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Defining Issues®

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Contents

FASB Completes Technical Redeliberations on Leases

The FASB met on October 7 to discuss comments received and related follow-up issues on the external review of its proposed leases standard. The Board will meet in early November to discuss effective date and cost-benefit considerations. The Board plans to issue a final leases standard by the end of 2015.

Key Facts

- Approximately 600 comments were received from external reviewers, though the FASB staff noted that many comments overlapped.
- The Board made decisions on three sweep issues to complete its technical decisions on the project.[1]
  - The lease modification guidance will be more closely aligned with the lease reassessment guidance.
  - Initial direct costs in sales-type leases will be deferred and recognized over the lease term if there is no selling profit (loss).
  - Lessors will present the net investment in sales-type and direct financing leases separate from other assets in the statement of financial position and will disclose the components of the net investment.
- The amount of expense recognized by lessees for operating leases will be measured like finance leases following an impairment of the lease.
- Private companies will not have additional reliefs other than the election to use a risk-free discount rate in measuring lease liabilities.

Key Impacts

- The standard setting on the leases project is almost over. Entities should begin planning their implementation efforts if they haven't done so already.
- Lease accounting for modifications that change the lease term will be consistent with the guidance on lease reassessments, which will reduce potential structuring opportunities.
- Lessor lease accounting will remain substantially consistent with current U.S. GAAP.[2]

[1] A sweep issue is a topic the FASB staff identifies for consideration or reconsideration by the Board.

[2] ASC Topic 840, Leases, available at www.fasb.org.

Summary of External Review Comments

The guidance developed by the FASB staff to address impairment of operating leases suggests the staff likely had significant discretion in deciding how to respond to external review comments.

In July 2015, the FASB distributed the leases external review draft to a select group of stakeholders with a deadline for comments of mid-August, 2015. The FASB staff received approximately 600 comments on the external review draft. At the October 7 FASB meeting, the FASB staff indicated that many of the comments were duplicative. In their view only three required further discussion by the Board, which the staff identified as sweep issues (see below). The staff noted that where comments expressed disagreement with Board decisions the staff generally took no action. For other comments, the staff indicated that revisions to the language in the external review draft would be made to clarify the guidance where necessary.

Lessee Accounting after Impairment of an Operating Lease. One issue that the staff indicated did not require further decision-making by the Board—although the staff plans to amend the draft standard—related to the accounting by lessees after impairment of an operating lease.[3] The staff noted that the guidance in the external review draft would have required the expense for an operating lease after an impairment charge to be determined in a way that would not result in balanced accounting entries. Consequently, the staff determined that the expense for operating leases following an impairment charge should be determined in the same way as it would be for finance leases.[4] Specifically, after an impairment of an operating lease right-of-use asset, the remaining balance of the right-of-use asset would be amortized generally on a straight-line basis over the remaining lease term and added to the periodic accretion of the lease liability to determine total lease expense each period. This is the same methodology that would be used for finance leases that are not impaired and would result in an uneven pattern of total expense that is front-loaded following the date of an operating lease impairment.

KPMG Observations

The FASB staff decided that the pattern of lease expense for an operating lease following an impairment of the lease should be consistent with the pattern of expense for an operating lease for which an onerous contract liability is recognized in accordance with ASC Topic 420, *Exit or Disposal Cost Obligations*. That guidance results in a pattern of expense for an operating lease that is essentially the same as the pattern of expense for a capital lease under current U.S. GAAP. Although this decision appears different than the Board's previous decision that the pattern of expense for an operating lease should generally be straight-line, even following an impairment, it seems consistent with the Board's more recent decision to make minimal changes to the way in which periodic expense would be measured for operating leases under the new guidance.

[3] Operating leases were referred to as Type B leases in the FASB's Proposed Accounting Standards Update (Revised), Leases, May 16, 2013 (the 2013 Exposure Draft), available at www.fasb.org.

[4] Finance leases were referred to as Type A leases in the 2013 Exposure Draft.

Sweep Issues Discussed

Lease Modifications That Extend the Lease Term

The Board discussed issues stemming from the proposed lease modification guidance that considered the right to use an underlying asset for an additional period of time as an additional right of use, separate from the original right to use the underlying asset. The Board also discussed peripheral issues related to the lessor lease modification guidance and lessee reassessment guidance.

Whether the Use of an Underlying Asset for an Additional Period of Time Is a Separate Right of Use. Under the proposed guidance, a lease modification granting a lessee the right to use the same underlying asset for an additional period of time would result in the lessee recognizing the additional lease liability and related right-of-use asset only when the additional period begins. That right of use would be considered separate from the original right of use whether or not the price for the additional period of use is commensurate with its stand-alone price. For example, assume a lessee originally entered into an agreement with a lessor to lease equipment for five years with no renewal options. At the end of Year 2, the lessee and lessor agree to modify the lease to extend its term for an additional five years from the original lease term expiration. Under the Board's previous decisions, the lease liability and related right-of-use asset for the extension period would not be recognized until the beginning of Year 6.

Conversely, the proposed guidance on lease reassessments would require lessees to revise the measurement of the right-of-use asset and lease liability when the lessee takes an action that changes the assessment of whether the exercise of a renewal option is reasonably certain to be exercised. Assume the example above was changed so that the lease included a five-year renewal option that was not included in the lease term for accounting purposes. If the lessee took an action at the end of Year 2 of the lease that made it reasonably certain that the lessee would exercise that renewal option, then the lessee's right-of-use asset and lease liability would be remeasured at the end of Year 2 to include the non-variable lease payments during the renewal period.

In addition, the Board previously decided that when a lease is modified and the additional right of use (in this case the right to use the underlying asset for an additional period of time) is commensurate with its stand-alone price, an entity would not reassess lease classification. Continuing with our original example, assume the equipment's remaining economic life is seven years at the modification date and rent during the 5-year extension period is commensurate with its stand-alone price. Because the additional period of use would be considered a separate lease, an entity would not reassess lease classification even though the lessee now benefits from the equipment's use for a major part of its remaining economic life. This indicates that the lease has become a finance lease rather than an operating lease.

To address these issues, the Board decided that the lease term is an *attribute* of the lease. Therefore, the Board concluded a lease modification that merely extends the term of the underlying asset's use would be recognized when the modification is executed.

Lessor's Lease Modification Guidance. As a result of considering the lease term an attribute of the lease, the Board discussed some of the potential asymmetries that may arise between the proposed lessor and lessee lease accounting guidance as well as the revenue guidance in ASC Topic 606.[5] However, the Board decided not to modify the lease accounting guidance for lessors, in part because it wants lessor accounting to remain substantially aligned with current U.S. GAAP.

Lessee Reassessment of Lease Classification. Under the proposed guidance, a lessee would reassess lease classification only if the lease is modified and the modification is not accounted for as a separate lease. A reassessment of the lease term would not cause a lessee to reassess lease classification. A reassessment could occur because the lessee elects to exercise a renewal option provided in the original lease or because the lessee constructs significant leasehold improvements that make it reasonably certain the lessee will exercise a renewal or purchase option.

The Board decided that when a lessee reassesses the lease term or a lessee option to purchase the underlying asset, it would be required to reassess lease classification. This requirement also would apply when the lease term or likelihood of purchase option exercise changes as a result of a lease modification. This issue was relevant only for lessees because lessors would not reassess the lease term or a lessee purchase option consistent with current U.S. GAAP.

KPMG Observations

The decisions by the Board to consider the lease term an attribute of the lease and to require a reassessment of lease classification in more situations than under the previously proposed guidance would remove the significant accounting differences between the lease modification and lease reassessment guidance that could have created structuring opportunities.

The Board's decision not to change the lessor lease modification guidance is consistent with feedback it received that the lessor accounting model under current U.S. GAAP essentially is not broken and should not be fundamentally changed. It is another example of the disconnect that will exist between lessee and lessor accounting under the new leases standard.

Recognition of Initial Direct Costs in Sales-Type Leases

At their May 2014 joint Board meeting, the FASB and IASB decided that initial direct costs should include only incremental costs that an entity would not have incurred if the lease had not been obtained (executed). This is a change from the current U.S. GAAP definition to conform to the contract cost deferral guidance in ASC Subtopic 340-40.[6] In addition, the FASB decided that a lessor would not capitalize initial direct costs for leases in which the customer effectively obtains

[5] ASC Topic 606, Revenue from Contracts with Customers, available at www.fasb.org.

[6] ASC Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers, available at www.fasb.org.

control of the underlying asset through the lease (i.e., a sales-type lease).[7] Instead, a lessor would recognize as an expense initial direct costs associated with those leases at lease commencement.

Constituents that commented on the external review draft noted that the draft guidance on initial direct costs would change the timing of expense recognition for lessors such as banks that function as financing intermediaries. Under current U.S. GAAP those lessors classify leases in which the customer effectively obtains control of the underlying asset through the lease as direct financing leases or leveraged leases when the lease does not give rise to selling profit or loss. Under either classification, initial direct costs are deferred and amortized over the lease term. Some external reviewers questioned whether the external review draft guidance was consistent with the FASB's expressed intent not to significantly change lessor accounting.

At its October 7 meeting, the Board decided to require initial direct costs incurred as a result of entering into a sales-type lease to be deferred and recognized over the lease term *if there is no selling profit or selling loss* (excluding consideration of the initial direct costs) on the lease. This would result in recognition outcomes that are generally consistent with current U.S. GAAP.

KPMG Observations

The Board's revised decision on lessor accounting for initial direct costs is consistent with ASC Subtopic 340-40, which requires deferred contract costs to be recognized in the income statement on the same basis as the transfer to the customer of the goods or services to which the costs relate. This occurs because lessors that enter into sales-type leases in which there is no selling profit or loss in effect provide a financing service to the customer (lessee).

In addition, the Board's decision is consistent with its desire not to substantially change lessor accounting, and it would retain convergence in the accounting for initial direct costs with the forthcoming IFRS guidance on leases.

Lessor Presentation of Its Net Investment in the Lease

The FASB revisited its previous decision to permit lessors to separately present the components of the net investment in leases other than operating leases either in the statement of financial position or in the notes to the financial statements. Those components comprise the lease receivable, unguaranteed residual value, and deferred selling profit (if applicable). The FASB did not previously decide that lessors would be required to separately present the total net investment in leases other than operating leases in the statement of financial position. The Board's discussion was primarily in response to concerns expressed by external reviewers about complexities within the lessor

[7] The Board referred to these leases as sales-type leases, although they were referred to as Type A leases in the 2013 Exposure Draft.

presentation requirements and a potential lack of consistency with some of the Board's other lessor accounting decisions.

The Board decided to require lessors to separately present the net investment in leases other than operating leases on the face of the statement of financial position. The Board acknowledged that disaggregated information on the components of the net investment is beneficial for the financial statement users, and decided to require lessors to disclose the components of the net investment without specifying where that information should be provided in the financial statements. Consequently, lessors would have the flexibility to disclose the components of the net investment in the statement of financial position or the notes to the financial statements.

Private Company Council Considerations

At their July 2015 meeting, Private Company Council (PCC) members raised continuing concerns about the FASB's lease accounting proposals including:

- ***Recognition of Leases on the Balance Sheet and the Lessee Accounting Model.*** The PCC requested that nonpublic lessees be required to recognize lease assets and liabilities only when the lessee is expected to consume more than an insignificant portion of the underlying asset. For leases that do not qualify for on-balance sheet accounting, lessees would recognize lease expense generally on a straight-line basis, similar to the accounting for operating leases under current U.S. GAAP.
- ***Presentation of Lease Assets and Liabilities on the Balance Sheet.*** If the final leases standard will require lessees to recognize all leases (other than short-term leases) on the balance sheet, the PCC recommended that, for nonpublic lessees, the lease asset and liability be presented in a linked manner, or adjacent to each other, on the balance sheet. Therefore, only the net amount of the lease asset and liability would affect the lessee's assets or liabilities on the balance sheet.

At its October meeting, the FASB decided not to provide different recognition or presentation requirements for nonpublic companies. In the Board's view, all leases give rise to a lease asset and liability for lessees, and the new guidance should extend to both public and nonpublic companies. Additionally, the Board believes that allowing linked presentation is beyond the scope of the leases project, and would require significant time to sufficiently address.

Under the Board's previous decisions, a nonpublic company may elect to use a risk-free discount rate as the lessee's incremental borrowing rate. The Board decided that this is the only exception that will be provided solely for nonpublic companies in the final leases standard.

Next Steps

The Board will meet early in November to discuss effective date and cost-benefit considerations. Based on the outreach performed and feedback received by the FASB throughout this project, including financial statement users' expressed desire for better information in lessees' financial statements and the FASB's attempts to minimize process and system changes where possible, the Board expects to issue its final leases standard by the end of 2015.

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Summary of Decisions Reached in Redeliberations

<table>
<tr><th colspan="3">Redeliberations of 2013 Exposure Drafts</th></tr>
<tr><th>Topic</th><th>FASB Decisions</th><th>IASB Decisions</th></tr>
<tr><td>Definition of a Lease</td><td colspan="2">• A contract will contain a lease if:
– Fulfillment of the contract depends on the use of an identified asset, and
– The contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration, or neither the customer nor the supplier controls the use of the identified asset throughout the period of use, and
• The customer has the right to operate the asset (and the supplier has no right to change those operating instructions) throughout the period of use, or
• The customer designed the asset, or caused it to be designed, in a way that predetermines during the period of use how and for what purpose it will be used</td></tr>
<tr><td rowspan="2">Practical Expedients and Targeted Reliefs</td><td colspan="2">• Optional lessee exemption for short-term leases – i.e., leases with a lease term of ≤ 12 months
• Portfolio-level accounting will be permitted if it does not differ materially from applying the requirements to individual leases (e.g., discount rate or lease term)</td></tr>
<tr><td>• No exemption for leases of low-value assets</td><td>• Optional lessee exemption for leases of low-value assets (e.g., leases of assets with a value of $5,000 or less when new), even if material in aggregate</td></tr>
<tr><td>Lessee Accounting Model</td><td>• Dual-lease accounting model
• Lease classification test based on classification criteria under current IFRS on leases[8]
• All leases on-balance sheet: lessee will recognize a right-of-use (ROU) asset and lease liability
– Finance leases will be treated as the purchase of an asset on a financed basis
– Operating leases generally will have straight-line recognition of total lease cost</td><td>• Single lease accounting model
• No lease classification test
• All leases on-balance sheet: lessee will recognize a right-of-use (ROU) asset and lease liability
– Treated as the purchase of an asset on a financed basis</td></tr>
</table>

[8] IAS 17, Leases.

<table>
<tr><th colspan="3">Redeliberations of 2013 Exposure Drafts</th></tr>
<tr><th>Topic</th><th>FASB Decisions</th><th>IASB Decisions</th></tr>
<tr><td rowspan="4">Lessor Accounting Model</td><td colspan="2">• Dual lease accounting model
• Lease classification test based on IAS 17 classification criteria
• Operating lease accounting model based on current IFRS operating lease accounting[9]</td></tr>
<tr><td>• Sales-type and direct financing lease accounting model based on current U.S. GAAP accounting for sales-type and direct financing leases with recognition of net investment in lease comprising lease receivable and residual asset[10]</td><td>• Finance lease accounting model based on current IFRS finance lease accounting with recognition of net investment in lease comprising lease receivable and residual asset</td></tr>
<tr><td>– Selling profit will not be recognized on commencement of leases that qualify as direct financing leases, even if the carrying amount and fair value of the underlying asset are different</td><td>– There will be no restriction on recognizing selling profit on commencement for finance leases</td></tr>
<tr><td>• Existing leveraged leases will be grandfathered and exempt from applying the new standard</td><td>• N/A – leveraged lease accounting does not exist under IFRS</td></tr>
<tr><td>Related-Party Leasing Transactions</td><td>• Account for leases between related parties based on their contractual terms, even if they differ from the substance of the arrangement
• Disclose lease transactions between related parties</td><td>• N/A – the IASB did not address related-party leasing transactions in its proposals</td></tr>
<tr><td>Lease Term and Purchase Options</td><td colspan="2">• Payments for optional (e.g., renewal) periods and purchase options will be included in lease accounting if it is reasonably certain that the lessee will exercise those options, consistent with the high threshold in current U.S. GAAP
• Lessees will reassess renewal and purchase options if there is a significant event or change in circumstances that is within the control of the lessee – e.g., construction of significant leasehold improvements
• No reassessment of renewal and purchase options by lessors</td></tr>
</table>

[9] Operating leases were referred to as Type B leases in the 2013 Exposure Draft.

[10] Sales-type and direct financing leases were referred to as Type A leases in the 2013 Exposure Draft.

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<tr><th>Topic</th><th>FASB Decisions</th><th>IASB Decisions</th></tr>
<tr><td>Initial Direct Costs</td><td colspan="2">
• Initial direct costs will include only incremental costs that an entity would not have incurred if it had not obtained the lease (e.g., commissions or payments made to existing tenants to obtain the lease)
• Lessees will include initial direct costs in the initial measurement of the ROU asset and amortize the costs over the lease term
• Initial direct costs will be included in determining the lessor's implicit rate unless the lease is a sales-type lease for which there is a selling profit or loss recognized at lease commencement (in which case initial direct costs will be expensed)
• Lessors will include initial direct costs for:
– Sales-type leases in the initial measurement of the lease receivable unless there is a selling profit (loss) on the lease, in which case initial direct costs will be expensed at lease commencement, and
– Direct financing leases in the initial measurement of the lease receivable
• Lessors will capitalize initial direct costs for operating leases and amortize the costs over the lease term in the same pattern as lease income
</td></tr>
<tr><td rowspan="3">Discount Rate</td><td colspan="2">
• The lessee's discount rate will be the lessor's implicit rate if available, otherwise, the lessee's incremental borrowing rate
– The value used to determine the lessee's incremental borrowing rate will be the cost of the ROU asset
• Lessees will reassess the discount rate when there is:
– A change in the lease term or the assessment of whether the lessee is, or is not, reasonably certain to exercise a purchase option, and
– A lease modification
</td></tr>
<tr><td>• Nonpublic business entity lessees will be permitted to elect as an accounting policy to use a risk-free discount rate</td><td>• N/A – no unique guidance for nonpublic business entities</td></tr>
<tr><td colspan="2">
• The lessor's discount rate will be the rate implicit in the lease (i.e., the implicit rate)
– Initial direct costs will be included in determining the implicit rate unless the lease is a sales-type lease for which a selling profit or loss is recognized at lease commencement
• Lessors will reassess the discount rate when there is a lease modification
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<tr><th>Topic</th><th>FASB Decisions</th><th>IASB Decisions</th></tr>
<tr><td rowspan="2">Variable Lease Payments</td><td colspan="2">• Lease payments used in the initial measurement of lease assets and liabilities will include:
– Variable payments based on an index or rate using prevailing (spot) rates or indices at lease commencement, and
– Variable payments that represent in-substance fixed payments (consistent with current practice)
• No reassessment of variable lease payments by lessors
• Variable payments that are not based on an index or rate and are not in-substance fixed payments will be excluded from the measurement of lease assets and liabilities and recognized as expense as incurred or income as earned</td></tr>
<tr><td>• Lessees will reassess variable lease payments based on an index or rate only when lease payments are remeasured for other reasons (e.g., a reassessment due to a change in the lease term)</td><td>• Lessees will reassess variable lease payments based on an index or rate when:
– Lease payments are remeasured for other reasons (e.g., a reassessment due to a change in the lease term)
– There is a contractual change in the cash flows (i.e., when an adjustment to the lease payments based on an index or rate takes effect under the terms of the lease)</td></tr>
<tr><td>Arrangements with Lease and Non-lease Components; Contract Combinations</td><td colspan="2">• Activities (or costs of the lessor) that do not transfer a good or service to the lessee (e.g., taxes and insurance on the property) will be considered part of the lease (i.e., not separate components in a contract)
• Lessors will always separate lease and non-lease components and allocate consideration using the new revenue standard’s guidance (i.e., on a relative stand-alone selling-price basis)
– Reallocate consideration when there is a contract modification that is not accounted for as a separate, additional lease
• Lessees will choose an accounting policy by class of underlying asset to either:
– Separate lease and non-lease components and allocate consideration based on relative stand-alone prices of components, maximizing the use of observable information
  • Reallocate consideration when: (a) there is a reassessment of either the lease term or whether exercise of a lessee purchase option is reasonably certain, or (b) there is a contract modification that is not accounted for as a separate, additional lease</td></tr>
</table>

Redeliberations of 2013 Exposure Drafts		
Topic	**FASB Decisions**	**IASB Decisions**
	– Account for lease and non-lease components together as a single lease component • Two or more contracts entered into at or near the same time will be combined into a single transaction if: – The contracts are negotiated as a package with a single commercial objective, or – The amount of consideration to be paid in one contract depends on the price or performance of the other contract	
Lease Modifications	• Lease modifications will be defined as *any* change to the contractual terms and conditions of a lease that was not part of the original terms and conditions • A modification will be considered a separate lease when it grants the lessee an additional ROU that was not included in the original lease and that ROU is priced commensurate with its stand-alone price in the context of that particular contract • For lessees, when a modification is not considered a separate, additional lease: – If the modification does not reduce the lessee's ROU (e.g., right to use the leased asset for an additional time period), the ROU asset will be adjusted by the amount of the adjustment to the lease liability – If the modification reduces the lessee's ROU, the modification will be treated as a full or partial early termination of the lease with a resulting income statement effect • For lessors, when a modification is not considered a separate, additional lease: – Operating lease modifications will be treated as a new lease, and • If the modified lease is a sales-type or direct financing lease, the lessor will adjust the discount rate so that the initial net investment in the modified lease is measured in accordance with the new standard, net of any prepaid or accrued rent • If the modified lease is an operating lease, the lessor will consider prepaid or accrued rent as part of the lease payments for the new lease – Finance lease modifications • If the modified lease is a sales-type or direct financing lease, the lessor will adjust the discount rate so that the initial net investment in the modified lease equals the carrying amount of the net investment in the original lease[11]	

[11] The new leases standard will include specific guidance for how to account for a lease modification if the original lease is a direct financing lease and the modified lease is a sales-type lease.

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<tr><th>Topic</th><th>FASB Decisions</th><th>IASB Decisions</th></tr>
<tr><td></td><td colspan="2">• If the modified lease is an operating lease, the lessor will recognize the underlying asset at the carrying amount of the net investment in the original lease</td></tr>
<tr><td rowspan="2">Subleases</td><td colspan="2">• A lessee-sublessor will account for the head lease and the sublease as two separate contracts unless those contracts meet the contract combinations guidance
– The head lease will be accounted for in accordance with the requirements for lessee accounting
– The sublease will be accounted for in accordance with the requirements for lessor accounting
• A lessee-sublessor will not offset lease liabilities and assets arising from a head lease and sublease unless they meet the financial instruments requirements for offsetting in U.S. GAAP or IFRS as applicable
• A lessee-sublessor will not offset lease income from a sublease and lease cost from a head lease unless it meets the requirements for offsetting in other U.S. GAAP or IFRS (e.g., the new revenue standard)[12]</td></tr>
<tr><td>• A sublessor will consider the underlying asset rather than the ROU asset to be the leased asset in determining the classification of the sublease</td><td>• A sublessor will consider the ROU asset to be the leased asset in determining the classification of the sublease</td></tr>
</table>

[12] Members of both Boards believe it is unlikely that sublease income and head lease cost will qualify to be offset if the sublease is classified as an operating lease.

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<tr><th colspan="3">Redeliberations of 2013 Exposure Drafts</th></tr>
<tr><th>Topic</th><th>FASB Decisions</th><th>IASB Decisions</th></tr>
<tr><td rowspan="5">Sale-Leaseback Transactions</td><td colspan="2">Determining Whether a Sale Has Occurred
• A sale-leaseback of the underlying asset will be recognized if the requirements for sale recognition in the new revenue standard are met. The existence of the leaseback will not, on its own, result in a conclusion that control of the asset has not been conveyed to the buyer-lessor.</td></tr>
<tr><td>• If the leaseback would be classified as a sales-type lease, then sale recognition will be precluded
• A repurchase option held by the seller-lessee in a sale-leaseback transaction will preclude sale recognition unless:
– The strike price to repurchase the asset is its fair market value at the date of option exercise, and
– The underlying asset is readily available and non-specialized</td><td>• N/A – single model approach for lessee accounting
• If the seller-lessee has a substantive repurchase option with respect to the underlying asset, sale recognition will be precluded</td></tr>
<tr><td colspan="2">• Both the seller-lessee and the buyer-lessor will account for a sale-leaseback transaction that does not qualify for sale accounting as a financing transaction</td></tr>
<tr><td colspan="2">Accounting for a Sale/Purchase
• A buyer-lessor will account for the purchase of an asset in a sale-leaseback transaction that qualifies for sale accounting consistent with the guidance that applies to the purchase of a nonfinancial asset
• A seller-lessee will account for any loss on a sale-leaseback transaction that qualifies for sale accounting consistent with the guidance that applies to any other sale</td></tr>
<tr><td>• Any gain recognized by a seller-lessee on a sale-leaseback transaction that qualifies for sale accounting will be measured consistent with the guidance that applies to any other sale, subject to any adjustment for off-market terms</td><td>• Any gain recognized by a seller-lessee on a sale-leaseback transaction that qualifies for sale accounting will be restricted to the amount that relates to the buyer-lessor's residual interest in the underlying asset, subject to any adjustment for off-market terms</td></tr>
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<tr><th>Topic</th><th>FASB Decisions</th><th>IASB Decisions</th></tr>
<tr><td></td><td colspan="2">Accounting for the Leaseback
• If a sale-leaseback transaction qualifies for sale accounting, the leaseback will be accounted for in the same manner as any other lease</td></tr>
<tr><td></td><td colspan="2">Accounting for Off-market Terms
• Any potential off-market adjustment will be measured as the more readily determinable of:
– The difference between the fair value of the underlying asset and the sales price, or
– The difference between the present value of fair market value lease payments and the present value of the contractual lease payments
• A deficiency in the transaction terms versus market terms will be accounted for as a prepayment of rent
• An excess in the transaction terms versus market terms will be accounted for as additional financing provided by the buyer-lessor to the seller-lessee</td></tr>
<tr><td>Lessee Presentation – Balance Sheet</td><td colspan="2">• Lessees will present finance lease ROU assets and lease liabilities either as separate line items on the balance sheet or disclose them separately in the notes to the financial statements
– If not separately presented on the balance sheet, lessees will:
• Present finance lease ROU assets on the balance sheet as if the underlying asset were owned
• Disclose in the notes the line items on the balance sheet in which finance lease ROU assets and lease liabilities are included and their amounts</td></tr>
<tr><td></td><td>• Lessees will not include operating ROU assets and lease liabilities in the same line items as finance ROU assets and lease liabilities on the balance sheet
– If not separately presented on the balance sheet, lessees will disclose in the notes the line items on the balance sheet in which operating ROU assets and lease liabilities are included and their amounts</td><td>• N/A – no operating lease classification</td></tr>
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<tr><th>Topic</th><th>FASB Decisions</th><th>IASB Decisions</th></tr>
<tr><td>Lessee Presentation – Statement of Cash Flows</td><td>• Lessees will classify cash paid for:
– Principal on finance lease liabilities as financing activities
– Interest on finance lease liabilities in accordance with the requirements relating to interest paid under U.S. GAAP guidance on cash flows[13]
– Operating leases, variable lease payments, and leases that are not recognized on-balance sheet (e.g., some short-term leases) as operating activities</td><td>• Lessees will present cash paid for:
– Principal on lease liabilities as financing activities
– Interest on lease liabilities as either operating or financing activities based on the lessee's accounting policy choice under IFRS guidance on cash flows[14]
– Variable lease payments and leases that are not recognized on-balance sheet (e.g., some short-term leases) as operating activities
• Lessees will disclose total lease payments in the notes to the financial statements</td></tr>
<tr><td rowspan="2">Lessee Disclosures</td><td colspan="2">• Objective: Enable financial statement users to understand the amount, timing, and uncertainty of cash flows arising from leases</td></tr>
<tr><td>• Lessees will disclose the following qualitative information:
– Nature of leases (and subleases)
– Leases that have not yet commenced, but that create significant rights/obligations
– Significant lease accounting judgments and assumptions
– Main terms and conditions of sale-leaseback transactions
– Whether an accounting policy election was made for the short-term lease exemption</td><td>• Lessees will disclose other information, in addition to the quantitative disclosures, in sufficient detail to satisfy the lessee disclosure objective</td></tr>
</table>

[13] FASB ASC Topic 230, Statement of Cash Flows, available at www.fasb.org.

[14] IAS 7, Statement of Cash Flows.

Redeliberations of 2013 Exposure Drafts		
Topic	**FASB Decisions**	**IASB Decisions**
	• Lessees will disclose the following *quantitative* information:	
	In any format the lessee considers appropriate	In a tabular format, unless another format is more appropriate
	– Amortization of ROU assets and interest on lease liabilities (including capitalized interest)	
	• For finance leases only – N/A	• Amortization split by class of underlying asset – Additions to ROU assets – Carrying amount of ROU assets, split by class of underlying asset
	– Short-term lease cost (when lease term > 30 days) – Variable lease cost – Sublease income – Gains (losses) on sale-leaseback transactions	
	– Operating lease cost – N/A – Cash paid for lease payments, separately for finance and operating leases and segregated between operating and financing cash flows – Supplemental noncash information on lease liabilities exchanged for ROU assets, separately for finance and operating leases – Weighted-average remaining lease term, separately for finance and operating leases – Weighted-average discount rate as of the balance sheet date, separately for finance and operating leases	– N/A – Expense relating to leases of low-value assets – Total cash outflow for leases – N/A

Redeliberations of 2013 Exposure Drafts		
Topic	**FASB Decisions**	**IASB Decisions**
	– A maturity analysis of lease liabilities for each of the first five years after the balance sheet date and in total thereafter, including a reconciliation of undiscounted cash flows to lease liabilities on the balance sheet	– A maturity analysis of lease liabilities in accordance with IFRS guidance on financial instruments, separate from the maturity analysis for other financial liabilities[15]
Lessor Presentation	• Lessors will present lease assets and liabilities and income and expense generally consistent with the current IFRS guidance on leases • Lessors will classify all cash inflows from leases as operating activities in the statement of cash flows	
Lessor Disclosures	*General* • A lessor will disclose the following information about its leases: – A general description of its leases – The basis, and terms and conditions, on which variable lease payments are determined – The existence, and terms and conditions, of options to extend or terminate the lease – The existence, and terms and conditions, of options for a lessee to purchase the underlying asset – Information about the significant assumptions and judgments made in accounting for its leases, which may include: • The determination of whether a contract contains a lease • The allocation of the consideration in contracts that contain a lease between lease and non-lease components • The initial measurement of the residual asset • Information about managing the risk associated with the residual asset – A table of lease income received during the reporting period – A maturity analysis of (a) the undiscounted cash flows comprising a lessor's lease receivables (for sales-type and direct financing leases), and (b) the undiscounted future lease payments (for operating leases) for each of the first five years and a total thereafter	

[15] IFRS 7, Financial Instruments: Disclosures.

Redeliberations of 2013 Exposure Drafts		
Topic	**FASB Decisions**	**IASB Decisions**
	• For sales-type and direct financing leases, the amounts included in the maturity analysis will be reconciled to the balance of lease receivables presented separately in the balance sheet or disclosed separately in the notes. A lessor will present the operating lease maturity analysis separately from the maturity analysis required for sales-type and direct financing leases.	
	Operating Leases • General property, plant, and equipment disclosures for assets subject to operating leases by significant class of underlying asset separately from those disclosures for the lessor's other owned assets	
	Direct Financing Leases	*Finance Leases*
	• An explanation of the significant changes in the balance of unguaranteed residual assets and deferred selling profit	• A qualitative and quantitative explanation of the significant changes in the net investment in finance leases during the reporting period
Lessee Transition	• Modified retrospective transition: – Required for all leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements – Will not require transition accounting for leases that expired prior to the date of initial application	• Full retrospective approach or modified retrospective approach: – Under the modified retrospective approach, a lessee will not restate comparative information – At initial application date, recognize the cumulative effect of application as an adjustment to the opening balance of retained earnings (or other equity component as appropriate)
	• Lessees may elect certain specified reliefs, which must be elected as a package and applied to all leases.	• N/A
	• Lessees may use hindsight in evaluating whether payments for lease renewals and purchase options should be included in lease payments when accounting for existing leases. This practical expedient may be elected separately or in conjunction with	• N/A

Redeliberations of 2013 Exposure Drafts		
Topic	**FASB Decisions**	**IASB Decisions**
	the package of specified reliefs, and must be applied to all leases	
Lessor Transition	• Modified retrospective transition – Required for all leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements – Will not require any transition accounting for leases that expired prior to the date of initial application	• Continue to apply existing accounting for any leases that are ongoing at the date of initial application, except for intermediate lessors in a sublease • Intermediate lessors in subleases reassess each ongoing operating sublease at the date of initial application to determine whether under the new standard it is classified as an operating lease or a finance lease, based on the remaining contractual terms of the head lease and the sublease • For subleases that were classified as operating leases under current IFRS guidance on leases, but finance leases under the new standard, account for the sublease as a new finance lease entered into on the date of initial application
	• Lessors may elect certain specified reliefs, which must be elected as a package and applied to all leases	• N/A
	• Lessors may use hindsight in evaluating whether payments for lease renewals and purchase options should be included in lease payments when accounting for existing leases. This practical expedient may be elected separately or in conjunction with the package of specified reliefs, and must be applied to all leases	• N/A