

Boards to re-deliberate key aspects of lease accounting – again

What you need to know

- ▶ The IASB and the FASB discussed feedback they received on their May 2013 joint lease accounting proposal and identified key aspects of the proposal they will address in re-deliberations.
- ▶ While respondents generally supported requiring lessees to put most leases on the balance sheet, many said the proposal would be costly and complex to apply. They also questioned whether it would provide users of the financial statements with better information than they get today.
- ▶ Respondents expressed operational and conceptual concerns about the proposed definition and scope, lessee accounting model, lessor accounting model, lease classification, lease measurement provisions and disclosure requirements.

The Boards acknowledged constituents' concerns and said they will consider ways to simplify the proposal in re-deliberations.

Highlights

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (collectively, the Boards) discussed the feedback they received on their May 2013 proposal¹ to significantly change the accounting for leases and decided to re-deliberate many key aspects of the proposal. The proposal would require lessees to recognise most leases on their balance sheets, amongst other changes. The proposal also would change lessor accounting.

The Boards received over 630 comment letters² from preparers of financial statements, users of the financial statements and other constituents worldwide. The unusually large number of comment letters received indicates a high level of interest in the project. The Boards also gathered feedback in more than 50 meetings with more than 250 investors and analysts, 25 meetings with individual preparers, eight roundtable events and additional meetings with standard setters, regulators and groups of preparers.³

In re-deliberations, the Boards plan to consider the cost and complexity of applying the proposal as well as the benefits to financial statement users.

¹ Refer to the Exposure Draft (ED/2013/6): *Leases*, available on the IASB's [website](#). Refer also to our [Applying IFRS, How the lease accounting proposal might affect your company \(AU1746\)](#).

² See the FASB [website](#) for comment letters on the Exposure Draft (ED/2013/6): *Leases*.

³ IASB/FASB Joint Meeting November 2013 - Agenda Paper 3A, *Summary of Feedback on the 2013 ED*.

Significant topics identified for re-deliberations

The Boards acknowledged constituents' concerns in the following areas and said they will consider ways to simplify the proposal in re-deliberations:

- ▶ **Definition and scope** – Many preparers and users said the Boards should provide additional guidance and/or examples on a number of topics (e.g., the ability to direct the use of an asset, substantive substitution rights) to ensure the proposal would be consistently applied. Preparers also expressed significant concerns about the cost of applying the proposal, particularly to high volumes of leases for items such as copiers and printers. The Boards indicated they will reconsider lease definition and scope.
- ▶ **Lessee accounting model** – Constituents generally agreed that lessees should recognise leases on the balance sheet. The Boards acknowledged the concerns many constituents raised about the costs and complexity of applying the proposed lessee accounting model, including concerns about the classification and measurement for the proposal's Type A and Type B lease models.
- ▶ **Lessor accounting model** – Many constituents, including financial statement users, indicated that they do not support making changes to today's lessor accounting. The Boards said they will reconsider whether symmetry between lessor accounting and lessee accounting is needed.
- ▶ **Lease classification approach** – Constituents said the proposed dual lease classification approach (i.e., Type A, Type B) is complex and could be applied subjectively. Some constituents suggested alternatives such as classifying leases based solely on consumption or in a manner similar to today's IAS 17 Leases model. The Boards indicated that they will consider simplifying the proposal and cited the dual classification approach as an example of the proposal's complexity.
- ▶ **Measurement provisions** – The Boards acknowledged that the proposed measurement provisions (e.g., reassessments of lease term or rate/index-based variable lease payments) may increase the costs and complexity of lease accounting, as many preparers and users have pointed out. The Boards said they will consider ways to reduce costs and complexity.
- ▶ **Disclosure requirements** – Users generally supported the proposed disclosure requirements while preparers generally said they could be excessive and overly complex. The Boards plan to re-deliberate presentation and disclosure requirements.

Other areas of concern raised by constituents include: determining the lease term; separating lease and non-lease components of contracts; sale and leaseback accounting; accounting for leases acquired in business combinations; transition methods; the effective date; and consequential amendments to other accounting standards.

What's next

The Boards agreed to begin re-deliberations. They have not yet discussed an effective date for the final standard.

How we see it

It appears the Boards intend to give careful and thorough consideration to the concerns raised by constituents. Therefore, re-deliberations will likely continue well into 2014.

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