

19 November 2020 FASB | IASB Joint Education Meeting

FASB Agenda Ref 12A

IASB Agenda Ref 12A



ASU 2016-02 Implementation Update

Leases (Topic 842)

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Post-Implementation Review

- Evaluation of whether a standard is achieving its objective by providing financial statement users with relevant information in ways that justify the cost of providing it
- PIR Process
 - Stage 1. Post-issuance date implementation monitoring
 - Stage 2. Post-effective date evaluation of costs and benefits
 - Stage 3. Summary of research and reporting

Stage 1 and 2 are ongoing now.
Visit www.fasb.org/PIR to learn more.

Leases—Implementation Update

Board and staff stand ready to assist stakeholders

□ Board meetings held to date on Topic 842 implementation:

- ✓ November 2016 (leases implementation update)
- ✓ May 2017 (leases implementation update)
- ✓ June 2017 (technical corrections)
- ✓ August 2017 (land easements)
- ✓ November 2017 (land easements and targeted improvements)
- ✓ January 2018 (technical corrections)
- ✓ March 2018 (transition method and practical expedient)
- ✓ July 2018 (narrow-scope improvements)
- ✓ October 2018 (narrow-scope improvements)
- ✓ December 2018 (codification improvements)
- ✓ February 2019 (codification improvements)
- ✓ July 2019 (operating lease receivable impairment)
- ✓ July 2020 (targeted improvements)

□ Standard-setting activities:

- ✓ Land easements ASU 2018-01 (issued in January 2018)
- ✓ Codification Improvements ASU 2018-10 (issued in July 2018)
- ✓ Targeted Improvements ASU 2018-11 (issued in July 2018)
- ✓ Narrow-Scope Improvements ASU 2018-20 (issued in December 2018)
- ✓ Leases Codification Improvements ASU 2019-01 (issued in March 2019)
- ✓ Effective Date ASU 2019-10 (issued in November 2019)
- ✓ Effective Date ASU 2020-05 (issued in June 2020)

Leases—Targeted Improvements

The Board added a project to its technical agenda in July 2020. The project is intended to address issues on which the Board can act because it already has sufficient information from stakeholders.

Included issues:

1. Sales-type leases with substantial variable lease payments
2. Remeasurement of lease payments based on a reference index or rate
3. Reduction of scope in a lease contract

Tentative Board Decisions

1. **Sales-type leases with substantial variable lease payments:** A lessor would be required to classify a lease with lease payments that are predominantly variable as an operating lease.
2. **Remeasurement of lease payments based on a reference index or rate:** Lessees would have an option to remeasure lease liabilities upon a change in a reference index or rate affecting future lease payments. Lessees that elected to apply that option would be required to disclose that fact and to apply that option as an entity-wide election.

Tentative Board Decisions

3. **Reduction of scope in a lease contract:** When a separate lease component within a contract is terminated and the economics of the remaining lease components remain substantially the same as before the partial termination of that contract, an entity (lessee or lessor) would not apply modification accounting to the remaining lease components.

Exposure draft issued October 20, 2020;
Comments due December 4, 2020

Leases Roundtable

- Public virtual roundtable held September 18
- Topics of discussion were identified in advance through outreach with stakeholders (see following slides)
- Participants included FASB Board members, FASB staff, and 21 diverse stakeholders representing:

Financial
Statement
Users

Public
Preparers

Private
Preparers

Industry
Reps

Auditors

Key Roundtable Topics

- **Incremental borrowing rate**

- Lessee's application of the discount rate guidance on the incremental borrowing rate and difficulties encountered during implementation

- **Lessee use of the rate implicit in the lease**

- Determining whether a lessee can “readily determine” the rate implicit in the lease given lessor-specific inputs (for example, residual value)

- **Lease modification model**

- Complexities and outcomes associated with lessee and lessor application of the modification guidance

Key Roundtable Topics (continued)

- **Embedded leases**

- Identifying leases embedded in nonlease contracts, such as service contracts

- **Lessee allocation of payments**

- Complexities and outcomes associated with lessee allocation guidance when fixed and variable payments exist in conjunction with lease and nonlease components