



Memorandum

To:	AASB members	Date:	28 June 2011
From:	Nikole Gyles and Kala Kandiah	Agenda Item:	6.1
Subject:	Leases – project update	File:	

Action

Receive an update on the recent tentative decisions made by the IASB and the FASB in their joint project to develop a Standard on *Leases* and consider if there are any issues that need to be raised with the IASB on those tentative decisions.

Staff recommendation

Staff do not consider that there are any issues that need to be raised with the IASB in relation to the tentative decisions made at the June 2011 IASB/FASB meeting.

Question to Board members:

Do you agree with staff's recommendation?

Background

The IASB and the FASB have undertaken a joint project to develop a Standard on *Leases*, an original objective of which was that all assets and liabilities arising under lease contracts are recognised in the statement of financial position.

In August 2010, the AASB issued ED 202R *Leases*, which incorporated the IASB's ED/2010/9 *Leases*. The comment period for IASB's ED 2010/6 closed on 15 December 2010 and over 760 comment letters were received (the comment period for AASB ED 202R closed on 12 November 2010 and attracted 16 comment letters). The IASB and FASB began redeliberations on the *Leases* project in January 2011 and the IASB work plan (dated 13 May 2011) indicates that an IFRS on *Leases* is expected to be issued in Q4 of 2011.

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The AASB wrote to the IASB in May 2011 on some of the tentative decisions made in the *Leases* project (link to [Letter to IASB - Leases](#)). At the June AASB meeting staff provided an update on the project incorporating tentative decisions made by the IASB up to May 2011.

This memo provides a report on the outcome of the IASB's June 2011 meeting. At the time of writing this memo, the IASB do not have any meetings scheduled, at which leases is expected to be discussed, prior to the AASB July 2011 meeting. Staff will provide a verbal update of further IASB developments should any arise prior to the July 2011 AASB meeting.

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

At the joint IASB and FASB meetings held on 13-15 June 2011, the Boards made some tentative decisions that would simplify accounting for short-term leases and clarify the accounting for subleases. The Boards also discussed lessor accounting and Shariah-compliant lease contracts, however, no decisions were made in relation to these issues. Refer to table below for our overview of items discussed and tentative decisions made.

Issue	Overview of IASB/FASB discussions	Do the tentative decisions broadly align with AASB views?
<i>Short-term leases (lessee)</i>	<p>The boards:</p> <ul style="list-style-type: none"> tentatively decided that, for short-term leases, a lessee need not recognise lease assets or lease liabilities. For those leases, the lessee should recognise lease payments in profit or loss on a straight-line basis over the lease term, unless another systematic and rational basis is more representative of the time pattern in which use is derived from the underlying asset. tentatively decided that a lessee may elect to apply the recognition and measurement requirements in the leases guidance to short-term leases. expressed support for requiring disclosure of the rental expense recognised in the current period and a statement about the extent to which that expense is expected to be representative of rental expense in future periods. <p><i>Note that this decision reverses the informal vote taken by the IASB/FASB at the May 2011 meeting to remove the exemption for short-term leases.</i></p>	<p>Yes.</p> <ul style="list-style-type: none"> The AASB supported the ED proposals for simplified accounting for short-term leases for lessees (i.e. measurement of the liability to make lease payment at an undiscounted amount). The AASB considered that the accounting for lessees could be further simplified, and supported an 'accruals basis' for short-term leases by lessees (as proposed for short-term leases of lessors). The AASB suggested that proposed disclosure requirements for short-term leases be reduced. The recent tentative decision to require additional disclosure for non-capitalised leases appears to be inconsistent with this view; however, AASB staff expect that this disclosure would be <i>instead</i> of all other disclosure requirements in the new Standard.
<i>Subleases</i>	<ul style="list-style-type: none"> A head lease and a sublease should be accounted for as separate transactions. An intermediate lessor, as a lessee in a head lease arrangement, should account for its assets and liabilities arising from the head lease in accordance with the decisions to 	<ul style="list-style-type: none"> The ED did not include a specific question in relation to subleases. The AASB did not specifically comment on the proposals for subleases. AASB staff agree with the tentative decision by the Board to account for

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Issue	Overview of IASB/FASB discussions	Do the tentative decisions broadly align with AASB views?
	<p>date for all lessees.</p> <ul style="list-style-type: none"> • An intermediate lessor, as a lessor in a sublease arrangement, should account for its assets and liabilities arising from the sublease in accordance with the decisions to date for all lessors. • If the Boards decide that there should be more than one approach to lessor accounting, an intermediate lessor, as a lessor in a sublease, should evaluate its right-of-use asset, not the underlying asset, to determine the appropriate lessor accounting approach to apply to the sublease. 	<p>subleases as separate transactions in accordance with the lessee and lessor accounting models. However, staff note that this may give rise to volatility in profit and loss.</p> <ul style="list-style-type: none"> • AASB staff agree with the tentative decision by the Board to evaluate the right-of-use asset to distinguish lease classification for lessors. As highlighted in IASB Agenda Paper 2B, the underlying asset is not an asset of the intermediate lessor.
<i>Shariah-compliant lease contracts</i>	<ul style="list-style-type: none"> • The Boards discussed the accounting implications of applying a right-of-use lease model to Shariah-compliant lease contracts. • The discussion was educational in nature. 	<p>n/a</p> <p>No decisions were made</p>
<i>Lessor accounting</i>	<p>The Boards:</p> <ul style="list-style-type: none"> • continued discussing the accounting by lessors under a right-of-use model. • discussed a single approach to lessor accounting whereby the lessor would recognise a lease receivable and a residual asset at lease commencement. • will consider at a future meeting whether, and if so when, under such an approach, it is appropriate for a lessor to recognise profit at lease commencement. • will also consider at a future meeting whether there should be different lessor models for (a) a lease of a portion of an asset and (b) a lease of an entire asset. 	<p>n/a</p> <p>No decisions were made</p>