

Leases – Project update July 2014

The IASB and FASB held a joint meeting in July 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
Sale and leaseback transactions			
<i>Determining whether a sale has occurred</i>	The boards tentatively decided to retain the guidance in the 2013 Exposure Draft that in order for a sale to occur within the context of a sale and leaseback transaction, the sale must meet the requirements for a sale in the recently issued Revenue Recognition Standard. The boards reaffirmed that the presence of the leaseback does not, in isolation, preclude the seller-lessee from concluding that it has sold the underlying asset to the buyer-lessor. All FASB and all IASB members agreed.		The AASB did not specifically comment on sale and leaseback transactions in its comment letter to the IASB. Preliminary AASB staff view: AASB staff agree with the IASB tentative decision.
	The IASB tentatively decided not to include any additional application guidance in the final Leases Standard regarding the determination of the sale. The IASB clarified, however, that if the seller-lessee has a substantive repurchase option with respect to the underlying asset, then no sale has occurred. Twelve IASB members agreed.	The FASB tentatively decided that if the seller-lessee determines that the leaseback is a Type A lease, assessed from the seller lessee's perspective, then no sale has occurred. All FASB members agreed. The FASB tentatively decided to further evaluate (i) whether to include additional application guidance in the final Leases Standard regarding the determination of the sale and (ii) the effect of repurchase options on sale and leaseback transactions, particularly call options exercisable at fair value.	The AASB did not specifically comment on sale and leaseback transactions in its comment letter to the IASB. Preliminary AASB staff view: AASB staff agree with the IASB tentative decision not to include any additional application guidance.
<i>Accounting for</i>	The boards tentatively decided to retain the guidance in the 2013 Exposure Draft that a buyer-lessor		The AASB did not specifically

¹ <http://media.ifrs.org/2014/IASB/July/IASB-Update-July-2014.pdf> (accessed 8 August 2014)

² http://www.aasb.gov.au/admin/file/content106/c2/AASB_comment_letter_to_IASB_ED_2013_6_Leases.pdf (accessed 8 August 2014)

Issue	Overview of IASB tentative decisions	Overview of FASB tentative decisions	Do the IASB's tentative decisions broadly align with AASB views? ²
<i>the sale and purchase</i>	<p>should account for the purchase of the underlying asset consistently with the guidance that would apply to any other purchase of a nonfinancial asset (that is, without the presence of the leaseback). All FASB and all IASB members agreed.</p> <p>The boards tentatively decided to retain the guidance in the 2013 Exposure Draft that a seller-lessee should account for any loss on a completed sale in a sale and leaseback transaction consistent with the guidance that would apply to any other similar sale. All FASB and all IASB members agreed.</p>		<p>comment on sale and leaseback transactions in its comment letter to the IASB.</p> <p>Preliminary AASB staff view: AASB staff agree with the IASB tentative decision.</p>
	<p>The IASB tentatively decided that the gain recognised by a seller-lessee on a completed sale in a sale and leaseback transaction should be restricted to the amount of the gain that relates to the residual interest in the underlying asset at the end of the leaseback. All IASB members agreed.</p>	<p>The FASB tentatively decided to retain the guidance in the 2013 Exposure Draft that a seller-lessee should account for any gain on a completed sale in a sale and leaseback transaction consistently with the guidance that would apply to any other similar sale. All FASB members agreed.</p>	<p>The AASB did not specifically comment on sale and leaseback transactions in its comment letter to the IASB.</p> <p>Preliminary AASB staff view: AASB staff agree with the IASB tentative decision.</p>
<i>Accounting for the leaseback</i>	<p>The boards tentatively decided to retain the guidance in the 2013 Exposure Draft that if a sale is completed, the seller-lessee and the buyer-lessor should account for the leaseback in the same manner as for any other lease. All FASB and all IASB members agreed.</p>		<p>The AASB did not specifically comment on sale and leaseback transactions in its comment letter to the IASB.</p> <p>Preliminary AASB staff view: AASB staff agree with the IASB tentative decision.</p>
<i>Accounting for 'off-market' terms</i>	<p>The boards tentatively decided that an entity should determine any potential "off-market" adjustment on the basis of the difference between either (a) the sale price and the fair value of the underlying asset or (b) the present value of the contractual lease payments and the present value of fair market value lease payments, whichever is more readily determinable.</p> <p>For sale and leaseback transactions entered into at "off-market" terms, the boards tentatively decided that an entity should account for:</p> <p>a. any <i>deficiency</i> in the same manner as a prepayment of rent; and</p>		<p>The AASB did not specifically comment on sale and leaseback transactions in its comment letter to the IASB.</p> <p>Preliminary AASB staff view: AASB staff agree with the IASB tentative decision.</p>

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	<p>b. any <i>excess</i> as additional financing provided by the buyer-lessor to the seller-lessee.</p> <p>All FASB and all IASB members agreed.</p>		
<i>Accounting for failed sale and leaseback transactions</i>	<p>The IASB tentatively decided to retain the guidance proposed in the 2013 Exposure Draft that both a seller-lessee and a buyer-lessor would account for a “failed” sale and leaseback transaction as a financing transaction. All IASB members agreed.</p>	<p>The FASB decided to perform additional analysis on the accounting that should apply to “failed” sale and leaseback transactions.</p>	<p>The AASB did not specifically comment on sale and leaseback transactions in its comment letter to the IASB.</p> <p>Preliminary AASB staff view: AASB staff agree with the IASB tentative decision.</p>
Lessor accounting			
<i>Lessor disclosure requirements</i>	<p>The boards tentatively decided that a lessor should be required to disclose:</p> <ul style="list-style-type: none"> a. information about the nature of its leases, as well as information about significant assumptions and judgments made in applying the leases requirements; b. a table of lease income during the reporting period; and c. information about how a lessor manages its risk associated with the residual value of its leased assets. <p>All FASB and twelve IASB members agreed.</p> <p>The boards tentatively decided that a lessor should treat assets subject to Type B leases as a class of property, plant, and equipment (IFRS) or a major class of depreciable assets (US GAAP), further distinguished by significant class of underlying asset. Accordingly, a lessor should provide the required property, plant, and equipment disclosures for assets subject to Type B leases separately from owned assets held and used by the lessor. All FASB and twelve IASB members agreed.</p> <p>The boards also tentatively decided that a lessor should be required to disclose:</p> <ul style="list-style-type: none"> a. for Type A leases, a maturity analysis of the undiscounted cash flows that comprise the lessor’s lease receivables for each of the first five years following the reporting date and a total of the amount for the remaining years thereafter. A lessor should reconcile the maturity analysis to the 		<p>In its comment letter to the IASB, the AASB noted the following: the <i>AASB considers that the overall volume of disclosure proposed in the ED to be excessive. The AASB notes that much of the proposed disclosure could be reduced if a single model, rather than a dual model, were to be adopted.</i></p> <p>Preliminary AASB staff view: AASB staff remain concerned with the level of disclosures proposed for lessors; however, AASB staff acknowledge some concessions have been made in this regard, including removing the proposed reconciliation in paragraph 103 of the 2013 ED and replacing it with a qualitative and quantitative explanation of significant changes in</p>

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	<p>balance of lease receivables presented separately in the balance sheet or disclosed separately in the notes; and</p> <p>b. for Type B leases, a maturity analysis of the undiscounted future lease payments to be received for each of the first five years following the reporting date and a total of the amount for the remaining years thereafter.</p> <p>Five FASB and eight IASB members agreed.</p>		the net investment.
	The IASB tentatively decided that a lessor should be required to provide a qualitative and quantitative explanation of the significant changes in the net investment in Type A leases during the reporting period. All IASB members agreed.	The FASB tentatively decided that a lessor should be required to provide an explanation of the significant changes in the components of the net investment in Type A leases other than the lease receivable during the reporting period. The FASB will consider disclosures related to Type A lease receivables when it discusses disclosures in its project on accounting for financial instruments—credit impairment. All FASB members agreed.	

Next steps

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 July 2014 IASB/FASB meeting (outlined in the table above).

Question to Board members

Do you agree with staff's recommendation?