

## Tentative decisions made by IASB/FASB on Leases project – April 2011

### Executive summary

At the joint IASB and FASB meetings held on 12 – 14 April 2011, the Boards made some tentative decisions that appear to be taking the lease proposals largely back to what we currently have in AASB 117 *Leases*. The transformational changes proposed in the *Leases* ED for lessee accounting and accounting for variable lease payments have been dropped. Refer to table below for items discussed and tentative decisions made:

Items covered in April 2011 meeting	Snapshot of IASB/FASB discussions	Do the tentative decisions broadly align with AASB views?
Definition of a lease	<p>The Boards clarified that a 'specified asset' should be an identifiable asset. Physically distinct portions of a larger asset (e.g. a floor in a multi-story building) can be specified assets and non-physically distinct portions (e.g. 50% of the capacity of a pipeline) are not specified assets. If the supplier has substantive substitution rights for the specified asset, the contract does not contain a lease.</p> <p>The Boards decided that the description of control in the leases project should be consistent with the revenue recognition project and agreed that the “right to control the use” of a specified asset is conveyed if the customer has the ability to direct the use of the asset and receive the benefit from its use. Arrangements where a customer obtains all the benefit from the use of an asset but does not direct its use, would not be leases unless the asset is separable from the services provided to customer.</p>	Yes
Distinction between two types of leases	<p>The Boards tentatively decided that two types of lessee and lessor accounting models exist; a finance and other-than-finance lease (although naming convention will be re-evaluated in a future meeting). The Boards agreed that the transfer of substantially all of the risks and rewards of ownership is determinative of whether a lease is a finance lease or other-than-finance lease. As this is the same principle articulated in IAS 17, the Boards decided that the existing indicators in paragraphs 7-12 of IAS 17 should be used to distinguish between a finance lease and an other-than-finance-lease.</p>	No
Lessee accounting	<p>The initial measurement of the right-of-use asset and lease liability for both types of leases would be the same (i.e. the present value of lease payments).</p> <p>The subsequent measurement of the lease liability for both types of leases would also be the same (i.e. measured using the effective interest method). However the Boards decided the subsequent measurement of the right-of-use asset would be different.</p> <p>(a) For finance leases, the right-of-use asset should be amortised using systematic and rational method. The interest and amortisation amounts should be presented separately within profit or loss.</p> <p>(b) For other-than-finance leases, the amortisation of the right-of-use asset should be based on the difference between the straight-line amount and the interest expense amount. This approach was proposed to ensure that the total expense recognised is consistent with the way operating lease expense is recognised under IAS 17. The interest and amortisation amounts should be presented in a single-line item as operating (rent) expense within profit or loss.</p>	<p>Yes, for finance leases as the AASB considered that lessees should account for all their lease arrangements in this manner.</p> <p>No, for other than finance leases</p>

<b>Items covered in April 2011 meeting</b>	<b>Snapshot of IASB/FASB discussions</b>	<b>Do the tentative decisions broadly align with AASB views?</b>
Lessor accounting	For other than finance leases, the lessor should not recognise the lease receivable and lease contract liability on a gross basis given that it results in double counting of the lessor's assets. No other decisions were made. Lessor accounting approach would be deliberated in a future meeting.	No
Variable lease payments	The Boards have tentatively decided that the asset and liability recognised under a lease contract should exclude variable lease payments except for those that are considered disguised minimum lease payments. Disguised minimum lease payments are those payments in a lease contract that are structured such that the variable payments are in-substance fixed. This tentative decision is a practical expedient and reverses the Boards' previous tentative decision to include variable lease payments that are 'reasonably certain' to be paid by the lessee.	No