

Tentative decisions made by IASB/FASB on Leases project – Jan/Feb/Mar 2011

Executive summary

IASB/FASB deliberations on leases since the start of 2011 have touched on certain key areas like definition of leases, types of leases, lease term and variable lease payments. It appears that most of the tentative decisions made by IASB/FASB are moving closer to the views expressed by the AASB in its submission to the IASB on ED/2010/9 *Leases*. Refer to table below for items discussed and tentative decisions made:

Items covered by IASB/FASB in Jan – March 2011 meetings	Snapshot of IASB/FASB discussions	Do the tentative decisions of IASB/FASB broadly align with AASB views?
Scope	Leases of intangible assets will not be in the scope of the leases standard. Targeted outreach will be done on whether leases of internal use software and inventory should be within the scope of leases standard.	No
Definition of a lease	Potential revisions to the definition that may help clarify when transactions are leases or service contracts or both were considered. There was support for aligning the definition of 'right to control the use of an asset' with how control is articulated in the revenue ED. Staff will conduct targeted outreach before coming up with detailed proposals.	Yes
Type of leases	The boards will develop a dual model for lessees: finance leases will continue with the front-loading of expenses proposed in the ED; other-than-finance leases that will result in a straight-line rental expense. A new set of indicators will be developed to distinguish between finance and other-than-finance leases. Staff will conduct targeted outreach before coming up with detailed proposals.	AASB did not specifically comment on this issue.
Lease term	The threshold for inclusion of extension options in the lease term has been raised. The revised definition would include the non-cancellable lease term and any extension options where there is a significant economic incentive for the lessee to extend the lease.	Yes
Right of use model	The boards affirmed the decision to apply a right-of-use model to all lease arrangements	Yes
Variable lease payments	<p>The boards decided that variable lease payments should be included in the measurement of the obligation, based on a best estimate approach, as follows:</p> <ul style="list-style-type: none"> • Contingencies that are based on rate or index • Contingencies that are, in substance, minimum lease payments • Any portion of residual value guarantees that are expected to be paid by the lessee • Any other contingencies (i.e., usage or performance) that are "reasonably certain" <p>There remain significant practical application issues to consider and staff will undertake targeted outreach on these revised proposals.</p>	No