STAFF PAPER

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Project	**Leases**		
Paper topic	Lessee Disclosure Requirements – FASB		
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Objective

1. The objective of this paper is to discuss the lessee disclosure requirements in the final lease standard under the FASB lessee accounting model.
2. This paper is structured as follows:
   (a) Summary of Staff Recommendations
   (b) Background
   (c) Relevant Decisions Reached in Redeliberations
   (d) Summary of High-Level Feedback Received on the 2013 ED
   (e) Staff Analysis
      (i) Disclosure Objective
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         1. Reconciliation of Lease Liabilities
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3. Maturity Analysis of Lease Liabilities
4. Maturity Analysis of Commitments for Nonlease Components

(iv) Nonpublic Business Entity Considerations

(f) Appendix A – Summary of Staff Proposals for Lessee Disclosure Requirements

(g) Appendix B – Staff Recommendations, Proposals in the 2013 ED, and Existing Lessee Disclosure Requirements

(h) Appendix C – Comparison of IASB and FASB Lessee Disclosure Staff Recommendations

(i) Appendix D – Disaggregation Disclosure Guidance from Topic 606

Summary of Staff Recommendations

3. Regarding the lessee disclosure requirements in the leases note to the financial statements, the staff recommend that the FASB do the following:

Disclosure Objective

(a) Reaffirm the lessee disclosure objective proposed in the May 2013 Exposure Draft, *Leases* (2013 ED) and retain the statement in the 2013 ED requiring a lessee to consider the level of detail necessary to satisfy the disclosure objective.

Qualitative Disclosures

(b) Reaffirm the proposal in the 2013 ED for a lessee to provide qualitative disclosures about their leases. In addition, to include disaggregation guidance, similar to that in Topic 606, *Revenue from Contracts with Customers*, when describing the level of detail with which the *qualitative* disclosures should be presented.

Quantitative Disclosures

(c) Eliminate the requirement proposed in the 2013 ED for a lessee to disclose a reconciliation of the opening and closing balances of its lease liabilities.

(d) Require a lessee to disclose the following quantitative items in a tabular format:

- (i) Type A lease expense (amortization of ROU assets disclosed separately from interest on lease liabilities);
- (ii) Type B lease expense;
- (iii) Short-term lease expense;
- (iv) Variable lease expense;
- (v) Sublease income;
- (vi) Cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows;
- (vii) Supplemental noncash information on ROU assets obtained in exchange for lease liabilities;
- (viii) Weighted-average remaining lease term, presented separately for Type A and Type B leases;
- (ix) Weighted-average discount rate for Type B leases as of the reporting date; and
- (x) Gains and losses on sale and leaseback transactions.

(e) Eliminate the requirement proposed in the 2013 ED for a lessee to disclose a maturity analysis of its lease liabilities, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

(f) For nonlease components related to a lease:

(i) Eliminate the requirement proposed in the 2013 ED for a lessee to disclose a maturity analysis of commitments for nonlease components; and

(ii) Require a lessee, instead, to provide qualitative disclosures regarding the existence, and terms and conditions, of significant nonlease commitments it has taken on as a result of entering into lease contracts.

Nonpublic Business Entity Considerations

4. The staff does not recommend any special disclosure requirements (or reliefs) for nonpublic business entities (that is, all other entities beside public business entities). Therefore, the staff recommend that the disclosure package recommended in this paper be equally applicable to both public and nonpublic business entities.

Background

5. The existing requirements of Topic 840*, Leases*, do not include an overall disclosure objective. The existing requirements also do not include extensive lessee disclosure requirements. Existing guidance requires a general description of a lessee's leasing arrangements to be disclosed, including the basis on which contingent rental payments are determined, the existence of renewal or purchase options, and restrictions imposed by leasing agreements (such as those concerning dividends, additional debt, and further leasing). In addition, for capital leases, a

lessee is required to disclose the amount of assets recorded presented by major asset classes according to nature or function.

6. Existing leases guidance also requires that, for both operating and capital leases, a lessee should disclose the following:

   (a) A maturity analysis of undiscounted future minimum lease payments (for capital leases, this includes a requirement to disclose the unearned interest income necessary to reduce the minimum lease payments to their present value capitalized on the balance sheet).

   (b) Total minimum sublease payments to be received in the future under noncancellable subleases.

   (c) Total contingent rent expense actually incurred for each period.

7. In addition, existing supplemental noncash disclosure requirements require lessees to disclose information about the acquisition of capital lease assets in exchange for capital lease obligations.

8. The 2013 ED proposed a disclosure objective and also a greater level of detailed qualitative and quantitative disclosure requirements in response to users' request for additional financial information about leases.

Relevant Decisions Reached in Redeliberations

Lessee Accounting Model

9. At the March 2014 joint meeting, the FASB decided that classification of a lease contract should be determined in accordance with the principle in existing leases guidance (that is, determining whether a lease is effectively an installment purchase of an asset by the lessee). Under this approach, a lessee would account for those leases that are, in effect, installment purchases of an asset (heretofore referred to as Type A leases) by recognizing amortization of the ROU assets separately from interest on the lease liabilities, consistent with current capital

lease accounting. Lessees would account for leases that are *not*, in effect, installment purchases of an asset (heretofore referred to as Type B leases) by recognizing a single total lease expense in a manner consistent with current operating lease accounting. Both Type A and Type B leases would recognize lease assets and lease liabilities on the balance sheet.

Short-term Leases

10. At the March 2014 joint meeting, the FASB and the IASB (the Boards) tentatively decided that lessees would not, as an accounting policy election, be required to recognize a ROU asset or a lease liability for any lease with a *lease term* of 12 months or less. However, a lessee would be required to disclose:

    (a) Its policy election to not recognize a ROU asset or a lease liability for short-term leases;

    (b) The amount of expense related to short-term leases recognized in the reporting period; and

    (c) If the short-term lease expense for the period does not reflect the lessee's short-term lease commitments, a lessee should disclose that fact and the amount of its short-term lease commitments.

Variable Lease Payments

11. At the April 2014 joint meeting, the Boards tentatively decided that only variable lease payments that depend on an index or a rate should be included in the initial measurement of lease assets and lease liabilities and that an entity should measure those payments using the index or rate at lease commencement.

Separating Lease and Nonlease Components

12. At the May 2014 joint meeting, the Boards decided to permit a lessee, as an accounting policy election by class of underlying asset, to not separate lease

components from nonlease components. Instead, a lessee would account for lease and nonlease components together as a single lease component.

Balance Sheet Presentation

13. At the June 2014 joint meeting, the FASB decided that a lessee should either present as separate line items on the balance sheet or disclose in the notes the amounts of its Type A ROU assets and its Type B ROU assets. If a lessee does not present Type A ROU assets or Type B ROU assets as separate line items on the balance sheet, the lessee should disclose in the notes which line items in the balance sheet include Type A ROU assets and Type B ROU assets. A lessee is prohibited from presenting Type A ROU assets within the same line item as Type B ROU assets.

14. The FASB also decided that a lessee should either present as separate line items on the balance sheet or disclose in the notes the amounts of its Type A lease liabilities and its Type B lease liabilities. If a lessee does not present Type A lease liabilities or Type B lease liabilities as separate line items on the balance sheet, the lessee should disclose in the notes which line items in the balance sheet include Type A lease liabilities and Type B lease liabilities. A lessee is prohibited from presenting Type A lease liabilities within the same line item as Type B lease liabilities.

Cash Flow Presentation

15. At the June 2014 joint meeting, the FASB decided to retain the guidance in the 2013 ED requiring a lessee to classify:

    (a) Cash payments for the principal portion of the lease liabilities arising from Type A leases within financing activities.

    (b) Cash payments for the interest portion of the lease liabilities arising from Type A leases within operating activities.

    (c) Cash payments arising from Type B leases within operating activities.

Nonpublic Business Entity Discount Rate Considerations

16. At the August 2014 FASB-only meeting, the FASB decided to retain the accounting policy election for lessees that are not public business entities to use the risk-free rate as the discount rate. An entity that elects this option must use a risk-free rate for all of its leases for which it is a lessee.

Related Party Leasing Transactions

17. At the August 2014 FASB-only meeting, the FASB decided that lessees and lessors should be required to apply the disclosure requirements for related party transactions in accordance with Topic 850, *Related Party Disclosures*.

Summary of High-Level Feedback Received on the 2013 ED

18. Many of the comment letters received in response to the 2013 ED contained feedback on the proposed lessee disclosure requirements. Significant feedback has also been received during outreach meetings with constituents that have taken place since the issuance of the 2013 ED.

19. The feedback received on the proposed lessee disclosure requirements has been varied. Feedback received and suggestions made with respect to particular individual disclosure requirements are presented in the relevant sections of this paper. There were, however, some areas of high-level feedback that are pervasive among the comments received and that apply to the entire disclosure package. This feedback is summarized below.

Usefulness of Disclosures

20. The majority of users that expressed views supported the proposed lessee disclosure requirements. They commented that the proposed disclosures would provide useful information relating to the assumptions made by management, the nature of leases, and changes in lease balance sheet amounts from period to period, particularly when compared to the information provided under existing

U.S. GAAP. Many users contend that no single amount can provide a complete picture of an entity's leasing activity. Accordingly, a comprehensive disclosure package is important for their analysis.

Complexity, Detail, and Cost

21. Most preparers considered the proposals to be excessively complex and detailed. These constituents described the proposals as:

> …lengthy, onerous and will detract user attention from other areas of the financial statements (CL 559);
>
> …voluminous and lack[ing in] practical application (CL 411); and
>
> …the combined effect of full disclosure would be to increase 'clutter' in the financial statements (CL 138).

22. In general, preparers were primarily concerned about the costs of complying with the disclosure requirements.

23. In addition, some users of financial statements were concerned about the risk of material entity-specific disclosures being "lost" within the mandatory disclosure requirements.

Increased Disclosure Requirements Compared to Existing Guidance

24. Some preparers commented on the extensive nature of the proposals compared to the existing requirements of Topic 840. These preparers questioned why, if the proposed lessee accounting model provides the information that users need, an increase in disclosure requirements should be required. Many of these constituents noted that an improved lessee accounting model would lead them to expect a decrease in disclosure requirements rather than an increase.

25. Further, some preparers, as well as some academics and accounting firms, stated that, in their opinion, the proposed lessee disclosure requirements did not seem to

reconcile with the goals of the broader FASB Disclosure Framework project, which is to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements.

26. Conversely, many users expressed a desire for significant additional disclosures that were not proposed in the 2013 ED (for example, quantitative sensitivity analyses).

Staff Analysis

Disclosure Objective

2013 ED Proposals and Feedback Received

27. The disclosure objective of the 2013 ED proposed that the disclosure requirements were to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. To achieve that objective, the 2013 ED proposed qualitative and quantitative disclosure requirements about a lessee's leases, significant judgments made in applying the requirements in the 2013 ED to those leases, and the amounts recognized in the financial statements relating to those leases.

28. The 2013 ED also stated that a lessee shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessee should aggregate or disaggregate disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.

29. Most constituents did not comment on the lessee disclosure objective. However, many constituents expressed support for the following statement regarding the *application* of the lessee disclosure objective, which was included in the 2013 ED:

> A lessee shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessee shall aggregate or disaggregate disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.

30. Nonetheless, some constituents were worried that this statement could introduce diversity in practice and could create challenges for auditors and regulators. Some preparers and auditors desired a more explicit statement than the one referenced above. These constituents requested that the Boards explicitly state that the disclosures listed should not be regarded as mandatory in all situations and that entities should apply materiality judgments in determining the extent to which disclosures are required. While acknowledging the existing materiality provisions of U.S. GAAP and IFRS, these constituents noted that they were concerned that, without a more explicit statement, preparers and/or auditors would use the proposed lessee disclosure requirements as a "checklist." This could result in material disclosure information being "lost" within other disclosures that may not be of significance to a particular entity.

Staff Analysis

31. The staff continue to think it is important to include an objective for the lessee disclosure requirements in the final leases standard. The disclosure objective allows:

    (a) An entity to understand the purpose of the disclosure requirements and the extent to which information about their leases should be presented and

(b) Users to determine the type of information about leases they would receive in the notes to the financial statements and, therefore, how to best utilize that information for their analyses.

32. The staff think that the lessee disclosure objective accurately summarizes the reasons why the disclosure requirements are needed. The objective also identifies the type of information users can expect to extract from the disclosures. As such, the staff do not think changes need to be made to the lessee disclosure objective proposed in the 2013 ED.

33. The staff received feedback that an explicit statement about materiality would be useful in applying the disclosure proposals. However, such statements are generally *not* given in existing U.S. GAAP. The staff do not think that the disclosure requirements proposed in the 2013 ED are so significantly different from disclosure requirements in other standards that an explicit materiality statement is required for lessee disclosures. In particular, the staff note that Topic 606 – *Revenue From Contracts with Customers* includes a similar statement to that in the 2013 ED regarding the application of the disclosure objective to the disclosure requirements and does *not* contain any further guidance on materiality. The staff think that the inclusion of an explicit materiality statement in the final leases standard could set a precedent for including similar statements in future ASUs. It could also risk implying that materiality does *not* apply to other existing Topics because it is not explicitly mentioned.

34. In addition, the FASB has been recently discussing in its Disclosure Framework project that (a) materiality is a legal concept that varies by jurisdiction and (b) materiality is an entity-specific judgment.

35. The staff think that implicit in the proposed overall disclosure objective is the notion that the level of detail in the disclosures should equate to the significance of an entity's leasing activity (for example, if leasing is a significant part of an

entity's business activities, the disclosures would be more comprehensive than for an entity whose leasing activities are less significant to its business activities – *activities that are immaterial would not be required to be disclosed by any standard*). Accordingly, the staff do not think that the FASB should include an explicit statement that the proposed lessee disclosure requirements are not required in all circumstances.

Staff Recommendation

36. The staff recommend that the FASB reaffirm the lessee disclosure objective proposed in the 2013 ED, which was as follows:

> The objective of the disclosure requirements is to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases.

37. The staff also recommend that the FASB retain the statement in the 2013 ED requiring a lessee to consider the level of detail necessary to satisfy the disclosure objective, which states the following:

> A lessee shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessee shall aggregate or disaggregate disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.

Questions 1-2: Disclosure Objective
1. Does the FASB want to reaffirm the lessee disclosure objective proposed in the 2013 ED that the disclosures should enable users to understand the amount, timing and uncertainty of cash flows arising from leases?

2. Does the FASB want to reaffirm the statement in the 2013 ED requiring a lessee to consider the level of detail necessary to satisfy the disclosure objective?

Qualitative Disclosures

2013 ED Proposals and Feedback Received

38. The 2013 ED proposed that a lessee provide the following qualitative disclosures:

    (a) Information about the nature of its leases (and subleases), including:

        (i) A general description of those leases;

        (ii) The basis, and terms and conditions, on which variable lease payments are determined;

        (iii) The existence, and terms and conditions, of options to extend or terminate the lease. A lessee should provide narrative disclosure about the options that are recognized as part of the ROU assets and lease liabilities and those that are not;

        (iv) The existence, and terms and conditions, of residual value guarantees provided by the lessee; and

        (v) The restrictions or covenants imposed by leases.

    (b) Information about leases that have not yet commenced, but that create significant rights and obligations for the lessee.

    (c) Information about significant assumptions and judgments made in applying the requirements of the leases standards, which may include the following:

        (i) The determination of whether a contract contains a lease;

        (ii) The allocation of the consideration in a contract between leases and nonlease components; and

(iii) The determination of the discount rate.

(d) The main terms and conditions of any sale and leaseback transactions.

(e) Whether an accounting policy election was made for the short-term lease exemption.

39. Many constituents did not comment on the qualitative disclosure requirements proposed in the 2013 ED. Of those who did comment, users generally found the qualitative disclosure requirements to provide useful information – particularly those requiring a lessee to disclose information about the basis on which variable lease payments are determined and the existence of renewal options.

40. However, there was some concern from preparers about the application and usefulness of these disclosures. These preparers stated that for a diverse lease portfolio presenting qualitative disclosures might be so generic that it would be impossible to provide any meaningful information. For example, a retailer consulted during outreach noted that it has over 6,000 leases of retail stores – a large proportion of these leases have unique terms and conditions.

41. Some constituents, including a few users, added that the qualitative disclosure requirements would result in "boilerplate" statements rather than entity specific information for lessees that have large lease portfolios. Such disclosures would not be beneficial and would lengthen the notes to the financial statements. These constituents did not consider the qualitative disclosure requirements proposed in the 2013 ED as an effective way to achieve compliance with the overall lessee disclosure objective. Instead, some users recommended that to avoid "boilerplate" statements, qualitative information should be sufficiently disaggregated to provide useful information for their analyses.

42. In addition, some preparers expressed concern that the qualitative disclosure requirements did not meet the cost-benefit test. These constituents asserted that compiling, summarizing, and providing the qualitative disclosures proposed in the 2013 ED would be costly for preparers and, at the same time, would not provide

useful information to users of financial statements – especially when the qualitative disclosures result in generic statements.

43. As an alternative to the lessee qualitative disclosure requirements, some constituents suggested that the Boards take a principles-based approach to the qualitative disclosure requirements for a lessee, noting that judgment should be applied by preparers and external auditors to determine the appropriate level of qualitative disclosures.

Staff Analysis

44. The lessee disclosure objective is to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases through both qualitative and quantitative information. While quantitative disclosures help achieve this objective, qualitative disclosures are essential tools that allow a user to gain a more complete understanding of an entity's leasing activity. The staff do not think that all the information which users would like to see consistently across all entities will be adequately addressed solely by the proposed quantitative package, and therefore, qualitative disclosures will often be necessary to help provide additional information and insight.

45. For example, users have often and consistently requested information about the existence, and terms and conditions, of options to extend or terminate a lease. However, based on the Boards' tentative decisions to date, options to extend a lease are not recognized or included in the measurement of a lessee's liabilities to make lease payments (unless the lessee is reasonably certain to exercise the option). Furthermore, there are no quantitative disclosure requirements proposed by the staff which address renewal options. As such, without a qualitative disclosure that requires a lessee to disclose information about the existence, and terms and conditions, of options to extend or terminate a lease, a user would have no information to help them determine the amount, timing, and uncertainty of cash flows associated with renewal options.

46. The staff understand that there is difficulty in providing relevant disclosures for entities with a large volume of diverse leases and that the terms of many significantly different agreements and contracts may be costly to accumulate and disclose. Further, the aggregation of leases that have dissimilar terms could render the disclosures less useful. Nonetheless, the staff think (and have heard directly from users) that qualitative disclosures serve an important role in allowing users to understand the amount, timing, and uncertainty of cash flows arising from leases, and are essential to users' ability to utilize information provided for their analytical needs.

47. To address the concern raised by constituents regarding generic qualitative disclosures, the staff propose that language be included in the final leases standard requiring preparers to provide the *qualitative* disclosures at an appropriately disaggregated level. This disaggregation guidance would be similar to that regarding the disaggregation of revenue disclosures in Topic 606 (the new revenue standard – see Appendix D for the disaggregation disclosure guidance from Topic 606); however, specific disaggregation requirements would not be required for the quantitative disclosures discussed in this paper. The staff think that deriving such guidance from the requirements in the recently-issued revenue standard makes sense because that final guidance was based on input from both users (with respect to what they need) and preparers (with respect to what they can reasonably provide).

48. The staff note that the 2013 ED states that a lessee shall aggregate or disaggregate disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics (note: the staff are recommending that the FASB reaffirm this statement in the *Disclosure Objective* section of this memo). This qualifier was similarly included in Topic 606. The staff view the proposed additional guidance regarding the disaggregation of a lessee's qualitative disclosures as a clarification to the

qualitative disclosure guidance proposed in the 2013 ED, rather than as a new requirement.

49. The staff think that the disaggregation guidance would assist entities in appropriately applying the disclosure objective and interpreting the guidance with respect to the level of detail necessary to satisfy the disclosure objective. The staff think users have clearly expressed the need for qualitative information and the proposed disaggregation guidance would assist preparers in providing qualitative information that substantively contributes to meeting the disclosure objective.

50. The staff note that the extent to which an entity's lease information is disaggregated for the purpose of meeting the qualitative disclosure objective would depend on the facts and circumstances that pertain to the entity's leases. In addition, when selecting the type of category (or categories) to use for disaggregating lease information, an entity should consider how information about its leases is presented and used.

51. The staff think that the following items are a few examples of appropriate categories into which lease information *may* be disaggregated:

    (a) Class (or type) of underlying asset;

    (b) Business segment or unit in which a leased asset is utilized;

    (c) Lease term (for example, 3-5 year leases, 6-9 year leases, leases longer than 10 years);

    (d) Lease payment terms (for example, those with solely or principally fixed lease payments, those with significant variable payments, those that are prepaid, etc.);

    (e) Geographical region in which the lease was entered into and/or in which the leased asset will be utilized.

The staff note the list above is not comprehensive and that there may be other ways for a lessee to disaggregate their qualitative disclosures in order to meet the disclosure objective. It is not the staff's intent that entities should provide information by *each* of these categories, rather, that an entity would consider categories such as these in determining how it should present qualitative information to meet the disclosure objective of providing relevant information on the amounts and timing of future lease cash flows.

52. The disaggregation guidance would not apply to all of the lessee disclosure requirements in the final leases standard. Instead, it would only pertain to the qualitative disclosure requirement for an entity to disclose information about the nature of its leases. This is because the staff think it would be onerous to require lessees to provide the quantitative disclosure items proposed elsewhere in this paper at a significantly disaggregated level. While some preparers likely have information disaggregated to some extent currently (for example, by business unit) because of how they manage their business and/or compile the information for their existing lease disclosures, the staff think entities may have to significantly modify their current systems and/or processes in order to present the quantitative disclosure items proposed in this paper at a disaggregated level.

Staff Recommendation

53. The staff recommend that the FASB retain the requirement proposed in the 2013 ED for a lessee to provide qualitative disclosures about their leases. In addition, the staff recommend that disaggregation guidance, similar to that proposed in Topic 606 (the new revenue standard) in its disclosure requirements, be included when describing the level of detail with which the *qualitative* disclosures should be presented.

Questions 3-4: Qualitative Disclosures

3. Does the FASB want to reaffirm the proposal in the 2013 ED that a lessee should provide qualitative disclosures about their leases as necessary, and at the appropriate level of detail, to meet the overall lessee disclosure objective?

4. Does the FASB want to provide disaggregation guidance, similar to that in Topic 606, when describing the level of detail with which the *qualitative* disclosures should be presented?

Quantitative Disclosures

Reconciliation of Lease Liabilities

Proposals in the 2013 ED and Feedback Received

54. The 2013 ED included requirements for a lessee to disclose a reconciliation of the opening and closing balances of lease liabilities separately for Type A and Type B leases. This reconciliation would include the periodic unwinding of the discount on the lease liabilities and other items that are useful in understanding the change in the carrying amount of the lease liabilities. Examples of these items include:

    (a) Liabilities created due to leases commencing or being extended;

    (b) Liabilities extinguished due to leases being terminated;

    (c) Remeasurements relating to a change in an index or a rate used to determine lease payments;

    (d) Cash paid;

    (e) Foreign currency transaction gains or losses; and

    (f) Effects of business combinations.

55. The 2013 ED also stated that an entity that is a nonpublic business entity and follows U.S. GAAP may elect not to provide the reconciliation of lease liabilities disclosure.

56. The lease liabilities reconciliation proposed in the 2013 ED was the most pervasive disclosure concern expressed by constituents in the feedback process. Preparers stated that this reconciliation would be especially onerous to create and costly to implement, particularly if there is a need to make substantial investments in more robust IT systems. Some of these preparers indicated that new system capabilities would be required to meet the proposed lease liabilities reconciliation disclosure requirement that otherwise would not be required to meet the recognition and measurement requirements.

57. Also, of the constituents who expressed concern about the proposed reconciliation of the opening and closing balances of the entity's lease liabilities, many noted that similar disclosures are not required for other financial liabilities. These constituents contend that the disclosure requirements for lease liabilities should not exceed the disclosure requirements for other financial liabilities.

58. Many users, as well as some academics and regulators, supported the proposal for lessees to provide a reconciliation of the opening and closing balances of its lease liabilities. In their view, this disclosure would provide valuable information when analyzing the changes that occurred during the period in the related account. However, users typically focused on certain amounts that would be disclosed – rather than the reconciliation as a whole. They were generally interested in the *liabilities created due to leases commencing or being extended* section of the reconciliation, which would depict new leases entered into during the reporting period. They were also interested in the *cash paid* amount that would be included in the lease liabilities reconciliation, as this information would assist in analyzing an entity's cash flows related to its leases.

Staff Analysis

59. The 2013 ED's Basis for Conclusions states that lease liabilities are financial liabilities. Lease liabilities meet the definition of financial liabilities under U.S. GAAP. The disclosure requirement for a lessee to present a reconciliation of the

opening and closing balances of its lease liabilities is inconsistent with other disclosure requirements under existing U.S. GAAP, as there are no general requirements to roll-forward financial liabilities (such as long-term debt).

60. Additionally, based on feedback received from constituents, the staff think that preparing a reconciliation of the balance of lease liabilities has the potential to create significant costs for preparers. Creating and providing reconciliations are generally costly for preparers, particularly when the information required is not available centrally within the department producing the financial statements, which is often the case for leases. Some of the information that would be required by the lease liabilities reconciliation requirement proposed in the 2013 ED would require systems and/or process capabilities that would not be required to apply the FASB lessee accounting model (for example, the ability to calculate, on an effective interest method basis, the periodic unwinding of the discount on the entity's lease liabilities), and therefore, may negate a significant portion of the cost relief some see in the revised FASB lessee accounting model.

61. Moreover, the staff think that the usefulness of a disclosure is less associated with the structure of the disclosure, but rather, that the disclosure provides important information to users that is not available elsewhere in the financial statements or the notes to the financial statements. Should the FASB accept the staff recommendation to require a disclosure of total lease expense and cash flows (see *Quantitative Disclosure Table* section of this memo), the staff think that a reconciliation of lease liabilities would no longer be necessary. The staff think that user needs can be satisfied through other recommended quantitative disclosures that are less costly to preparers than the lease liabilities reconciliation proposed in the 2013 ED. The staff think that the other proposed disclosures will meet the needs of users of financial statements and, at the same time, reduce the costs to preparers as compared to the reconciliation proposal in the 2013 ED. Therefore, the staff do not think that there would be substantial benefits to retaining the reconciliation of the opening and closing balances of the entity's

lease liabilities, and that those benefits would not justify the costs of preparing this disclosure. This is consistent with the FASB's current thinking with regard to the Disclosure Framework project which states that the benefits of providing the information in the disclosures should justify the cost of providing that information as described in paragraphs QC35–QC39 in Chapter 3 of Concepts Statement 8.

Staff Recommendation

62. The staff recommend that the FASB eliminate the requirement proposed in the 2013 ED for a lessee to disclose a reconciliation of the opening and closing balances of its lease liabilities.

Question 5: Reconciliation of Lease Liabilities
5. Does the FASB want to eliminate the requirement proposed in the 2013 ED for a lessee to disclose a reconciliation of the opening and closing balances of its lease liabilities, separately for Type A and Type B leases?

Quantitative Disclosure Table

Proposals in the 2013 ED and Feedback Received

63. The 2013 ED did not require a lessee to disclose comprehensive information about the total expense arising from its leasing activity. The only component of total lease expense that was proposed as a disclosure in the 2013 ED was for lessees to disclose the costs recognized in the reporting period relating to variable lease payments that were not included in the lease liabilities.

64. The reconciliation of the opening and closing balances of the lease liabilities proposal in the 2013 ED would have required a lessee to disclose a cash paid figure for leases. This figure, however, did not include cash payments for amounts that were not included in the measurement of the lease liabilities. The 2013 ED also required disclosure of information about the acquisition of ROU assets in

exchange for lease liabilities, arising from both Type A and Type B leases, as a supplemental noncash transaction disclosure.

65. Constituents noted that there are often differing perspectives regarding the economic nature and purpose of lease transactions, as well as the best representation of these transactions in the financial statements. Due to these differing perspectives, comprehensive disclosures are needed to facilitate alternate analysis for users that deem it necessary to adjust the financial statements to address the differences in perspectives on the underlying economics of lease transactions. As such, users consider similar information for both income statement approaches under the FASB lessee model (that is, the amortization and interest expense that result from Type A leases and the straight-line lease expense that results from Type B leases) to be important.

66. Users consistently stated throughout the feedback process that historical lease expense and cash flow information should be disclosed over the periods presented in the financial statements. These users noted that this information provides insight about the nature of lease expense and allows users to better forecast lease commitments in the context of a company's business plans and strategy. For example, if projected growth or revenue of an entity is dependent on the cash generating ability of a leased asset, disclosure of the nature of lease expense and cash flow information is important for more accurately projecting expected margins and earnings.

67. Some users suggested, in comment letters and during outreach activities performed after the issuance of the 2013 ED, that disclosure of total lease expense and cash paid for leases would be more beneficial than the proposed lease liabilities reconciliation. These users think that certain information from the proposed reconciliation, combined with other disclosures that provide further transparency surrounding an entity's lease expense and cash outflows, would help give a complete picture of a lessee's leasing activity.

68. Furthermore, some users noted that they would like to see a sensitivity analysis of the range of possible cash outflows related to all leases (including short-term leases) aggregated by major class of underlying asset. This sensitivity analysis should take into account management's expectations for renewal options and variable lease payments.

69. Other suggestions provided by users during outreach with respect to disclosure of a lessee's expenses and cash flows include the following:

    (a) A single disclosure of the total lease expense and a breakdown of the components of that expense, including information about expenses recognized that are not reflected on the balance sheet.

    (b) Disclosure of the interest on the lease liabilities if that information is not available on the face of the income statement.

Staff Analysis

70. Based on the totality of what the staff heard from users during extensive outreach efforts, the staff think that there is certain information included in the 2013 ED's proposed reconciliation of lease liabilities that is important to users and should be disclosed in the notes to the financial statements. The staff think that the disclosure of those key components of the reconciliation (rather than the full reconciliation), together with other key pieces of information that were not proposed in the 2013 ED disclosure package, would provide more benefit to users, at less cost to preparers, than the 2013 ED's lease liabilities reconciliation proposal.

71. The staff therefore propose, as an alternative to the reconciliation of lease liabilities proposed in the 2013 ED, that the final leases standard include a tabular disclosure requirement that would present specific information about a lessee's leasing activity (that is, total lease expense, cash flows, and other quantitative information). The staff think that the information in this table, presented in one

location in the financial statements, will provide more benefit to users than the proposals in the 2013 ED based on the staff's understanding as to the various types of adjustments users make for leases. For each reported period, this tabular disclosure would include the items in the following table:

For year ended December 31, 20X2 ***(CU in thousands)***	**20X2**	**20X1**
Lease Expense		
Type A Lease Expense (expense resulting from *lease payments*)[1]	CU 400	CU 370
Amortization of ROU Assets	CU 300	CU 280
Interest on Lease Liabilities	CU 100	CU 90
Type B Lease Expense (expense resulting from *lease payments*)[1]	CU 980	CU 870
Short-Term Lease Expense	CU 30	CU 20
Variable Lease Expense (expense resulting from amounts excluded from *lease payments*)	CU 60	CU 60
Sublease Income	(CU 8)	(CU 9)
Total Lease Expense	**CU 1,462**	**CU 1,311**
Other Information		
(Gains) and Losses on Sale and Leaseback Transactions, net	(CU 12)	CU 2
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	CU 1,571	CU 1,438
Operating Cash Flows	CU 1,471	CU 1,340
Financing Cash Flows	CU 100	CU 98
ROU Assets Obtained in Exchange for Lease Liabilities	CU 320	CU 314
Weighted-Average Remaining Lease Term for Type A Leases	3.7 years	3.9 years
Weighted-Average Remaining Lease Term for Type B Leases	5.8 years	5.6 years
Weighted-Average Discount Rate for Type B Leases	6.4%	6.3%

72. The staff's proposed quantitative disclosure table should help users obtain key information about an entity's lease contracts in a single location within the notes

[1] Would include amounts capitalized as part of the cost of another asset

to the financial statements. Users noted in their feedback that it would be important for them to understand all the various expense elements and related cash flows associated with a lessee's lease contracts because they need different pieces of information for different analyses that they perform.

73. At the same time, the staff think that this disclosure will reduce the costs to preparers when compared to the 2013 ED's proposed reconciliation of lease liabilities requirement. The staff think that each of the items proposed in the tabular disclosure are either:

    (a) Already required for disclosure under existing guidance; and/or

    (b) Can be produced by most preparers using existing systems and processes (for example, by adding a column and/or a calculation to an entity's Excel-based operating lease tracking schedule). It is already necessary, for example, to track cash payments made for leases (that are not variable lease payments) in order to:

        (i) Properly recognize the required straight-line operating lease expense;

        (ii) Properly recognize any prepaid or accrued rent in the balance sheet; and

        (iii) Prepare the required maturity analysis disclosure.

74. The tabular disclosure would include (for example, within the Type B lease expense line-item) expense amounts that a lessee has capitalized as part of the cost of another asset in the reporting period, as well as costs that a lessee has recognized as an expense in that period.

75. The staff note that the FASB has already decided, in redeliberations, that a lessee should disclose its short-term lease expense (see *Relevant Decisions Reached in Redeliberations* section of this memo). As such, a staff analysis section on disclosure of short-term lease expense is not included in this memo.

Type A Lease Expense and Type B Lease Expense

76. The staff are proposing that, within the quantitative disclosure table, lessees both:

(a) Disclose the total expense arising from Type A leases separately from the total expense arising from Type B leases and

(b) Separately disclose amortization of ROU assets and interest on the lease liabilities for Type A leases.

77. The FASB has concluded that Type A leases, consistent with the view of capital leases under Topic 840, are effectively an installment purchase of an asset and therefore, substantially different from Type B leases, which provide the lessee with a right to use the lessor's asset for a period of time. Separate disclosure of these two "pools" of expense would allow users to understand the effects on the lessee's income statement from these two different types of transactions that convey different rights and obligations to the lessee. Because Type A leases convey rights and obligations similar to ownership of an asset, separate disclosure of the Type A lease expense components (that is, amortization on the ROU assets and interest on the lease liabilities) will allow users to compare the income statement effects resulting from these transactions to the effects from the entity's owned assets.

78. The staff think separate disclosure of these various lease expense components is important because they will rarely be presented separately in the income statement, while outreach has demonstrated clearly that users utilize lease expense amounts in their analyses. Type B lease expense (including amortization of any lease expense previously capitalized) and amortization of Type A ROU assets will typically be comingled with other operating expenses, while interest on Type A lease liabilities will generally not be presented separate from interest expense resulting from other obligations.

79. Under existing U.S. GAAP, a lessee is required to disclose the rental expense resulting from operating leases for each period for which an income statement is

presented. In addition, for capital leases, unless the amortization expense resulting from capital leases is included by the lessee with depreciation expense and that fact is disclosed, amortization expense resulting from capital leases is required to be disclosed by a lessee in the financial statements or the footnotes thereto.

80. Therefore, the staff do not think that there will be significant costs to an entity associated with disclosing Type B lease expense because lessees are already required to do so. Similarly, the staff do not think it will be onerous for entities to disclose amortization and interest arising from Type A leases. The staff understand that most entities already account for their capital leases separate from their operating leases, and that those processes can, and already do, capture separate interest and amortization amounts for recognition and disclosure in the financial statements for the population of transactions that would be accounted for as Type A leases (which is expected to be consistent with the population of capital leases under existing U.S. GAAP).

81. The staff are therefore recommending that the FASB require a lessee to disclose Type A lease expense separately from Type B lease expense. Further, the staff are recommending that a lessee be required to disclose the amortization of ROU assets separately from the interest on the lease liabilities for Type A leases.

Variable Lease Expense

82. Based on the FASB's tentative decision during redeliberations of the 2013 ED, variable lease payments that do not depend on an index or a rate will not be included in the measurement of a lessee's lease liabilities (see *Relevant Decisions Reached in Redeliberation*s section of this memo) and will not be captured within the Type A and Type B lease expense described above. The 2013 ED proposed that a lessee disclose costs that are recognized in the reported periods relating to variable lease payments not included in the lease liabilities, which would be captured within variable lease expense. Similarly, U.S. GAAP currently requires a

lessee to disclose, for both capital and operating leases, the total contingent rent expense actually incurred for each period presented.

83. The staff think disclosure of variable lease expense incurred during each reporting period continues to remain relevant to achieving the objective of the lessee disclosures. Variable lease expense is likely to vary from period to period as such expense often depends on a lessee's performance or use of the underlying asset. Furthermore, a user is unable to gain an understanding of variable lease expenses incurred in a period from the income statement, statement of cash flows, or the supplemental noncash transaction disclosures because such amounts are generally, as with other lease expenses, comingled with other operating expense amounts. Disclosure of the variable lease expense incurred in the period allows a user to better understand the total expense and cash flows arising from an entity's leasing activity.

84. Requiring the disclosure of variable lease expense for all the reported periods will allow users to perform trend analysis to project the variable lease expense in future periods. Also, while most variable lease payments will not be included in the measurement of a lessee's lease liabilities, the disclosure of variable lease expense will provide users with some of the necessary information needed to capitalize the variable lease component themselves should they desire to do so (as some have expressed they would). The following example demonstrates the effect of this proposal on the information that would be available to users with respect to variable lease expense, as well as that related to non-variable lease expense, on a common lease transaction:

Disclosure Example #1

Entity leases a piece of equipment for five years. The entity concludes that the lease is a Type B lease. *Lease payments* are $100,000 per year, but increase by a percentage each year equal to the increase in CPI. Assume CPI increases by 2% each year during the lease term. The lease also requires payments of $1 for each unit produced using the equipment. Assume those payments come out to be $20,000 each year of the five-year lease term. Under the quantitative disclosure proposals, the lessee would include $100,000 each year in its Type B lease expense disclosure line, and would disclose the amount above $100,000 required as a result of the CPI escalator ($2,000 in Year 2; $4,040 in Year 3; $6,121 in Year 4; and $8,243 in Year 5) and the $20,000 each year in variable, usage-based payments in the variable lease expense line-item in the disclosure table.

	Type B Lease Expense	**Variable Lease Expense**
Year 1	$100,000	$20,000
Year 2	$100,000	$22,000
Year 3	$100,000	$24,040
Year 4	$100,000	$26,121
Year 5	$100,000	$28,243

Disclosure Example #2

Assume the same scenario as in Example #1, however, the fixed lease payments increase by a stated 2% per year, rather than based on CPI. In this scenario, the amounts disclosed in the lessee's disclosure table for Type B lease expense and variable lease expense would be as follows, because the 2% increase per year would be included in *lease payments*; and therefore, would be included in the entity's lease liability:

	Type B Lease Expense	Variable Lease Expense
Year 1	$104,081	$20,000
Year 2	$104,081	$20,000
Year 3	$104,081	$20,000
Year 4	$104,081	$20,000
Year 5	$104,081	$20,000

85. In addition, the staff do not think disclosure of variable lease expense will result in significant cost to preparers, as disclosure of these amounts is already required under existing U.S. GAAP. Furthermore, constituents did not express concern related to the cost of providing this disclosure during the feedback process on the 2013 ED.

86. Therefore, the staff are recommending that the FASB retain the requirement in the 2013 ED for a lessee to disclose variable lease expense incurred in the period that is unrelated to amounts included in the lessee's lease liabilities.

Sublease Income

87. Existing U.S. GAAP requires the disclosure of sublease income during the periods reported. The 2013 ED did not require the disclosure of sublease income, as depicting a total lease expense figure was not an objective of the 2013 ED lessee disclosure requirements. However, the staff think that this disclosure is relevant under the proposed guidance, as it helps provide an accurate depiction of an entity's leasing activities.

88. In addition, the staff think that not including sublease income would provide an inaccurate figure when presenting total lease expense. Including only the expense component of a lease and not showing the income that arises from a sublease would overstate the actual net lease expense of a lessee. Further, because disclosure of sublease income each period is required under existing U.S. GAAP,

the staff do not think that there would be any significant incremental costs to a lessee in continuing to provide this disclosure.

89. The staff note that disclosure of sublease income (rather than future minimum sublease payments) represents a change from existing lease disclosure requirements in respect of subleases. However, the staff think that the disclosure of sublease income would generally be less costly to provide than the existing requirement to disclose future sublease payments expected to be received. It would also often provide investors with a reasonable representation of the level of sublease income expected in future years. When this is not the case, and the effect of future sublease income is considered to be material, the staff think that preparers would be prompted to disclose this information under the qualitative disclosure proposals recommended in this paper.

90. As such, the staff are recommending that the FASB require a lessee to disclose sublease income in the periods reported. This single amount would include income from subleases classified as Type B or as Type A; however, based on the FASB's decisions with respect to subleases, Type A subleases are likely to be rare.

Cash Paid for Amounts Included in the Measurement of Lease Liabilities

91. As noted in the *Relevant Decisions Reached in Redeliberations* section of this memo, the FASB has tentatively decided that cash payments arising from Type B leases and cash payments for the interest portion of Type A leases should be classified within the operating activities section of the statement of cash flows and cash payments arising from the principal portion of Type A leases should be classified within the financing activities section of the statement of cash flows.

92. The staff are proposing that the FASB require disclosure of cash paid for amounts included in the measurement of lease liabilities in the notes to the financial statements, segregated between financing lease cash flows (principal repayments on Type A leases) and operating lease cash flows (all other lease payments that

were included in the lessee's lease liabilities). This is consistent with feedback that the FASB recently received from its Investor Advisory Committee (IAC).

93. The 2013 ED proposed that a lessee disclose cash paid for amounts included in the measurement of lease liabilities figure within the required reconciliation of opening and closing balances of the lease liabilities disclosure, as this would be useful to understanding the change in the carrying amount of the lease liabilities. Users consistently stated throughout outreach that if the reconciliation of lease liabilities proposed in the 2013 ED was eliminated, they would still desire some measure of cash paid for leases to be disclosed. As such, the staff are proposing that the FASB retain the requirement in the 2013 ED for a lessee to disclose a cash paid for leases figure reflective of cash paid against amounts that were included in the applicable lease liabilities.

94. As noted in the proposals in the 2013 ED and feedback received section above, some users that commented on the 2013 ED disclosure proposals noted that clear disclosure of cash paid for leases would be beneficial for their analysis. Therefore, the staff think disclosure of cash flows resulting from leases provides information that will help users analyze an entity's leasing activity.

95. Similar to the proposal in the 2013 ED, the cash paid for leases figure would capture only the cash flows included in the measurement of a lessee's lease liabilities. The staff acknowledge, however, that this disclosure would not capture *all* cash flows associated with an entity's leasing activity. Cash flows for the following items would be excluded from the cash paid figure proposed by the staff:

(a) Variable lease payments not based on an index or a rate;

(b) Short-term leases; and

(c) Sublease income.

96. This would mean that, for example, in Disclosure Example #1 above, the $100,000 amount included in the measurement of the lease liability would be included, when paid, in this cash paid for leases disclosure item. The variable amounts would not be included in the cash paid for leases disclosure item.

97. The staff considered requiring total net cash flows for leases (as opposed to cash paid for amounts included in the measurement of the lease liabilities), similar to the requirements under U.S. GAAP for entities to disclose interest paid (net of amounts capitalized) and income taxes paid during the periods that are reported. However, the staff think that requiring a lessee to disclose total net cash flows for leases (as opposed to cash paid for amounts included in the measurement of the lease liabilities) would result in excessive costs to preparers. The staff understand that these costs are primarily associated with the reporting and tracking of cash payments for operating expenses, which can be costly because cash flow information is not part of typical accounting systems as currently configured. By way of example, while a typical company will record variable lease expenses to a particular general ledger account and company code, the other side of that entry is typically to accounts payable or another current accrual account. When the company relieves its payables in its procurement systems through payments, the individual detail of what each payment is relieving is often not retained for purposes of isolating the timing and amount of all cash payments in this regard. Furthermore, the staff think that the cash flows arising from variable lease payments, short-term leases, and subleases will likely approximate the expense (income) arising from contingent rent provisions, short-term leases, and subleases. Therefore, users will be able to use the reported variable lease expense, short-term lease expense, and sublease income as a proxy to determine the total net cash flows arising from all lease activity. As such, the staff do not think that the costs associated with disclosing a total net cash paid for leases figure outweigh the benefits.

98. While the staff acknowledge that there were significant cost concerns raised by preparers regarding the reconciliation of lease liabilities proposed in the 2013 ED, the staff do not think that the cash paid figure (relating to amounts included in the measurement of the lease liabilities) required within the reconciliation was a significant driver of these potential costs given existing disclosure requirements. Instead, the staff think, and have been told during outreach, that the costs that would be associated with a reconciliation of lease liabilities arise from preparing the reconciliation itself – which would include a requirement to track and accumulate reconciling items that are not required for capture or disclosure today. As such, the staff think, on the basis of feedback received, that the benefits of disclosing lease cash flows would justify the costs.

99. Therefore, the staff recommend that the FASB require a lessee to disclose cash paid for amounts included in the measurement of a lessee's lease liabilities, segregated between operating and financing lease cash flows, in the final leases standard.

Supplemental Noncash Information on ROU Assets Obtained in Exchange for Lease Liabilities

100. Under existing U.S. GAAP, information about all investing and financing activities of an entity during a period that affect recognized assets or liabilities, but that do not result in cash receipts or cash payments in that period, are required to be disclosed. This includes the inception of capital leases. Similarly, the 2013 ED also proposed that a lessee shall disclose information about ROU assets obtained in exchange for lease liabilities, arising from both Type A and Type B leases, as a supplemental noncash transaction disclosure. The staff are proposing that the FASB retain this supplemental noncash transaction disclosure for leases because users have consistently expressed the view that this information is useful to their analysis.

101. Furthermore, the staff are proposing that the FASB require the presentation of any supplemental noncash activities related to leases within the quantitative disclosure table. Because the FASB proposals will result in ROU assets and lease liabilities arising from existing operating leases (as opposed to just capital leases), the significance of this disclosure becomes much greater in a final leases standard than it is today.

102. Although supplemental noncash activities related to existing capital leases are currently required to be disclosed, existing guidance does not specify where this information should be disclosed. Often, the location of the supplemental noncash activities disclosure is not on the face of the statement of cash flows, but rather the disclosure is located elsewhere in the notes. This adds cost and complexity for users. The staff think that including the supplemental noncash transaction disclosure related to ROU assets obtained in exchange for lease liabilities in the quantitative disclosure table would help ensure that all disclosures related to leases would be included in a single note. This would aid in reducing cost and complexity to users and should facilitate their analysis of a lessee's leasing activity. The staff do not expect that there would be incremental costs to preparers associated with presenting the supplemental noncash transaction disclosure within the quantitative disclosure table.

103. The main concern with including the supplemental noncash leases disclosure in the qualitative disclosures table is that it would be separate from the other supplemental noncash activities disclosures. The FASB could address this concern by simply requiring the amount be disclosed in both places, which, while redundant, would not involve any measure of incremental cost (that is, disclosing the number in two spots is no more costly than disclosing in one spot and writing a cross-reference to another footnote). This stipulation would be on the basis that the amount serves a different user need in each disclosed location. In addition, some may ask why leases warrant a separate noncash disclosure, while other noncash activities, such as purchasing a building by incurring a mortgage to a

seller, do not. However, this disparity in treatment exists under existing U.S. GAAP, and it is clear to the staff that users want this information with respect to leases, and that they would prefer to be able to obtain all of the relevant information about an entity's leasing activity in a single financial statement location.

104. The staff therefore recommend that the FASB retain the requirement in the 2013 ED for a lessee to disclose information about the acquisition of ROU assets in exchange for lease liabilities as a supplemental noncash transaction disclosure. The staff also recommend that the FASB require this information to be presented in the quantitative disclosure table.

Weighted-Average Remaining Lease Term

105. The 2013 ED did not propose any specific disclosure requirements about the remaining lease term, or average remaining lease term, of a lessee. Further, Topic 840 does not include any disclosure requirements on a lessee's remaining lease term. Nonetheless, entities have sometimes disclosed a range of remaining lease terms (for example, one month to 20 years) in the notes to the financial statements or the management's discussion and analysis section of the company filing (for public business entities).

106. Several users noted in the feedback process that the disclosure of a remaining lease term metric would be beneficial for their analysis. Users suggested this disclosure because they thought it would allow them to better understand a lessee's renewal risk exposure and the timing of their lease commitments.

107. In addition, members of IAC noted during outreach that disclosure of a weighted-average remaining lease term metric by class of major underlying asset or by type of lease would be valuable for their analysis. IAC members stated that such a metric would help facilitate alternate analysis of an entity's lease commitments (for example, facilitate a "whole asset" view).

108. The staff propose that the FASB require a lessee to disclose the weighted-average remaining lease term for its leases. The staff think that including weighted-average remaining lease terms in the disclosure package for lessees would improve the information available to users because it would provide them with a clearer picture as to how long the capitalized lease obligations would allow the lessee to operate at current levels. For example, if a lessee is a retailer that leases most of its store locations, a user is likely to benefit from the information that the capitalized lease obligations represent a weighted-average remaining lease term of 5.6 years. The staff understand from users that this information would allow them to adjust the lessee's capitalized amounts up or down depending on how many years of visibility they are looking to replicate in a potentially more accurate way than simply applying a multiple such as 6x or 8x to lease expense. A more precise ability to perform this assessment may result in fewer instances of users *over*estimating an entity's leverage, and implicitly penalizing the entity, as often happens when simply applying a multiple to lease expense. The staff further note that disclosure of a weighted-average lease term is integral to the staff's recommendation later in this paper to eliminate the lease payment maturity analysis that was proposed in the 2013 ED. This, combined with other items in the quantitative disclosure table (for example, the weighted-average discount rate for Type B leases and periodic interest expense on Type A leases) is what allows for that recommendation without eliminating useful information for users.

109. In addition, users that have suggested this disclosure have suggested that the weighted-average remaining lease term be calculated and disclosed separately for Type A and Type B leases. Type A leases are often for shorter-lived equipment assets, while Type B leases (particularly those of significant value that may "skew" a weighted-average lease term calculation) may have longer lives, particularly with respect to leases of property (for example, land, buildings, or integral equipment) or long-lived equipment. Presenting this disclosure on an aggregate basis, rather than on a separate basis, may provide less relevant

information to users. The staff understand that because most entities track capital leases separately from operating leases (and that U.S. GAAP preparers would likely continue to track Type A leases separate from Type B leases), producing this disclosure separately for Type A leases from Type B leases would be no more costly than producing this disclosure for all of an entity's leases in aggregate. In fact, it may be easier to produce this disclosure separately for Type A and Type B leases *because* most entities track these two types of transactions separately.

110. While there will be incremental costs associated with disclosing weighted-average remaining lease term figures that are not required to be disclosed under existing requirements, the staff think those costs are manageable and would not require additional systems or information not already accumulated and maintained to apply existing guidance. A weighted-average remaining lease term can be calculated from an entity's existing lease tracking schedules (even if Excel-based). Those schedules will maintain the remaining lease payments as well as the remaining lease term for each lease.

111. The staff acknowledge however that because a lessee's system for tracking its leases may be disaggregated (for example, for each consolidating entity within the consolidated group), a lessee may need to perform a summary calculation taking the results from each consolidating entity to come up with a consolidated group weighted-average remaining lease term. Nonetheless, the staff think that the benefits associated with requiring a lessee to disclose a weighted-average remaining lease term by type of lease justify the costs of doing so.

112. The staff considered, but ultimately rejected, requiring the disclosure of the weighted-average remaining lease term by class of major underlying asset. While some users noted that such a metric would be beneficial to their analysis, the staff think that this would create additional significant costs to preparers because most preparers do not track their leases by class of underlying asset. As noted above, U.S. GAAP preparers typically track their capital and operating leases separately

(meaning they will likely track their Type A and Type B leases separately as well). This means that certain classes of underlying asset will be classified as both Type A and Type B leases. As such, requiring disclosure of a weighted-average remaining lease term metric by major class of underlying asset would potentially require entities to make significant changes to the way leases are tracked.

113. Therefore, the staff recommend that the FASB require lessees to disclose the weighted-average remaining lease term separately for Type A and Type B leases, but not by class of underlying asset.

Weighted-Average Discount Rate for Type B Leases

114. The staff are proposing that lessees disclose the weighted-average discount rate for its Type B leases at each reporting date presented based on the balance of the related lease liabilities at that same reporting date. The purpose of this disclosure would be to help ensure that users have improved information, as compared to what they receive currently, to enable them to perform their analyses, which has been one of the principal goals of the leases project. Inclusion of this weighted average discount rate figure is also integral to the staff's recommendation to eliminate the maturity analysis of lease payments (as discussed later in this paper).

115. A majority of users, and particularly credit analysts, noted during outreach meetings that they currently adjust a lessee's income statement for all operating leases to estimate an allocation of rent expense between amortization and interest. These users note that they would continue to adjust the income statement for Type B leases to estimate that allocation of rent expense for those lessees that have a significant amount of Type B leases. The staff do not think a weighted-average discount rate for Type A leases is needed since the actual interest expense will be disclosed for these transactions should the FASB agree with the staff proposals, and a user will be able to impute an average discount rate from this other information.

116. Many credit analysts noted that they currently split the operating lease expense figure reported on the income statement into amortization expense and interest expense for their analysis of a lessee's leases. Most of those users split the lease expense by allocating two-thirds of the total lease expense to amortization and one-third to interest. Some other users use a different split, such as a 60/40 ratio of amortization to interest. In any event, the ratio applied to the split is somewhat arbitrary and not based on detailed information. Users' allocations are generally imprecise as a result, and appear to often overweight interest expense.

117. While the proposed weighted-average discount rate disclosure will not provide users with the exact interest expense number that would have been recorded on the lease liabilities for any given period, weighted-average discount rate information for Type B leases will allow users to allocate the single Type B lease expense between hypothetical amortization and "interest" (or accretion) components more precisely than they do currently, based on lessee-specific information (that is, the lessee's lease contracts and either, or both, the rates lessors are charging the lessee or the lessee's own incremental borrowing rate). The staff think that the final leases standard should improve the information users receive currently in order to help facilitate alternate forms of analysis, and that this disclosure would provide useful information not received currently for the significant population of users that allocate total operating lease expense into an amortization and interest component in their analysis. The ability of users to make this allocation also will provide more comparability between U.S. GAAP lessees and IFRS lessees because it will allow users to more accurately reflect "Type A accounting" for Type B leases than is possible based on information that is currently available to those users.

118. The staff think that disclosing a weighted-average discount rate for Type B leases would not result in significant costs to preparers. The staff understand that under current practice, most companies account for their capital and operating leases in separate IT systems. The staff think that lessees will be able to produce the

weighted-average discount rate disclosure using the information they would otherwise use to produce their Type B lease accounting (for example, the schedule that tracks future lease payments). Therefore, calculation of a weighted-average discount rate should be able to be accomplished cost-effectively.

119. Based on the preceding analysis, the staff are recommending that the FASB require a lessee to disclose a weighted-average discount rate for its Type B leases at each reporting date presented based on the reporting date balance of the related lease liabilities.

Gains and Losses on Sale and Leaseback Transactions, net

120. Existing U.S. GAAP requires specific disclosures for a seller-lessee involved in a transaction that does not qualify for sale and leaseback accounting, also known as a "failed" sale. The 2013 ED proposed, in addition to the disclosures required for lessees, that a transferor that entered into a sale and leaseback transaction should disclose any gains or losses arising from the transaction separately from gains or losses on disposal of other assets. Constituents did not provide any specific feedback regarding the sale and leaseback disclosures proposed in the 2013 ED.

121. The staff continue to think that the sale and leaseback disclosure requirements proposed in the 2013 ED are beneficial to users looking to understand sale and leaseback transactions. The proposal in the 2013 ED for a seller-lessee to disclose gains or losses arising from sale and leaseback transactions separately from gains or losses on the disposal of other assets allows users to better understand the unique characteristics of sale and leaseback transactions (that is, the seller-lessee retains physical possession of the underlying asset in a sale and leaseback, which is typically not the case in the disposal of other assets) and the impact that such transactions have on a lessee's financial performance.

122. The staff do not think there are significant costs associated with this disclosure, as constituents did not address it as an area of cost or complexity during feedback. Further, the sale and leaseback disclosures proposed in the 2013 ED are largely

consistent with disclosures required under existing U.S. GAAP. Lastly, these disclosures will not apply to entities that do not enter into sale and leaseback transactions.

123. The staff are recommending that the FASB retain the sale and leaseback transaction disclosure requirements proposed in the 2013 ED. That is, a transferor who enters into a sale and leaseback transaction should be required to disclose any gains and losses arising from that transaction separately from gains and losses on disposal of other assets.

Staff Recommendation

124. The staff recommend that the FASB require a lessee to disclose the following quantitative items in a tabular format:

(a) Type A lease expense (amortization of ROU assets disclosed separately from interest on lease liabilities);

(b) Type B lease expense;

(c) Short-term lease expense;

(d) Variable lease expense;

(e) Sublease income;

(f) Cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows;

(g) Supplemental noncash information on ROU assets obtained in exchange for lease liabilities;

(h) Weighted-average remaining lease term, presented separately for Type A and Type B leases;

(i) Weighted-average discount rate for Type B leases as of the reporting date; and

(j) Gains and losses on sale and leaseback transactions.

Questions 6-7: Quantitative Disclosure Table
6. Does the FASB want to require a lessee to disclose the following quantitative items in a tabular format: (a) Type A lease expense (amortization of ROU assets disclosed separately from interest on the lease liabilities); (b) Type B lease expense; (c) short-term lease expense; (d) variable lease expense; (e) sublease income; (f) cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows; (g) supplemental noncash information on ROU assets obtained in exchange for lease liabilities; (h) weighted-average remaining lease tem, presented separately for Type A and Type B leases; (i) weighted-average discount rate for Type B leases as of the reporting date; and (j) gains and losses on sale and leaseback transactions? 7. If the FASB does not want to require a lessee to disclose all the quantitative items in question (6) which components, if any, does the FASB want to require a lessee to disclose?

Maturity Analysis of Lease Liabilities

<u>Proposals in the 2013 ED and Feedback Received</u>

125. Under existing U.S. GAAP, a lessee with operating leases having initial or remaining noncancellable lease terms in excess of one year is required to disclose the following:

(a) Future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years and

(b) The total of minimum rentals to be received in the future under noncancellable subleases as of the date of the latest balance sheet presented.

126. In addition, for capital leases, a lessee is required to disclose the amount of the imputed interest necessary to reduce the net minimum lease payments to present

value (effectively, a reconciliation from the future minimum lease payments to the amount recognized on the balance sheet as capital lease obligations).

127. Consistent with these existing requirements, the 2013 ED required disclosure of a maturity analysis of the lease liabilities showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts of the remaining years. In addition, a maturity analysis would be accompanied by a reconciliation of the undiscounted cash flows to the discounted lease liabilities recognized in the statement of financial position.

128. Many constituents supported this disclosure proposal in the 2013 ED, with users noting that such a disclosure would aid in their analysis of liquidity risk and an entity's future cash outflows. There was also user support for the lessee reconciliation between the undiscounted lease payments and the entity's lease liabilities recognized on the statement of financial position.

129. Conversely, a few constituents expressed the view that this disclosure should not be necessary in a final leases standard. These constituents noted that the maturity analysis required under existing U.S. GAAP is used by many users as the basis for capitalizing an entity's operating lease obligations on the statement of financial position. These constituents commented that these users start with the information provided in this disclosure and apply an estimated discount rate to approximate what an entity's operating lease obligations would be if capitalized. These constituents question the usefulness and need for this disclosure once a final leases standard is issued, since existing operating lease obligations will be required to be recognized in the lessee's statement of financial position under the new proposals.

130. While U.S. preparers did not raise significant concerns about the maturity analysis of lease liabilities, they did express concern about the incremental costs of preparing the reconciliation for all leases (rather than just for capital leases). These constituents note a similar disclosure, without the reconciliation, exists

under existing guidance for operating leases and that this disclosure meets the needs of users. As such, they question whether the costs of preparing the reconciliation outweigh the benefits.

Staff Analysis

131. The staff think that while this disclosure is sometimes used to approximate what an entity's operating lease obligations would be if capitalized, it *also* assists a user in understanding the amount and timing of cash flows arising from lease activities. Since the objective of the lessee disclosure requirements is to enable users to understand the amount, timing, and uncertainty of cash flows arising from leases, the staff think this disclosure remains relevant – regardless of whether operating leases are recognized on an entity's statement of financial position.

132. With respect to the reconciliation component of the maturity analysis, because operating leases are not required to be recognized on a lessee's statement of financial position under existing guidance, a reconciliation between the undiscounted lease payments and the recorded lease liabilities is not currently possible. The staff note that a reconciliation *is* required between the maturity analysis and the balance sheet liabilities for all leases currently recognized on the balance sheet (that is, capital leases). As such, the staff do not think it is relevant that a reconciliation is not required under existing U.S. GAAP for operating leases that are not capitalized.

133. The staff think that because a similar disclosure is already required under existing guidance, there would not be significant incremental costs associated with the proposed maturity analysis. The staff acknowledge that there would likely be some additional incremental costs associated with providing a reconciliation between the undiscounted cash flows to the lease liabilities recognized in the statement of financial position for Type B leases. Nonetheless, the staff think the information needed to provide this reconciliation should be readily accessible and that the reconciliation would provide additional useful information to users.

134. Conversely, the staff think a maturity analysis may not be necessary if the FASB agrees with the staff recommendations for a quantitative disclosure table. This is because information disclosed in that table should allow a user to understand the amount and timing of future cash flows arising from lease activities without the maturity analysis. For example, if a user has the recorded lease liability, the weighted average lease term, and the weighted average discount rate, it should be able to reasonably approximate the entity's average annual lease payments going forward. To the extent sublease payments will materially offset the entity's lease payments, such effect can be approximated based on the periodic sublease income data that would be included in the quantitative disclosure table.

135. Eliminating the maturity analysis requirement might eliminate something some might view as at least partially redundant to other disclosures proposed in this paper and might present an opportunity to reduce disclosure costs to preparers without significantly reducing the benefits users would obtain from the lessee disclosure package.

Staff Recommendation

136. On balance, the staff recommend that the FASB eliminate the requirement proposed in the 2013 ED for a lessee to disclose a maturity analysis of its lease liabilities, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. The staff think, as outlined above, that this disclosure would provide largely redundant information to users such that requiring the disclosures proposed for the quantitative lease table *and* a maturity analysis would not provide additional benefits for users necessary to justify the costs of providing both disclosures. Meanwhile, the quantitative lease table disclosures are the superior of the two because each of the items from the table that users will be able to use to approximate an entity's future annual lease payments also serves an additional valuable purpose for the user (for example, the weighted-average discount rate for

Type B leases will allow a user to impute an interest component for Type B leases) and has been specifically outlined by users (for example, IAC) as something they would like provided. The staff think that maximizing the use of disclosures that can serve more than a single purpose is consistent with the FASB's recent efforts in the disclosure framework project to focus on effectiveness of disclosures. The staff think a disclosure that serves multiple purposes is inherently more effective than a disclosure that may only serve a single purpose.

Question 8: Maturity Analysis of Lease Liabilities
8. Does the FASB want to eliminate the requirement proposed in the 2013 ED for a lessee to disclose a maturity analysis of its lease liabilities, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years?

Maturity Analysis of Commitments for Nonlease Components

Proposals in the 2013 ED and Feedback Received

137. The 2013 ED required disclosure of a maturity analysis of commitments for nonlease components related to a lease, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. This disclosure would provide information about the committed future cash flows of an entity based on the total future payments arising from contracts that contain a lease.

138. Some preparers disagreed with this proposed disclosure. These constituents note a disclosure of this nature is not required for service commitments unrelated to a lease contract. A few constituents, including some accounting firms, contend that this disclosure could also cause comparability issues. These constituents note that nonlease components associated with the purchase of an asset (rather than a lease) are not required to be disclosed, nor would the future payments for a nonlease

component (such as a service) obtained from a third-party other than the lessor be required to be disclosed. Some preparers added that there would be a significant time and cost commitment to capture, maintain, and track the financial data required to meet the requirements of this proposed disclosure.

139. Users generally did not comment on the usefulness of the proposed maturity analysis of commitments for nonlease components disclosure.

Staff Analysis

140. The IASB decided not to propose the disclosure of a maturity analysis of nonlease components in the 2013 ED because they thought it could be misleading to require the disclosure of contractual commitments for services only when those services are embedded within a contract that contains a lease.

141. While the staff continue to think that this maturity analysis may be useful, as it helps facilitate an analysis of an entity's noncancellable cash commitments, the staff agree with the view that there does not appear to be a substantive difference between a service component obtained from a lessor and a substantially identical service obtained from another supplier. Given that entities are not required to produce a maturity analysis for their noncancellable service contracts with parties that are not lessors, the staff do not think entities should be required to do so for a substantially similar service contract just because they have also entered into a lease with that supplier.

142. Further, the staff think that the proposed disclosure may be inconsistent with certain tentative decisions made during redeliberations that intended to reduce cost and complexity to preparers of applying the final leases standard. The net result of the majority of the FASB's tentative decisions to-date are such that a lessee can, in general, use its existing systems and processes to apply the proposed lessee accounting model (as well as the disclosure requirements proposed earlier in this paper). Entities are not currently required to track future fixed payments associated with nonlease contract components. As a result, the staff think that it

may be costly for entities to develop a system and/or process to prepare this disclosure.

143. Nonetheless, the staff still think that certain information related to nonlease components arising from contracts that contain a lease is important to understanding the amounts, timing, and uncertainty of cash flows arising from lease contracts. As such, the staff are proposing, as an alternative to the maturity analysis of commitments for nonlease components related to a lease, that the FASB requires a lessee to provide information related to nonlease components as a qualitative disclosure. A lessee should discuss the existence, and terms and conditions, of *significant* nonlease commitments it has taken on as a result of entering into its lease contracts.

144. The staff think that this approach would eliminate much of the cost associated with preparing the maturity analysis of commitments for nonlease components related to a lease. This is because it would eliminate the requirement for a lessee to develop a system or process to track these amounts for this disclosure. It is also possible that the 2013 ED nonlease component disclosure proposal, if retained in the final leases standard, could negate the cost relief stemming from the Boards' decision to allow an entity, as an accounting policy election, to account for the lease and nonlease components in a contract as a single lease component (see *Relevant Decisions Reached in Redeliberations* section of this memo). This policy election would allow entities to not determine standalone prices for each element and allocate the consideration in the contract accordingly. If a lessee would be required to disclose those amounts, it would effectively negate those cost and complexity savings. At the same time, requiring a lessee to provide qualitative disclosure information related to significant nonlease components would still provide relevant information on such transactions to users at a lower cost to preparers. However, the staff do acknowledge that these qualitative disclosures *may* become "boilerplate" or be so generic as not to provide particularly useful additional information to users.

Staff Recommendation

145. The staff recommend that the FASB eliminate the requirement proposed in the 2013 ED for a lessee to disclose a maturity analysis of commitments for nonlease components related to a lease for the reasons outlined above. Instead, the staff recommend that the FASB require that a lessee provide qualitative disclosures regarding the existence, and terms and conditions, of *significant* nonlease commitments it has taken on as a result of entering into lease contracts. The staff think such information would be useful to users and provide information that they do not receive under existing U.S. GAAP.

Questions 9-10: Maturity Analysis of Commitments for Nonlease Components

9. Does the FASB want to eliminate the requirement proposed in the 2013 ED requiring a lessee to disclose a maturity analysis of commitments for nonlease components related to a lease?

10. Does the FASB want to require a lessee to provide qualitative disclosures regarding the existence, and terms and conditions, of significant nonlease commitments it has taken on as a result of entering into lease contracts?

Nonpublic Business Entity Considerations

146. The 2013 ED proposed to exempt nonpublic entities from the 2013 ED's proposed disclosure requirement to provide a reconciliation of the opening and closing balance of the lease liability. No other specified reliefs for nonpublic entities relating to disclosures were proposed.

147. This paper proposes to eliminate the reconciliation of the opening and closing balance of the lease liability for all entities; therefore, a specific relief for nonpublic business entities (that is, all entities other than public business entities)

is not necessary unless the FASB rejects the staff recommendation to eliminate this reconciliation for all entities.

148. The feedback received on the 2013 ED, as well as feedback received prior to and during redeliberations, did not recommend any additional specified reliefs related to disclosures for nonpublic business entities. In fact, many constituents, including the Private Company Council (PCC), preparers, and auditors, suggested a desire to keep the guidance the same for public and nonpublic business entities for the sake of comparable financial information. The staff also note that during user outreach conducted subsequent to issuance of the 2013 ED, nonpublic business entity users with whom the staff engaged generally wanted the same information, and ability to make adjustments in their analysis, as public business entity users. Therefore, the staff think the disclosures proposed in this paper serve a valuable purpose for nonpublic business entity users.

149. The staff think the disclosure requirements will not pose any special hardships on nonpublic business entities because they are designed to be able to be produced using existing systems, including unsophisticated systems (like Excel). The staff think that producing the disclosures will not be more onerous for nonpublic business entities than for public business entities because, even though the staff understand nonpublic business entities often have fewer resources, they also typically have fewer leases and fewer operating entities (from which they would have to accumulate leasing information for a consolidation disclosure). In addition, whether for nonpublic or public business entities, the staff think an entity's efforts to produce the required disclosures will decrease over time as they become familiar with what is required and have already produced, for example, the Excel formula necessary to determine the weighted-average remaining lease term for its leases.

150. After considering the above factors and the Private Company Decision Making Framework, the staff does not recommend any special disclosure requirements or

reliefs for nonpublic business entities. The staff recommend that the disclosure package recommended in this paper apply to both public and nonpublic business entities equally.

Question 11: Nonpublic Business Entity Considerations

11. Does the FASB want to provide any specified reliefs from the disclosure requirements for nonpublic business entities (that is, all other entities beside public business entities)? If so, what specified reliefs? If not, does the FASB want the disclosure package decided upon in this paper to apply to both public and nonpublic business entities equally?

Appendix A – Summary of Staff Proposals for Lessee Disclosure Requirements

A1. The following is initial staff thinking with respect to drafting the lessee disclosure requirements in the final leases standard if the FASB were to adopt the staff recommendations in this paper:

Lessee Disclosures

842-20-50-X The objective of the disclosure requirements is to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. To achieve that objective, a lessee shall disclose qualitative and quantitative information about all of the following:

a. Its leases

b. The significant judgments made in applying the requirements in this Topic to those leases

c. The amounts recognized in the financial statements relating to those leases

842-20-50-X A lessee shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessee shall aggregate or disaggregate disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.

842-20-50-X A lessee shall disclose the following to the extent necessary to meet the disclosure objective:

a. Information about the nature of its leases, including:

1. A general description of those leases.

2. The basis, and terms and conditions on which variable lease payments are determined.
3. The existence, and term and conditions, of options to extend or terminate the lease. A lessee should provide narrative disclosure about the options that are recognized as part of the right-of-use assets and lease liabilities and those that are not.
4. The existence, and terms and conditions, of residual value guarantees provided by the lessee.
5. The restrictions or covenants imposed by leases, for example, those relating to dividends or incurring additional financial obligations.
6. The existence, and terms and conditions, of its commitments for nonlease components taken on as a result of entering into a lease.

A lessee should identify the information relating to subleases included in the disclosure provided in (1) through (6).

b. Information about leases that have not yet commenced but that create significant rights and obligations for the lessee.

c. Information about significant assumptions and judgments made in applying the requirements of this Topic, which may include the following:

1. The determination of whether a contract contains a lease (as described in

paragraphs 842-10-15-X through 842-10-15-X)

2. The allocation of the consideration in a contract between lease and nonlease components (as described in paragraphs 842-10-15-X through 842-10-15-X)
3. The determination of the discount rate (as described in paragraphs 842-20-55-X through 842-20-55-X).

842-40-50-X A transferor that enters into a sale and leaseback transaction shall disclose the main terms and conditions of that transaction.

842-10-50-X An entity that accounts for short-term leases in accordance with paragraph 842-10-25-X or 842-10-25-X shall disclose that fact. If the short-term lease expense for the period does not reflect the lessee's short-term lease commitments, a lessee should disclose that fact and the amount of its short-term lease commitments

842-20-50-X A lessee shall disaggregate the information required in paragraphs 842-40-50-X, 842-10-50-X, and 842-20-50-X into appropriate categories if necessary to assist users in determining the amount, timing, and uncertainty of cash flows arising from leasing activities. These categories may include, but are not limited to, the following:

a. Class (or type) of underlying asset;
b. Business segment or unit in which the leased asset is utilized;
c. Lease term (for example, 3-5 year leases, 6-9 year leases, leases longer than 10 years);

d. Lease payment terms (for example, those with solely or principally fixed lease payments, those with significant variable payments, those that are prepaid, etc.);

e. Geographical region in which the lease was entered into and/or in which the leased asset will be utilized.

In addition, a lessee shall disclose sufficient information to enable users of financial statements to understand the relationship between the qualitative disclosures and the amounts reported in the financial statements or notes to the financial statements arising from leasing activity.

842-20-50-X A lessee shall disclose the following amounts relating to a lessee's total lease expense (including amounts capitalized in accordance with other Topics) and cash flows arising from lease transactions in a tabular format:

a. Type A lease expense, amortization of Type A right-of-use assets disclosed separately from interest expense on Type A lease liabilities

b. Lease expense arising from *lease payments* for Type B leases

c. Short-term lease expense (see paragraphs 842-10-50-X through 842-10-50-X)

d. Variable lease expense

e. Sublease income

f. Cash paid for leases for amounts included in the measurement of a lessee's lease liabilities, segregated between cash payments included in operating cash flows and those in financing cash flows

g. Supplemental noncash information on ROU assets obtained in exchange for lease liabilities

h. Weighted-average remaining lease term, presented separately for Type A and Type B leases

i. Weighted-average discount rate for Type B leases as of the reporting date

j. Gains and losses arising from sale and leaseback transactions.

842-20-50-X A lessee shall disclose lease transactions between related parties (see Topic 850 on related party disclosures)

842-40-50-X: If a transferor or a transferee enters into a sale and leaseback transaction that is accounted for in accordance with paragraphs 842-40-25-X and 842-40-30X1 through 30-X, it shall provide the lessee and lessor disclosure requirements in this Topic.

Appendix B – Staff Recommendations; Proposals in the 2013 ED; and Existing Lessee Disclosure Requirements

B1. The following table summarizes the FASB staff recommendations made throughout this memo and compares them to the proposed lessee disclosure requirements in the 2013 ED and existing lessee disclosure requirements in Topic 840 (along with other relevant requirements in existing U.S. GAAP). Areas that are left blank (and shaded grey) indicate that no such requirement is recommended.

Staff Recommendations	2013 ED	Existing U.S. GAAP
Disclosure Objective		
842-20-50-1: The objective of the disclosure requirements is to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. To achieve that objective, a lessee shall disclose qualitative and quantitative information about all of the following: (a) Its leases (b) The significant judgments made in applying the requirements in this Topic to those leases (c) The amounts recognized in the financial statements relating to those leases. 842-20-50-2: A lessee shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessee shall aggregate or disaggregate disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.	842-20-50-1: The objective of the disclosure requirements is to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. To achieve that objective, a lessee shall disclose qualitative and quantitative information about all of the following: (a) Its leases (b) The significant judgments made in applying the requirements in this Topic to those leases (c) The amounts recognized in the financial statements relating to those leases. 842-20-50-2: A lessee shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessee shall aggregate or disaggregate disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.	Note: There is no existing disclosure objective. Note: There is no existing disclosure objective.
Qualitative Disclosures		
842-20-50-3: A lessee shall disclose the following:	842-20-50-3: A lessee shall disclose the following:	840-10-50-2: The lessee shall disclose, in its

Staff Recommendations	2013 ED	Existing U.S. GAAP
(a) Information about the nature of its leases, including: (1) A general description of those leases.	(a) Information about the nature of its leases, including: (1) A general description of those leases.	financial statements or footnotes thereto, a general description of its leasing arrangements including, but not limited to, all of the following:
(2) The basis, and terms and conditions, on which variable lease payments are determined.	(2) The basis, and terms and conditions, on which variable lease payments are determined.	a. The basis on which contingent rental payments are determined
(3) The existence, and terms and conditions, of options to extend or terminate a lease. A lessee should provide narrative disclosures about the options that are recognized as part of the right-of-use assets and lease liabilities and those that are not.	(3) The existence, and terms and conditions, of options to extend or terminate a lease. A lessee should provide narrative disclosures about the options that are recognized as part of the right-of-use asset and lease liability and those that are not.	b. The existence and terms of renewal or purchase options and escalation clauses
(4) The existence, and terms and conditions, of residual value guarantees provided by the lessee.	(4) The existence, and terms and conditions, of residual value guarantees provided by the lessee.	840-10-50-3: See paragraph 460-10-50-4 for required disclosures of guarantees.
(5) The restrictions or covenants imposed by leases, for example, relating to dividends or incurring additional financial obligations.	(5) The restrictions or covenants imposed by leases, for example, relating to dividends or incurring additional financial obligations.	c. Restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing.
(6) The existence, and terms and conditions, of its commitments for nonlease components taken on as a result of	Note: The 2013 ED required a quantitative disclosure for nonlease components.	Note: This is not an existing required qualitative disclosure.

Staff Recommendations	2013 ED	Existing U.S. GAAP
entering into a lease.		
A lessee should identify the information relating to subleases included in the disclosures provided in (1) through (6).	A lessee should identify the information relating to subleases included in the disclosures provided in (1) through (5).	Note: This is not an existing required qualitative disclosure.
(b) Information about leases that have not yet commenced but that create significant rights and obligations for the lessee.	(b) Information about leases that have not yet commenced but that create significant rights and obligations for the lessee.	Note: This is not an existing required qualitative disclosure.
(c) Information about significant assumptions and judgments made in applying the requirements on this Topic, which may include the following: (1) The determination of whether a contract contains a lease. (2) The allocation of the consideration in a contract between lease and nonlease components. (3) The determination of the discount rate.	(c) Information about significant assumptions and judgments made in applying the requirements on this Topic, which may include the following: (1) The determination of whether a contract contains a lease. (2) The allocation of the consideration in a contract between lease and nonlease components. (3) The determination of the discount rate.	Note: This is not an existing required qualitative disclosure.
842-20-50-2: A transferor that enters into a sale and leaseback transaction shall disclose the following: (a) The main terms and conditions of that transaction.	842-20-50-2: A transferor that enters into a sale and leaseback transaction shall disclose the following: (a) The main terms and conditions of that transaction.	840-40-50-1: In addition to the requirements of Subtopics 360-20 and 840-10, the financial statements of a seller-lessee shall include a description of the terms of the sale-leaseback transaction, including future commitments, obligations, provisions, or circumstances that require or result in the seller-

Staff Recommendations	2013 ED	Existing U.S. GAAP
		lessee's continuing involvement.
842-10-50-1: An entity that accounts for short-term leases in accordance with paragraph 842-10-25-14 or 842-10-25-15 shall disclose that fact. If the short-term lease expense for the period does not reflect the lessee's short-term lease commitments, a lessee should disclose that fact and the amount of its short-term lease commitments.	842-10-50-1: An entity that accounts for short-term leases in accordance with paragraph 842-10-25-14 or 842-10-25-15 shall disclose that fact.	Note: This is not an existing required qualitative disclosure.
A lessee shall disaggregate the information into appropriate categories if necessary to assist users in determining the amount, timing, and uncertainty of cash flows arising from leasing activities. These categories may include, but are not limited to, the following: a. Class (or type) of underlying asset; b. Business segment or unit in which the leased asset is utilized; c. Lease term (for example, 3-5 year leases, 6-9 year leases, leases longer than 10 years); d. Lease payment terms (for example,		Note: This is not an existing required qualitative disclosure.

Staff Recommendations	2013 ED	Existing U.S. GAAP
those with solely or principally fixed lease payments, those with significant variable payments, those that are prepaid, etc.); e. Geographical region in which the lease was entered into and/or in which the leased asset will be utilized. In addition, a lessee shall disclose sufficient information to enable users of financial statements to understand the relationship between the qualitative disclosures and the amounts reported in the financial statements or notes to the financial statements arising from leasing activity.		
Quantitative Disclosures – Quantitative Disclosures Table		
A lessee shall disclose the following amounts relating to a lessee's total lease expense (including amounts capitalized in accordance with other Topics) and cash flows arising from lease transactions in a tabular format:		
a. Type A lease expense, amortization of the Type A right-of-use assets disclosed separately from		840-30-50-2: If the information required by paragraph 840-30-45-3 is not separately disclosed by the lessee in the financial statements, it shall be

Staff Recommendations	2013 ED	Existing U.S. GAAP
interest expense on Type A lease liabilities		disclosed in the footnotes thereto. (840-30-45-3:…unless the charge to income resulting from amortization of assets recorded under capital leases is included by the lessee with depreciation expense…the amortization charge shall be separately disclosed by the lessee in the financial statements or footnotes thereto).
b. Lease expense arising from *lease payments* for Type B leases		840-20-50-1: For all operating leases, a lessee shall disclose rental expense for each period for which an income statement is presented… Rental payments under leases with terms of a month or less that were not renewed need not be included.
c. Short-term lease expense		Note: This is not an existing required quantitative disclosure.
d. Variable lease expense	842-20-50-6: A lessee shall disclose costs that are recognized in the period relating to variable lease payments not included in the lease liability.	840-30-50-1: All of the following information with respect to capital leases shall be disclosed in the lessee's financial statements or the footnotes thereto: d. Total contingent rentals actually incurred for each period for which an income statement is presented. 840-20-50-1: For all operating leases, a lessee shall disclose rental expense for each period for which an

Staff Recommendations	2013 ED	Existing U.S. GAAP
		income statement is presented with separate amounts for… contingent rentals.
e. Sublease income		840-30-50-1: All of the following information with respect to capital leases shall be disclosed in the lessee's financial statements or the footnotes thereto: c. The total of minimum sublease rentals to be received in the future under noncancellable sublease as of the date of the latest balance sheet presented. 840-20-50-1: For all operating leases, a lessee shall disclose rental expense for each period for which an income statement is presented with separate amounts for… sublease rentals.
f. Cash paid for leases for amounts included in the measurement of a lessee's lease liabilities, segregated between cash payments included in operating cash flows and those in financing cash flows	842-20-50-4: d. cash paid	Note: This is not an existing required quantitative disclosure.
g. Supplemental noncash information	842-20-50-7: A lessee shall disclose information about	230-10-50-3: Information about all investing and

Staff Recommendations	2013 ED	Existing U.S. GAAP
on ROU assets obtained in exchange for lease liabilities	the acquisition of right-of-use assets in exchange for lease liabilities, arising from both Type A leases and Type B leases, as a supplemental noncash transaction disclosure.	financing activities of an entity during a period that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period shall be disclosed… 230-10-50-4: Examples of noncash investing and financing transactions are… obtaining an asset by entering into a capital lease.
h. Weighted-average remaining lease term, presented separately for Type A and Type B leases		Note: This is not an existing required quantitative disclosure.
i. Weighted-average discount rate for Type B leases as of the reporting date.		Note: This is not an existing required quantitative disclosure.
j. Gains and losses arising from sale and leaseback transactions	842-40-50-2: A transferor that enters into a sale and leaseback transaction shall disclose the following: (b) Any gains or losses arising from the transaction separately from gains or losses on disposal of other assets.	Note: This is not an existing required quantitative disclosure.
Quantitative Disclosures – Maturity Analysis of Lease Liabilities		
This disclosure requirement would be eliminated because it would be largely redundant with other disclosures the staff are recommending that the FASB adopt in the final leases standard.	842-20-50-8: A lessee shall disclose a maturity analysis of the lease liability, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessee shall reconcile the	840-20-50-2: For operating leases having initial or remaining noncancellable lease terms in excess of one year, the lessee shall disclose both of the following: a. Future minimum rental payments required as of the date of the latest

Staff Recommendations	2013 ED	Existing U.S. GAAP
	undiscounted cash flows to the lease liability recognized in the statement of financial position.	balance sheet presented, in the aggregate and for each of the five succeeding fiscal years b. The total of minimum rentals to be received in the future under noncancellable subleases as of the date of the latest balance sheet presented. 840-30-50-1: All of the following information with respect to capital leases shall be disclosed in the lessee's financial statements or the footnotes thereto: b. Future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years, with separate deductions from the total for the amount representing executory costs, including any profit thereon, included in the minimum lease payments and for the amount of the imputed interest necessary to reduce the net minimum lease payments to present vale (see paragraphs 840-30-30-1 through 30-4).
Other Disclosures		
842-20-50-10: A lessee shall disclose lease	842-20-50-10: A lessee shall disclose lease	840-10-50-1: The nature and extent of leasing

Staff Recommendations	2013 ED	Existing U.S. GAAP
transactions between related parties (see Topic 850 on related party disclosures).	transactions between related parties (see Topic 850 on related party disclosures).	transactions with related parties shall be disclosed.
842-20-45-X: A lessee should either present as separate line items on the balance sheet or disclose right-of-use assets. If a lessee does not present Type A ROU assets or Type B ROU assets as separate line items on the balance sheet, a lessee should disclose in the notes which line items in the balance sheet include Type A ROU assets and Type B ROU assets. A lessee is prohibited from presenting Type A ROU assets within the same line item as Type B ROU assets.	842-20-45-1: A lessee shall either present in the statement of financial position or disclose in the notes all of the following: a. Right-of-use assets separately from other assets c. Right-of-use assets arising from Type A leases separately from right-of-use assets arising from Type B leases.	840-30-50-1: All of the following information with respect to capital leases shall be disclosed in the lessee's financial statements or the footnotes thereto: a. The gross amount of assets recorded under capital leases as of the date of each balance sheet presented by major classes according to nature or function. This information may be combined with the comparable information for owned assets.
842-40-50-1: If a transferor or a transferee enters into a sale and leaseback transaction that is accounted for in accordance with paragraphs 842-40-25-3 and 842-40-30-1 through 30-2, it shall provide the disclosures required in paragraphs 842-20-50-1 through 50-10 or 842-30-50-1 through 50-12.	842-40-50-1: If a transferor or a transferee enters into a sale and leaseback transaction that is accounted for in accordance with paragraphs 842-40-25-3 and 842-40-30-1 through 30-2, it shall provide the disclosures required in paragraphs 842-20-50-1 through 50-10 or 842-30-50-1 through 50-12.	Note: This is not an existing required disclosure.
Disclosures Not Recommended by the Staff		
	842-20-50-4: A lessee shall disclose a reconciliation of opening and closing balances of the lease liability separately for Type A leases and Type B leases.	

Staff Recommendations	2013 ED	Existing U.S. GAAP
	Those reconciliations should include the periodic unwinding of the discount on the lease liability and other items that are useful in understanding the change in the varying amount of the lease liability, for example, the following: a. Liabilities created due to leases commencing or being extended b. Liabilities extinguished due to leases being terminated c. Remeasurements relating to a change in an index or a rate used to determine lease payments d. Cash paid e. Foreign currency transaction gains and losses f. Effects of business combinations. 842-20-50-2: A nonpublic entity may elect not to provide the disclosure required by the preceding paragraph.	
The staff have recommended qualitative disclosures instead. See above.	842-20-50-9: A lessee shall disclose a maturity analysis of commitments for nonlease components related to a lease, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of	

Staff Recommendations	2013 ED	Existing U.S. GAAP
	the amounts for the remaining years.	
No similar disclosure to that under existing U.S. GAAP is being proposed. The staff do not think an entity should be required to make lease disclosures for a *failed* sale and leaseback transaction (by definition, a failed sale-leaseback does not contain a lease).	No similar disclosure to that under existing U.S. GAAP was proposed in the 2013 ED.	840-40-50-2: The financial statements of a seller-lessee that has accounted for a sale-leaseback transaction by the deposit method or as a financing to the guidance in this Subtopic also shall disclose both of the following: a. The obligation for future minimum lease payments as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years b. The total of minimum sublease rentals, if any, to be received in the future under noncancellable subleases in the aggregate and for each of the five succeeding fiscal years.

Appendix C – Comparison of IASB and FASB Lessee Disclosure Staff Recommendations

C1. The following table illustrates the staff recommendations for both the IASB and the FASB for lessee disclosure requirements

IASB Disclosures	FASB Disclosures
Disclosure Objective	
2013 ED objective	2013 ED objective
Qualitative Disclosures	
Objectives-based disclosures	
	2013 ED requirements
	Existence, and terms and conditions, of significant nonlease commitments taken on as a result of entering into lease contracts.
	Disaggregation guidance

Quantitative Disclosures			
Maturity Analysis of Lease Liabilities		**Maturity Analysis of Lease Liabilities**	
Based on IFRS 7 guidance			
Quantitative Disclosure Table		**Quantitative Disclosure Table**	
Amortisation	X	Amortization	X
Interest	X	Interest	X
Lease expense	**X**	Type A lease expense	**X**
Property	X		
Other classes of underlying asset	X		
Lease expense	**X**		
		Type B lease expense	X
Short term lease expense	X	Short term lease expense	X
Small asset lease expense	X		
Variable lease expense	X	Variable lease expense	X
Sublease income	X	Sublease income	X
Total lease expense	X	Total lease expense	**X**
Total cash flow for leases	X		
		Operating cash flows	X
		Financing cash flows	X
		Cash paid for amounts included in the measurement of lease liabilities	**X**
Additions to ROU assets	X		
		ROU assets obtained in exchange for lease liabilities	X
Weighted average remaining lease term	X	Weighted average remaining lease term (separately for Type A and Type B leases)	X
		Weighted average discount rate for Type B leases	X
Gains and losses on sale and leaseback transactions	X	Gains and losses on sale and leaseback transactions	X
Property*	X		
Other classes of underlying asset*	X		
Total ROU assets*	**X**		

* Alternative option to disclose this split within PP&E note

Appendix D – Disaggregation Disclosure Guidance from Topic 606

606-10-50-2 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

> > Disaggregation of Revenue

606-10-50-5 An entity shall disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs 606-10-55-89 through 55-91 when selecting the categories to use to disaggregate revenue.

606-10-50-6 In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 606-10-50-5) and revenue information that is disclosed for each reportable segment, if the entity applies Topic 280 on segment reporting.

606-10-50-7 An entity, except for a public business entity, a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, or an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC), may elect not to apply the quantitative disaggregation disclosure guidance in paragraphs 606-10-50-5 through 50-6 and 606-10-55-89 through 55-91. If an entity elects not to provide those disclosures, the entity shall disclose, at a minimum, revenue disaggregated according to the timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred to customers over time) and qualitative information about how economic factors (such as type of customer, geographical location of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows.

> > Disclosure of Disaggregated Revenue (Implementation Guidance)

606-10-55-89 Paragraph 606-10-50-5 requires an entity to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's contracts with customers. Some entities may need to use more than one type of category to meet the objective in paragraph 606-10-50-5 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

606-10-55-90 When selecting the type of category (or categories) to use to disaggregate revenue, an entity should consider how information about the entity's revenue has been presented for other purposes, including all of the following:

a. Disclosures presented outside the financial statements (for example, in earnings releases, annual reports, or investor presentations)

b. Information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments

c. Other information that is similar to the types of information identified in (a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

606-10-55-91 Examples of categories that might be appropriate include, but are not limited to, all of the following:

a. Type of good or service (for example, major product lines)

b. Geographical region (for example, country or region)

c. Market or type of customer (for example, government and nongovernment customers)

d. Type of contract (for example, fixed-price and time-and-materials contracts)

e. Contract duration (for example, short-term and long-term contracts)

f. Timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time)

g. Sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).