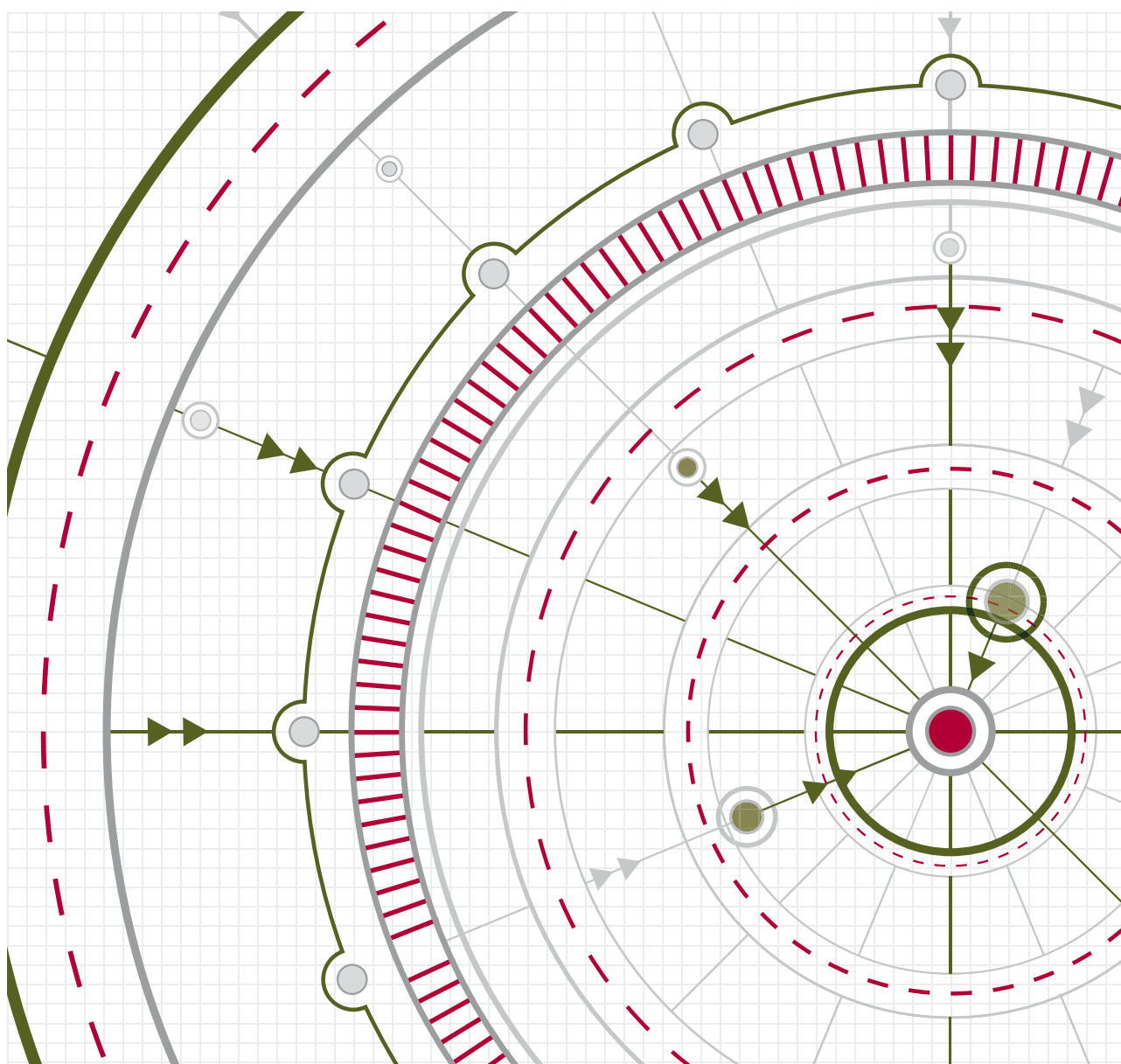


Monday 28 and Tuesday 29 September 2015  
The Grange City Hotel (London, UK)

Meeting documentation: Leases

# 2015 World Standard-setters Meeting





# **World Standard-setters Meeting**

Monday 28 and Tuesday 29 September 2015

**Education session:**

Leases

**Patrina Buchanan**

*Technical Principal*

**IASB**



October 2015

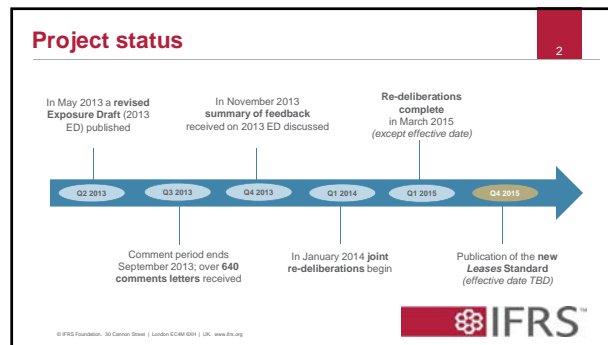
International Financial Reporting Standards

## The new *Leases* Standard

October 2015

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## Re-deliberations complete

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### Main decisions:

- Lessee accounting: single lessee model
  - All leases **on-balance sheet**<sup>1</sup>
  - Interest and amortisation presented separately in income statement
- Lessor accounting: little change to existing lessor accounting

<sup>1</sup> With the exception of short-term leases and leases of low-value assets

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## Lessee accounting

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- A lease conveys the right to use an asset for a period of time

Customer (Lessee)	← Right to use an asset	Supplier (Lessor)
	Cash payments →	

- Lessee reports lease assets and liabilities on balance sheet at present value of lease payments
- Exemptions for short-term leases and leases of low-value assets
- Liabilities exclude variable payments and most optional payments
- Simplified reassessment

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## Lessee—transition

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- Choose either full retrospective or modified retrospective approach (consistently across the entire portfolio)
- Existing finance leases: existing accounting
- Existing operating leases: Modified retrospective approach
  - Exemption for leases ending within 12 months of transition date
  - No restatement of comparatives
  - Choice of measurement of ROU assets (ie retrospective basis or equal to lease liabilities) on a lease-by-lease basis

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## Lessee—presentation

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### Balance sheet

- ROU assets together with PPE or as own line item
- Lease liabilities in accordance with IAS 1

### Cash flow statement

- Principal within financing activities
- Interest within either operating or financing activities (IAS 7 option)

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## Lessee—disclosure

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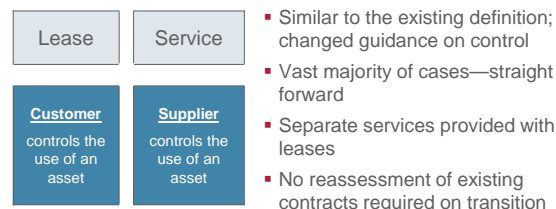
- Focus on most relevant information
  - Breakdown of lease costs
  - Information about lease cash flows
  - Maturity analysis of undiscounted commitments
  - Information about ROU assets by major class of underlying asset
  - Additional information if relevant (eg extension options; variable lease payments; sale and leaseback)

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## Lease vs service

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## Lessees affected by changes

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Listed entities only	Percentage of IFRS/US GAAP entities who report material off balance sheet leases	
	North America	62%
	Europe	47%
	Asia / Pacific	43%
	Africa / Middle East	23%
	Latin America and Caribbean	23%
	Total future minimum payments for off balance sheet leases (undiscounted) <sup>1</sup>	US\$ 2.9 trillion
	Present value of future minimum payments for off balance sheet leases (estimate) <sup>2</sup>	US\$ 2.2 trillion

<sup>1</sup> 2014 annual reports for the vast majority of entities.  
<sup>2</sup> Estimate using the average cost of debt for these entities, that was 5%.

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- Off-balance-sheet lease financing numbers are substantial
- About 50 per cent of listed entities report material off balance sheet leases
- The use of off balance sheet leases is highly concentrated

## Lessor accounting

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- In essence, no change to existing lessor accounting
- Enhanced disclosures
  - Information about residual value risk
  - Operating leases: separate disclosures for leased assets and assets used by a lessor for other than leasing
  - Finance leases: separate disclosure of lease receivable and unguaranteed residual value

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## Comparison to US GAAP

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### Where we are aligned

- Recognition of leases on-balance sheet
- Lease definition
- Liability measurement<sup>1</sup>
- Little change to lessor accounting

### Main difference

- Recognition and presentation of lease expenses and cash flows

<sup>1</sup> Lease liabilities are measured in the same way under IFRS and US GAAP except that inflation-linked payments are reassessed when those payments change under IFRS, but are not under US GAAP

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## Illustration—lessee accounting

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A company wants to lease a truck for a 4-year period. It considers two different lease structures:

Lease 1—pay €60,000 in equal amounts over 4 years  
 Lease 2—pay €53,000 at the end of year 1

Difference in total payments relates solely to difference in timing of payments.



Accounting over 4-year lease term		Lease 1	Lease 2
	Lease Asset—cost	€50,000	€50,000
IASB	Operating expense	€50,000	€50,000
	Interest expense	€10,000	€3,000
FASB	Operating expense	€60,000	€53,000

Same expense reflecting use of an identical asset that costs the same amount in PV terms  
 Higher operating profit

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NOTES