payments is not substantially all of the FV of the automobile, title does not transfer to the lessee as a consequence of the lease, and the lease does not contain a purchase option reasonably certain of exercise. **Conclusion:** Operating Lease (Type B Lease)	**Analysis:** The lease is not for at least 75% of the remaining economic life of the vehicle, the PV of the lease payments is not 90% or more of the FV of the automobile, title does not transfer to the lessee as a consequence of the lease, and the lease does not contain a bargain purchase option. **Conclusion:** Operating Lease (Lessee and Lessor)

Example 6 (Aircraft) - A lessee enters into a 10-year lease of a new passenger aircraft. The total economic life of the aircraft is 25 years. The lease payments are CU15,000,000 per year (paid in advance), the present value of which is CU101,500,000, calculated using the rate the lessor charges the lessee of 10%. The fair value of the new aircraft at the commencement date is CU120,000,000. Assume there are no residual value guarantees provided by the lessee or another third-party.

2013 ED	2013 ED Simplified (Lessee Approaches 1A and 2)	Transfer of Control to Lessee (Lessee Approach 3)	Lessor Business Model (Lessor Approach 3)	Existing IFRS (Lessor Approaches 1 and 2)	Existing U.S. GAAP
Analysis: The underlying asset is not property, the lease term is for more than an insignificant portion of the total economic life of the aircraft, and the PV of the lease payments is more than insignificant relative to the FV of the aircraft at lease commencement. **Conclusion:** Type A Lease	**Analysis:** The underlying asset is not property. **Conclusion:** Type A Lease	**Analysis:** The lease does not transfer title to the aircraft to the lessee, nor does it contain a purchase option. The lease term is not for a major part of the economic life of the aircraft, and the PV of the lease payments are not substantially all the FV of the aircraft. Although the interior of the aircraft is customized for the lessee, the costs to reconfigure the aircraft at the end of the lease are not significant such that the aircraft *will* have alternative use to the lessor. In addition, both the lessee and lessor would generally expect this aircraft to have significant remaining economic benefit to the lessor at the end of the lease term. **Conclusion:** Type B Lease	**Analysis:** The aircraft lessor purchases its owned aircraft before having a lessee for that aircraft and intends to hold the aircraft throughout its economic life, leasing it 3-4 times during that life. This indicates a Type B lessor business model. **Conclusion:** Type B Lease	**Analysis:** The lease is not for a major part of the remaining economic life of the aircraft, the PV of the lease payments is not substantially all of the FV of the aircraft, title to the aircraft does not transfer to the lessee, and the lease does not contain a purchase option reasonably certain of exercise. Although the interior of the aircraft is customized for the lessee, the costs to reconfigure the aircraft at the end of the lease are not significant. **Conclusion:** Operating Lease (Type B Lease)	**Analysis:** The lease neither grants title to the aircraft to the lessee, nor contains a bargain purchase option. In addition, the lease term is not 75% or more of the remaining economic life of the aircraft and the PV of the lease payments is not 90% or more of the FV of the aircraft. **Conclusion:** Operating Lease (Lessee and Lessor)