

Leases – Project update March 2014

The IASB and FASB held a joint meeting on 13-21 March 2014, at which the Boards made a number of tentative decisions in relation to the *Leases* project.¹

Issue	Overview of IASB tentative decisions	Overview of FASB tentative decisions	Do the IASB's tentative decisions broadly align with AASB views?²
<i>Lessee accounting model</i>	The IASB decided on a single approach for lessee accounting. Under that approach, a lessee would account for all leases as Type A leases (that is, recognising amortisation of the right-of-use (ROU) asset separately from interest on the lease liability).	The FASB decided on a dial approach for lessee accounting, with lease classification being determined in accordance with the principle in existing lease requirements (that is, determining whether a lease is effectively an instalment purchase by the lessee). Under this approach, a lessee would account for most existing capital/finance leases as Type A leases (that is, recognising amortisation of the ROU asset separately from interest on the lease liability), and accounting for most existing operating leases as Type B leases (that is, recognising a single total lease expense).	<p>Yes.</p> <p>In its comment letter to the IASB the AASB expressed support for a single model for lessee accounting.</p> <p>AASB staff view</p> <p>AASB staff agree with the tentative decision by the IASB to have a single approach for lessee accounting, recognising amortisation of the ROU asset separately from interest on the lease liability.</p>
<i>Lessor accounting model</i>	The boards decided that a lessor should determine lease classification (Type A versus Type B) on the basis of whether the lease is effectively a financing arrangement or a sale, rather than an operating lease (that is, on the concept underlying existing US GAAP and on IFRS lessor accounting). A lessor would make that determination by assessing whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. ³		<p>In part.</p> <p>In its comment letter to the IASB the AASB expressed support for a single model for lessor accounting. The AASB noted, however, that if the IASB retains the view that there are</p>

¹ <http://media.ifrs.org/2014/IASB/March/IASB-Update-March-2014.pdf> (accessed 31 March 2014)

² http://www.aasb.gov.au/admin/file/content106/c2/AASB_comment_letter_to_IASB_ED_2013_6_Leases.pdf (accessed 31 March 2014)

³ In addition, the FASB decided that, at lease commencement, a lessor should be precluded from recognising selling profit and revenue for any Type A lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the forthcoming Revenue Recognition Standard, which evaluates whether a sale has occurred from the customer's perspective.

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		<p>two different types of models, the AASB can see some justification for retaining the IAS 17 approach to classification on the basis of costs versus benefits.</p> <p>AASB staff view</p> <p>Although, consistent with the AASB comment letter to the IASB, AASB staff would prefer a single model for lessor accounting, AASB staff can accept the tentative decision. AASB staff note that this will not result in symmetry between lessee and lessor accounting.</p>	
<i>Lessor Type A accounting</i>	<p>The boards decided to eliminate the receivable and residual approach proposed in the 2013 ED. Instead, a lessor will be required to apply an approach substantially equivalent to existing IFRS finance lease accounting and US GAAP sales type/direct financing lease accounting to all Type A leases.</p>	<p>In part.</p> <p>In its comment letter to the IASB the AASB disagreed with the receivable and residual approach.</p> <p>AASB staff view</p> <p>Although, consistent with the AASB comment letter to the IASB, AASB staff would prefer a single model for lessor accounting, AASB staff can accept the tentative decision on the basis that applying the existing IFRS finance lease accounting to Type A leases will be less complex and costly to apply than the previously proposed receivable and residual approach.</p>	

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<i>Lessee small-ticket leases</i>	<p>The boards decided that the leases guidance should not include specific requirements on materiality. The boards also decided to permit the leases guidance to be applied at a portfolio level by lessees and lessors. The FASB decided to include the portfolio guidance in the Basis for Conclusions; the IASB decided to include the portfolio guidance in the application guidance.</p>		<p>No.</p> <p>In its comment letter to the IASB, the AASB expressed the view that the materiality concept in IAS 1 <i>Presentation of Financial Statements</i> could be applied to provide sufficient relief for entities with immaterial leases, regardless of their duration.</p> <p>The AASB did not comment on the potential to apply the guidance at the portfolio level.</p> <p>AASB staff view</p> <p>AASB staff agree with the IASB's decision not to include specific materiality guidance in the Leases IFRS on the basis that the concept of materiality is already addressed in IAS 1.</p> <p>AASB staff agree with the IASB's decision to permit the leases guidance to be applied at a portfolio level.</p>
	<p>The IASB decided to provide lessees with an explicit recognition and measurement exemption for leases of small assets.</p>	<p>The FASB decided not to provide an exemption.</p>	<p>This proposal was not included in ED/2013/9.</p> <p>AASB staff view</p> <p>AASB staff disagree with the IASB's decision to provide lessee with an explicit recognition and measurement exemption for leases of small assets.</p>

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			AASB staff are of the view that the materiality guidance in IAS 1 is sufficient and are concerned that any additional specific exemption may result in material leases not being accounted for appropriately.
<i>Lease term</i>	<p>The boards decided that, when determining the lease term, an entity should consider all relevant factors that create an economic incentive to exercise an option to extend, or not to terminate, a lease. An entity should include such an option in the lease term only if it is reasonably certain that the lessee will exercise the option having considered the relevant economic factors.</p> <p>Reasonably certain is a high threshold and is substantially the same as reasonably assured in existing US GAAP. The boards also decided that an entity should account for purchase options in the same way as options to extend, or not to terminate, a lease.</p> <p>The boards decided that a lessee should reassess the lease term only upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee.</p> <p>The boards decided that a lessor should not reassess the lease term.</p>	<p>In part.</p> <p>In its comment letter to the IASB the AASB expressed general agreement with the proposed measurement of the lease term. The AASB agreed that the reassessment of the estimated lease term is necessary. The AASB recommended that, reassessment should only be required when there has been a ‘trigger’ event that indicates reassessment may be required.</p> <p>AASB staff view</p> <p>AASB staff agree with the decisions made by the IASB.</p>	
<i>Lessee accounting: short-term leases</i>	<p>The boards decided to retain the recognition and measurement exemption for a lessee’s short-term leases. The boards also decided that the short-term lease threshold should remain at 12 months or less. In addition, the boards decided to change the definition of a short-term lease so that it is consistent with the definition of lease term.</p> <p>Finally, the boards decided to require disclosure of the amount of expense related to short-term leases recognised in the reporting period as well as any qualitative disclosures the boards decide upon for leases in general. If the short-term lease expense does not reflect the lessee’s short-term lease</p>	<p>No.</p> <p>In its comment letter to the IASB, the AASB expressed concern with the exception from the recognition, measurement and presentation requirements for short-term leases. The AASB considered that the exception has no conceptual basis</p>	

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	commitments, a lessee should disclose that fact and the amount of its short-term lease commitments.	and is a departure from the treatment of short-term receivables and obligations under other standards (e.g. financial instruments). AASB staff view AASB staff disagree with the IASB's decision to retain the exemption for short-term leases.	

Next steps

The IASB and FASB staff will perform additional analysis regarding the recognition and measurement exemption for lessees of leases of small assets. The boards will continue their joint redeliberations of the 2013 ED at a future joint meeting

Staff recommendation

Staff do not consider that there are any issues that are sufficiently substantive to warrant them being raised with the IASB at this stage in relation to the tentative decisions made at the March 2014 IASB/FASB meeting (outlined in the table above).

Question to Board members

Do you agree with staff's recommendation?