

**Summarised key points from IASB Roundtable discussions on
IASB ED/2013/6 *Leases* held in Singapore on 4 October 2013¹**

Overall comments

- 1 Most participants are supportive of the objective of the proposals; to recognise assets and liabilities arising from lease transactions on the balance sheet. Some of these participants support the proposed dual classification lease accounting while others consider the dual classification model lacks a clear principle.
- 2 One participant expressed a preference to retain the requirements of IAS 17 *Leases*, with some additional disclosure requirements.
- 3 Overall, there were concerns expressed on the complexity of the proposals and structuring opportunities.

Topic 1: Lessee and lessor accounting models

- 4 Some participants are supportive of the dual classification model. Some of those participants consider the dual classification model and the accounting for Type B leases would provide a more faithful representation of the economics of the leasing business, in particular, entities in the real estate development industry. However, one participant expressed concern about the calculation of the lessor's residual asset, particularly for long-term leases, as reasonable and supportable data for long term leased assets (e.g. 60 years) may not be available.
- 5 Some participants expressed a preference for a single classification lessee and lessor accounting models.
 - Some of the participants expressing a preference for a single classification model would prefer a model that is based on the notion of control.
 - One of the participants expressing a preference for a single classification model could rationalise the need for a dual classification model if it were based on a right-of-asset concept, and not a right-of-use concept (as proposed in ED/2013/6). This participant considers the right-of-use concept is more conceptually appropriate for a single classification model.

¹ These notes are based on AASB staff participation in the Roundtable and are intended to capture the main points raised in the discussion. These notes are not intended to capture all aspects of the Roundtable discussion.

- Another participant commented that the classification of leases by ‘type of assets’ is not conceptually appropriate and would not promote transaction-neutral accounting.
- 6 One participant does not believe that recognising all leases on the lessee’s balance sheet would improve financial reporting as that information is already required under IAS 17, albeit as a note disclosure only. Furthermore, this participant believes the proposals are not a true reflection of the underlying economics of leasing. For instance, the lessee only has a commitment to making lease payments and does not receive the title (legal ownership) over the leased asset. Accordingly, this participant believes the lessee should not recognise the leased asset on balance sheet.
- 7 Some participants expressed concern around which assets might meet the definition of property (for classification as Type B leases). These participants also have concern that a misclassification of the type of lease would lead to incorrect accounting. One participant noted that applying the primary asset requirements may be problematic in practice and recommended that paragraph 33 of ED/2013/6 to be reconsidered.
- 8 Overall, participants commented that the proposed requirements for both lessee and lessor accounting are very complex and more guidance would be useful to understand the models.

Topic 2: Measurement

- 9 Some participants consider the measurement reassessment should be required only upon a trigger event and not at every reporting period.
- 10 One participant requested that the IASB consider the consistency between the Conceptual Framework and Leases projects regarding variable lease payments.

Topic 3: Scope of the proposals

- 11 Most participants agreed with the scope of the proposals and the definition of a lease.
- 12 Participants representing the Japan and Singapore shipping industry consider that, depending on the facts and circumstances of the contract, the proposed definition of a lease could lead to some charter contracts being inappropriately included in the scope

of ED/2013/6. These participants recommended that the IASB clarify the scope of the proposals.

Topic 4: Other aspects of the proposals

Disclosure

- 13 Most participants urged the IASB to review the overall disclosures before finalising the standard. One participant questioned the need for additional lease-accounting-specific disclosure requirements; highlighting that there are disclosure requirements in existing standards (e.g. IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*) that could be applied to lease transactions rather than the proposed disclosures in ED/2013/6.

Transition

- 14 Most participants expressed support for the proposed transition requirements.
- 15 Some participants expressed the view that the transition requirements should be consistent with the forthcoming Revenue IFRS and IFRS 10 *Consolidated Financial Statements*.
- 16 Some participants highlighted the challenges with the proposed retrospective requirements for lessor entities that have lease contracts that date back over 50 years.