

IASB Meeting—Education session

Project	Leases
Paper topic	Feedback from the IASB's advisory bodies
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Purpose

1. The purpose of this addendum is to summarise the feedback received regarding the leases project from the following advisory bodies to the IASB in February and March 2014:
 - (a) IFRS Advisory Council
 - (b) Capital Markets Advisory Committee (CMAC)
 - (c) Accounting Standards Advisory Forum (ASAF)
 - (d) Global Preparers Forum (GPF).
2. The IASB's advisory bodies have different objectives and structures as described in this paper. Accordingly, the objectives and topics for discussion at each advisory body's meeting varied.
3. This paper summarises the feedback received only on the topics for discussion at the March 2014 joint board meeting. ASAF members and GPF members also provided feedback on other areas of lease accounting, which will be included in future board papers.

IFRS Advisory Council

Overview

4. The primary objective of the IFRS Advisory Council is to provide a forum at which the IASB (and trustees) consult individuals and representatives of organisations that are affected by and interested in the IASB's work. The IFRS Advisory Council members give advice to the IASB on a range of issues, including current projects.
5. The IFRS Advisory Council consists of investors, financial analysts and other users of financial statements, as well as preparers, academics, auditors, regulators, professional accounting bodies and standard-setters.

February 2014 meeting

6. The leases project was discussed at the 24 February IFRS Advisory Council meeting.
7. The objective of the leases discussion was to obtain high-level strategic advice from the IFRS Advisory Council members on the path forward for the leases project.
8. Members expressed strong support for the concept that leases create assets and liabilities that should be reflected on a lessee's balance sheet.
9. Members also encouraged the IASB to strive for convergence. Nonetheless, members expressed support for completing the project on a timely basis even if it does not result in convergence. Members emphasised the importance of achieving a high quality leases standard.
10. Some members raised concerns that scope exemptions and bright lines could result in structuring opportunities.
11. The Council acknowledged the positive role it could play in raising awareness of the need for changes to lease accounting and the merits of providing more transparent information about leases.

CMAC

Overview

12. The objective of the CMAC is to provide the IASB with regular input from the international community of investors and analysts.
13. The CMAC consists of members, from a variety of industry and geographical backgrounds, with extensive practical experience in analysing financial information.

February 2014 meeting

14. The leases project was discussed at the 27 February CMAC meeting.
15. The objective of the leases discussion was to obtain feedback from CMAC members on which of three alternative lessee accounting approaches would provide the most useful information when analysing a lessee's financial statements.
16. CMAC members were presented with three alternative approaches:
 - (a) Approach 1 would be a single model, requiring the lessee to present amortisation and interest separately for all leases.
 - (b) Approach 2 would distinguish between most real-estate leases and all other leases. For equipment and vehicle leases, a lessee would present amortisation and interest separately, while for most real estate leases the lessee would present a single rent expense as an operating expense.
 - (c) Approach 3 would result in no change to the income statement compared to the existing accounting under IAS 17 *Leases*, ie for existing operating leases a lessee would present a single rent expense as an operating expense, while for existing finance leases a lessee would recognise amortisation and interest separately.
17. Most of the members indicated their preference for Approach 1. This reflects their view that leases creates debt-like liabilities and that, accordingly, a lessee should recognise a corresponding interest expense in the income statement. Some members highlighted that a single model would be easier to understand, ensure comparability and avoid arbitrage that exists today with the classification guidance in IAS 17.

18. A few members supported a dual model. They generally agreed that there are economic differences between real estate leases and equipment leases and that a dual model is a practical way to reflect this.
19. CMAC members were also asked what their second choice approach would be. In addition to the other approaches discussed, CMAC members also considered an approach that would permit lessees of real estate to either recognise interest and amortisation separately, or a single lease expense, for those leases. The majority of CMAC members indicated Approach 2 as their second choice approach.

ASAF

Overview

20. The objective of the ASAF is to provide an advisory forum where members can contribute towards the achievement of the IASB's goal of developing globally accepted high-quality accounting standards. The ASAF members provide national and regional input on major technical issues related to the IASB's standard setting activities.
21. The ASAF consists of nominated members from both national standard-setters and regional bodies involved with accounting standard-setting.

March 2014 meeting

22. The leases project was discussed at the 3 March ASAF meeting.
23. The objective of the leases discussion was to obtain ASAF members' views on possible ways forward for lessee and lessor accounting and possible simplifications to the 2013 *Leases* Exposure Draft.
24. Regarding lessee accounting, most members indicated their preference for a single model that would require a lessee to present amortisation and interest separately for all leases. These members thought that such a model would avoid complexity and result in more relevant information for investors and analysts than any other approach. Some ASAF members also noted that the scope of the new leases standard should be discussed further during redeliberations, including the definition of a lease.

25. Regarding possible simplifications for small-ticket leases held by a lessee, members stated that any simplifications should not cause complexity. Most thought that a recognition exemption may not be needed given the existing materiality guidance in IFRS.
26. Regarding lessor accounting, there was general support for retaining guidance similar to existing IFRS. Some members viewed an approach based on the lessor's business model as attractive but did not advocate such an approach at this time.
27. Regarding lease term, members generally supported simplifying the reassessment requirements in the 2013 ED, but had mixed views on how that simplification should be achieved.

GPF

Overview

28. The objective of the GPF is to provide the IASB with input from the international preparer community.
29. The GPF consists of members, from a variety of industry and geographical backgrounds, with practical experience of financial reporting and accounting matters.

March 2014 meeting

30. The leases project was discussed at the 11 March GPF meeting.
31. The objective of the leases discussion was to obtain GPF members' views on possible simplifications to the 2013 ED.
32. Regarding possible simplifications for small-ticket leases held by a lessee, members had mixed views. Some members stated that simplifications for small-ticket leases are not needed given the existing materiality guidance in IFRS. There were mixed views on the operationality of an exemption for low-value or non-core assets. Some members stated that applying the proposed lessee requirements to portfolios of leases, rather than individual leases, would provide cost relief but that this would vary depending on the individual entity.

33. Regarding lease classification, most members that commented said that lease classification based on IAS 17 is not complex because it is familiar to preparers. Some members expressed views on the proposed lessee accounting approaches, which included:
- (a) Support for a dual model with lease classification based on IAS 17. Some supporting this view indicated a preference for measuring the lease liability on an undiscounted basis.
 - (b) Support for a single model in which a lessee would recognise a single lease expense. One member would prefer any single model with no lease classification to any dual model.
34. Regarding lease term, one member supported retaining reassessment requirements. Another suggested retaining the phrase in IAS 17, ‘reasonably certain’, rather than ‘significant economic incentive’, when assessing the lease term.