



Australian Government
Australian Accounting Standards Board

Memorandum

To:	AASB Members	Date:	19 February 2013
From:	Nikole Gyles	Agenda Item:	Tabled 5.4 (M129)
Subject:	Potential Emerging Issues: recent IASB decisions on leases	File:	

Action

Receive an update on recent tentative decisions made by the IASB and the FASB in their joint project to develop a Standard on *Leases*, and decide whether there are any issues to be raised with the IASB on those tentative decisions at this stage.

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 January 2013 IASB/FASB meeting (outlined in the table below) prior to the AASB drafting its submission on the forthcoming IASB ED.

Question to Board members:

Do you agree with staff's recommendation?

Background

The IASB and the FASB are undertaking 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. The IASB subsequently decided in July 2011 to re-expose revised proposals. The IASB work plan (dated 4 February 2013) indicates that the re-exposure of the ED

on *Leases* is expected to be issued in Q2 2013. The work plan, which projects out to Q4 2013, does not indicate when an IFRS is expected to be issued.

Since January 2011 the AASB decided to write to the IASB only once in relation to leases, and that was in May 2011 on some of the tentative decisions made in the *Leases* project up to that date, including the distinction between finance and other-than-finance leases, the amortisation method for 'other-than-finance' leases, and treatment of variable lease payments (link to [Letter to IASB – Leases¹](#)).

Tentative decisions made by IASB/FASB on the *Leases* project – January 2013

At the joint IASB and FASB meeting held on 29-31 January 2013 the Boards discussed questions that have arisen during the drafting of the revised *Leases* Exposure Draft about the identification of lease components and the classification of leases, as outlined in the following table.

Issue	Overview of IASB/FASB discussions as described in IASB Update January 2013	Do the tentative decisions broadly align with AASB views?
How to identify separate lease components within a contract.	The guidance would be similar to the proposed guidance in paragraphs 28 and 29 of the 2011 Revenue Recognition Exposure Draft about the identification of separate performance obligations. An entity would be required to account for each separate lease component as a separate lease.	This issue was not addressed in ED/2010/9. AASB staff view: AASB staff agree with the tentative decision that an entity be required to account for each separate lease component as a separate lease. AASB staff agree that the leases guidance be similar to the Revenue Recognition guidance. However, AASB staff think that the final drafting should be consistent with the final Revenue IFRS (expected to be released in Q2 2013), rather than the Exposure Draft.
How to determine the nature of the underlying asset for classification purposes when one lease component contains the right to use more than one asset.	<p>The boards tentatively decided that an entity should determine the nature of the underlying asset for classification purposes on the basis of the nature of the primary asset within the lease component.</p> <p>The boards tentatively decided that when applying the classification guidance to a property lease component that contains both land and a building, an entity:</p> <ol style="list-style-type: none"> 1. is not required to allocate lease payments between the land and the building; and 2. would assess whether the lease term is for a major part of the remaining economic life of the building. 	This issue was not addressed in ED/2010/9. AASB staff view: On the assumption the IASB proceeds with its decision to treat leased assets differently depending on their nature AASB staff can accept these tentative decisions.

¹ http://www.aasb.gov.au/admin/file/content106/c2/AASB_Letter_to_IASB_-_Lease.pdf (accessed 12 February 2013).