

## Tentative decisions made by IASB/FASB on the *Leases* project – November 2011

At the joint IASB and FASB meeting held on 15 and 16 November 2011, the Boards made tentative decisions in relation to how a first-time adopter of IFRSs would apply the proposed leases standard in its first IFRS financial statements; consequential amendments to the business combinations guidance in IFRSs and US GAAP; transition issues related to business combinations; consequential amendments to the borrowing costs guidance in IFRSs and US GAAP; and transition requirements for secured borrowings.

### Staff recommendation

Staff do not consider that there are any issues that are sufficiently substantive to warrant them being raised with the IASB in relation to the tentative decisions made at the November 2011 IASB/FASB meeting (outlined in the table below) prior to the AASB drafting its submission on the imminent IASB ED.

<b>Question to Board members:</b>		
Do you agree with staff's recommendation?		
<b>Issue</b>	<b>Overview of IASB/FASB discussions</b>	<b>Preliminary staff view</b>
<i>First-time adoption of IFRSs</i>	<p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> <li>• That a first-time adopter would be permitted to apply, to all of its lease contracts, the transitional provisions and reliefs that are applicable to the operating leases of an existing IFRS preparer.</li> <li>• To permit a first-time lessee adopter to initially measure a right-of-use asset at fair value in its opening IFRS statement of financial position and to use that amount as deemed cost.</li> </ul>	<p>This issue was not considered in ED/2010/9.</p> <p><b>Staff agree</b> with the IASB's tentative decisions.</p>
<i>Measurement of lease assets and lease liabilities acquired in a business combination</i>	<ul style="list-style-type: none"> <li>• If the acquiree is a lessee, an acquirer should recognise a liability to make lease payments and a right-of-use asset. The acquirer should measure: <ul style="list-style-type: none"> <li>(a) the liability to make lease payments at the present value of future lease payments in accordance with the proposed leases guidance, as if the associated lease contract is a new lease at the acquisition date; and</li> <li>(b) the right-of-use asset equal to the liability to make lease payments, adjusted for any off-market terms in the lease contract.</li> </ul> </li> </ul>	<p>This conclusion is consistent with the proposal in ED/2010/9. In its comment letter to the IASB the AASB did not specifically comment on this proposal.</p> <p><b>Staff disagree</b> with the proposal.</p> <p>Staff think that such assets and liabilities should be measured at fair value. IFRS 3 currently requires finance leases to be measured at fair value by a lessee when acquired in a business combination. Staff do not consider there to be a compelling argument as to why there should be an exception to the measurement principle in IFRS 3.</p>
	<ul style="list-style-type: none"> <li>• If the acquiree is a lessor applying the receivable and residual approach, an acquirer should recognise a right to receive lease</li> </ul>	<p><b>Staff disagree</b> with the proposal.</p> <p>Staff think that such assets and</p>

Issue	Overview of IASB/FASB discussions	Preliminary staff view
	<p>payments and a residual asset. The acquirer should measure:</p> <p>(a) the right to receive lease payments at the present value of future lease payments in accordance with the proposed leases guidance, as if the associated lease contract is a new lease at the acquisition date; and</p> <p>(c) the residual asset as the difference between the fair value of the underlying asset at the acquisition date and the carrying amount of the right to receive lease payments.</p> <p>(b) If the acquiree is a lessor of investment property, an acquirer should apply the guidance in IFRS 3 that relates to acquired operating leases.</p> <ul style="list-style-type: none"> <li>• If the acquiree has short-term leases, an acquirer should not recognise separate assets or liabilities related to the lease contract at the acquisition date.</li> <li>• The Boards tentatively decided that, upon transition, a lessee that previously recognised assets or liabilities relating to favourable or unfavourable terms in acquired operating leases should derecognise those assets or liabilities and adjust the carrying amount of the right-of-use asset by the amount of any asset or liability derecognised.</li> </ul>	<p>liabilities should be measured at fair value. IFRS 3 currently requires both finance and operating leases to be measured at fair value by a lessor when acquired in a business combination. Staff do not consider there to be a compelling argument as to why there should be an exception to the measurement principle in IFRS 3.</p> <p><b>Staff agree</b> with the IASB’s tentative decision.</p> <p><b>Staff agree</b> with the IASB’s tentative decision because it is consistent with the tentative decision to scope out investment property at cost (even though we disagree with such a scope exclusion).</p> <p><b>Staff agree</b> with the IASB’s tentative decision, consistent with the practical expedient to not require recognition of the right of use asset for such leases.</p>
<i>Borrowing costs</i>	<p>The Boards tentatively decided that interest expense incurred in a lease should be included in the scope of IAS 23 <i>Borrowing Costs</i> for the purposes of determining the interest costs or borrowing costs that could be capitalised.</p>	<p>ED/2010/9 proposed to remove finance charges in respect of finance leases from the scope of IAS 23. In its comment letter to the IASB the AASB did not specifically comment on this proposal.</p> <p><b>Staff agree</b> with the IASB’s tentative decision.</p>
<i>Transition – secured borrowings</i>	<p>The Boards tentatively decided that, on transition to the new leases guidance, a lessor would continue to account for the securitisation of lease receivables associated with current operating leases as secured borrowings in accordance with existing US GAAP and IFRSs. This tentative decision applies to a lessor regardless of whether it elects a fully retrospective approach to transition.</p>	<p>This issue was not considered in ED/2010/9.</p> <p><b>Staff agree</b> with the IASB’s tentative decision.</p>