



Public Discussion on ED/2013/6 *Leases*

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RoU = right of use



1. Preliminary note and overview

Questions raised in the ED:

- | | |
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1. Preliminary note and overview

Classification of a lease (no reassessment after the commencement date)

Type A lease

Significant consumption of the economic benefits

„More than an insignificant consumption of the economic benefits embedded in the underlying asset during the lease.“

As a rule: - other than property
Exception via: - PV-test
- lease term-test

Option to purchase with significant economic incentive to exercise

Type B Lease

Insignificant consumption of the economic benefits

„Insignificant consumption of the economic benefits embedded in the underlying asset during the lease.“

As a rule: - property
Exception via: - PV-test
- lease term-test

1. Preliminary note and overview

Significant consequences triggered by the classification

Type A Lease

Type B Lease

Lessee

Statement of profit or loss (P&L)

- Amortisation
- Unwinding of the discount
- Lease expense stemming from variable lease rates

- Lease expense (straight line over lease term)
- Lease expense stemming from variable lease rates

SoFP of lessee: recognition RoU-asset for both types of leases

Lessor

Statement of financial position (SoFP)

- **at commencement of lease**
 - Recogn. of receivable
 - Derecogn. asset
 - Recogn. residual
- **Subsequent periods**
 - Follow-up of recognised items

with partial recognition of profit / loss

- Treatment in accordance with IAS 17 for operating leases

P&L of lessor: in analogy to lessee



2. Scope

To be applied to all leases (ED.4), incl. subleased RoU assets, except for the following

- leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (=> **IFRS 6**)
- leases of biological assets (=> **IAS 41**)
- Service concession arrangements within the scope of **IFRIC 12**
- leases of intangible assets for **lessors**

Lessees (ED.5) need not apply the guidance per ED to leases of intangible assets.

Other issues discussed (in ED/2010/9 or in the course of the redeliberations):

- onerous contracts
- leasing inventory
- leasing non-Core assets

- embedded derivatives
- Build-to-Suit leases

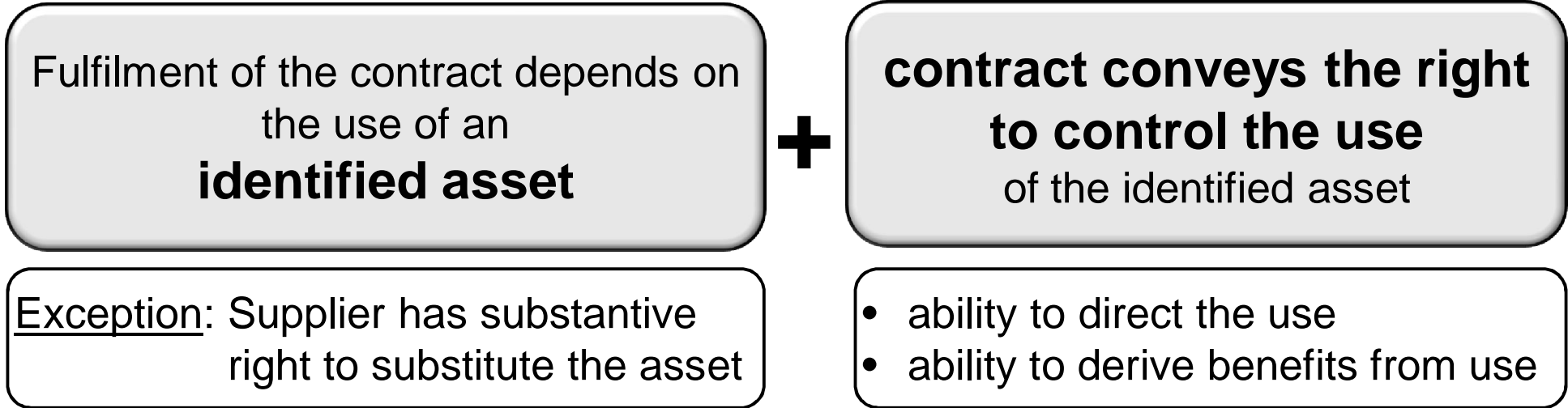


3. Identifying a lease

Definition **lease** (ED.6 and App. A): a contract that conveys

- the right to use an asset (the underlying asset)
- for a period of time
- in exchange for consideration

2 requirements must be met (ED.7-19):



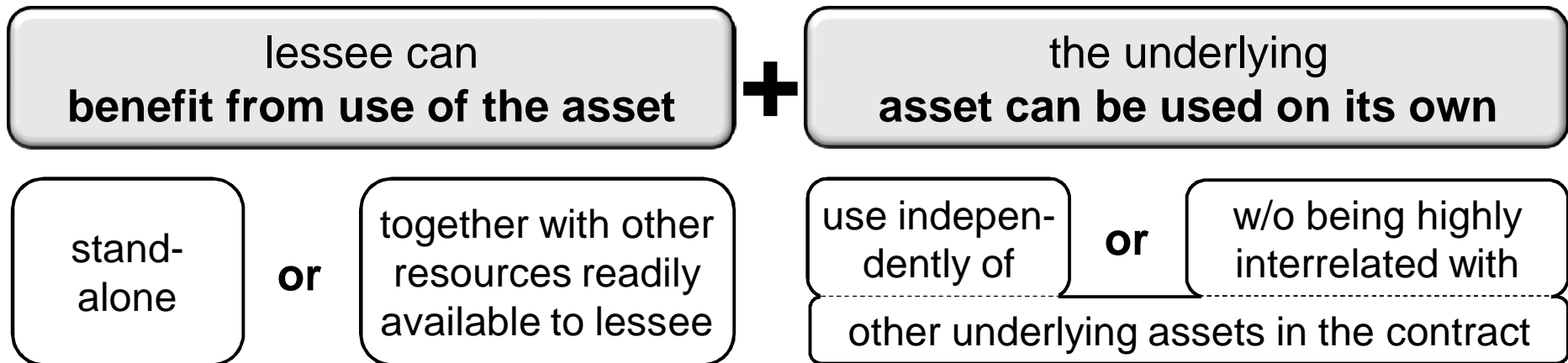
- ✓ Physical distinct portion of an asset
- ⊗ Capacity portion of an asset



3. Identifying a lease

Separating components of a contract (ED.20)

=> separate lease component



Allocation of consideration (*Lease- and Non-Lease-components*):

- **Lessor** (ED.22): para. 70 – 76 of the announced IFRS *Revenue Recognition*
- **Lessee** (ED.23): three-staged approach
 - observable stand-alone prices for each component,
 - if observable stand-alone prices not for all components: => retrograde approach
 - if no observable stand-alone prices at all: treat as single lease component



3. Identifying a lease



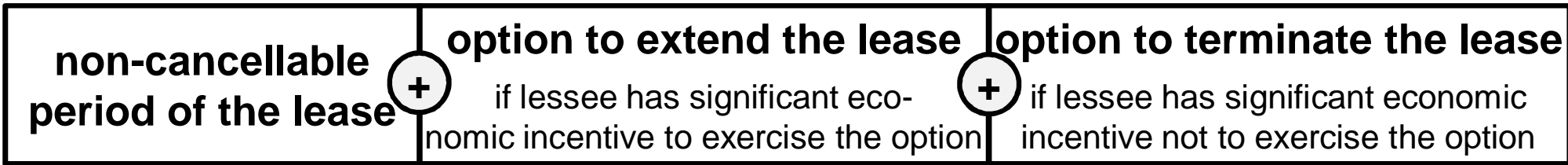
Question 1 – **identifying a lease:**

Do you agree with:

- the **definition of a lease** and
- the further **specifications in ED.6-19** as to whether the contract contains a lease?



4. Lease term (ED.25-27 and B2-B6)



- **significant economic incentive:** to be considered together:
 - contract-based ① ② asset-based
 - entity-based ③ ④ market-based
- **reassessment if**
 - **change in relevant factors** (see above), that would result in the lessee having or no longer having a significant economic incentive
(Δ in market-based factors is, in isolation, not sufficient)
 - **for lessees additionally, if** election to exercise an option even though the entity had previously determined that the lessee did not have a significant economic incentive to do so or the other way round



4. Lease term

Short-term leases (defined as follows – [ED.A](#)):

- A lease that, at the commencement date, has a maximum possible term under the contract including any options to extend, of 12 months or less;
if there is a purchase option, the lease is not a short-term lease.

Accounting policy choice for short-term leases ([ED.118-120](#))

- not to apply ED-guidance with respect to lease term, classification, recognition, measurement and presentation, instead
- **lessee** – recognise lease expense straight-line over the lease term,
- **lessor** – recognise lease income straight-line over the lease term or based on another systematic basis, if it is more representative for the earnings-pattern
- policy choice shall be made by class of underlying assets
- if this option is chosen, disclosure is required

Other issues discussed (in ED/2010/9 or in the course of redeliberations):

- Cancellable leases (ED.BC107 ff.)



4. Lease term

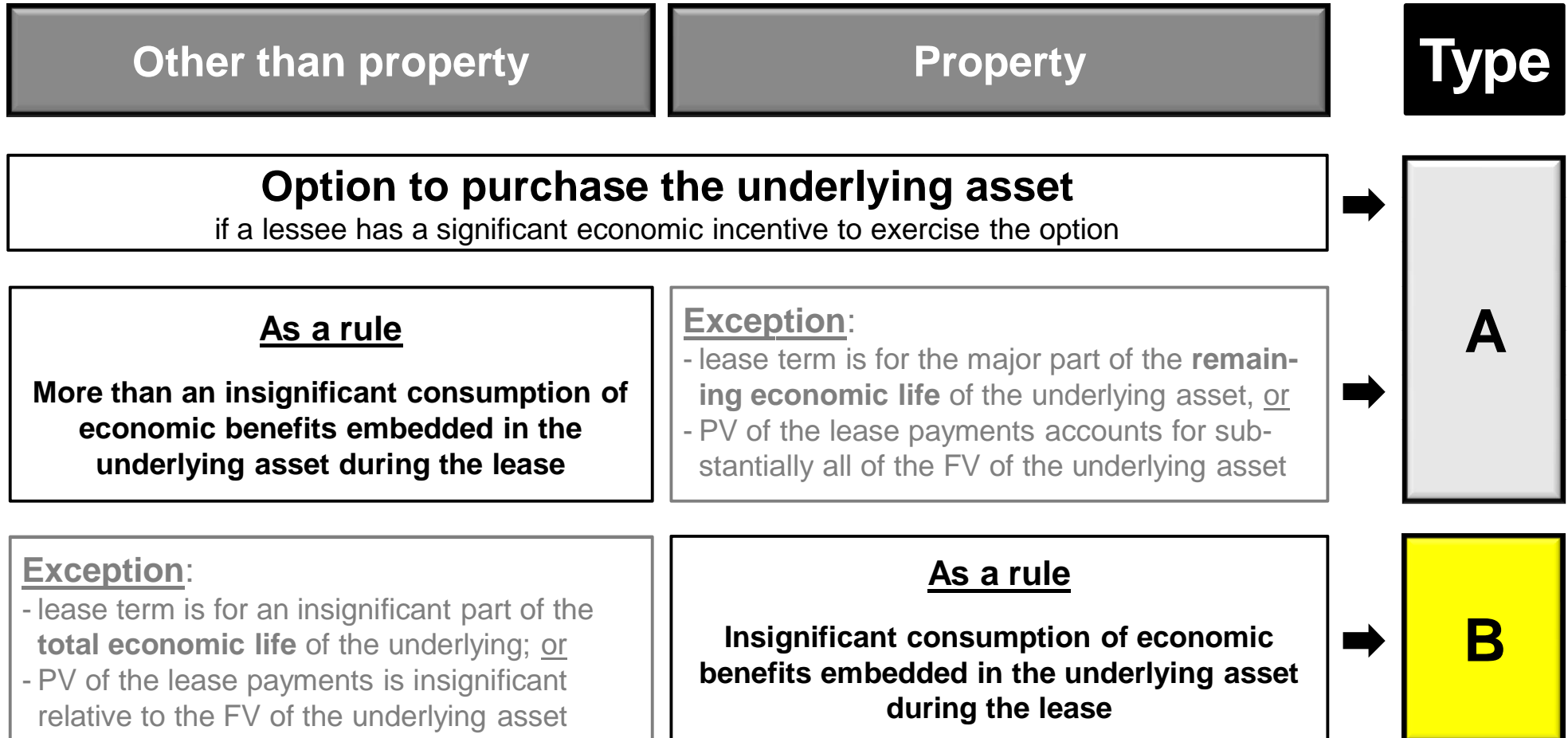


Question 5 – lease term:

Do you agree with the proposals to determine the lease term, including the requirement to reassess the lease term if there is a change in relevant factors?

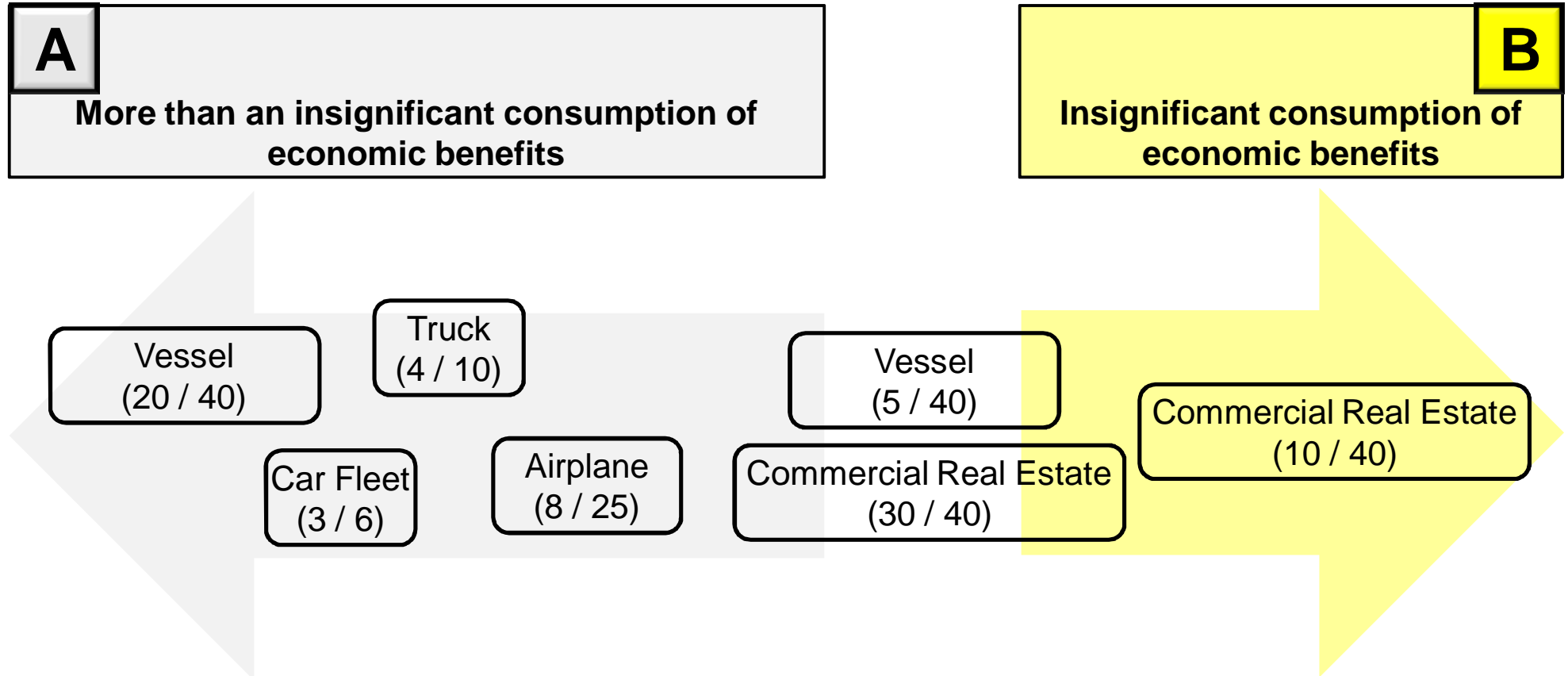
5. Classification (ED.28-35)

Classification at commencement date w/o subsequent reassessment



5. Classification

Classification at commencement of the lease w/o subsequent reassessment



Information provided in brackets: (term of the lease/ useful life of the asset); in years

Source: taken from presentations given by IASB-members in late 2012 (albeit modified)



5. Classification

Specific guidance

- **a lease component contains the right to use more than one asset (ED.32)**

refer to the useful life of the primary asset for classification

- **a component contains both land and a building (ED.33)**

refer to the useful life of the building for classification

- **subleases (ED.34)**

refer to the underlying asset for classification (rather than to the RoU asset)

- lessee: if accounting policy choice has been made as follows:

ED.35

- at FV in cases IAS 40 applies or
- revaluation model is applied

then no classification needs to be made

=> **however**, for presentation and disclosure purposes, follow Type A guidance



5. Classification



Question 4 – **classification of leases:**

Do you agree to the principle proposed to classify leases (ie the lessee's expected consumption of the economic benefits embedded in the underlying asset)?



6. Contract modifications

Substantive changes to the existing lease (ED.36)

- account for the modified contract as a new contract at the date that the modification becomes effective
- recognise any difference in carrying amounts 'before vs. after' in profit or loss



7. Lessee accounting

① **Recognition** at the commencement date (ED.37):

- **DR** RoU asset **CR** lease liability

② **Initial measurement** (ED.38-40, B7-B11):

- **lease liability** (at the PV of the lease payments discounted using the rate the lessor charges the lessee (or alternatively: at lessee's incremental borrowing rate)):

- fixed payments (less any lease incentives receivable from the lessor)
- + variable lease payments
 - index- or rate-based (as per commencement date)
 - in-substance fixed
- + amounts expected to be payable under residual value guarantees
- + exercise price of a purchase option (if lessee has significant incentive to exercise)
- + payments for penalties to terminate the lease term
 - (if the lease term reflects the lessee exercising an option to terminate the lease)
- **RoU asset**: lease liability + lease payments before commencement date
 - lease incentives received from the lessor + IDC



7. Lessee accounting

③ Subsequent measurement (ED.41)

- **lease liability**

- ↑ unwinding of the discount on the lease liability
- ↓ lease payments

- **RoU asset**

- ↓ amortisation
- ↓ impairment losses

④ Recognition in profit or loss (ED.42)

- **Type A leases** (generally all assets other than property)

- separately **unwinding of the discount (interest)** and **amortisation**

- **Type B leases** (generally property)

- **single lease cost** (= interest + amortisation) => straight line over the lease term;
but not less than the periodic unwinding of the discount on the lease liability



- **variable lease payments** (not included in the lease liability): to be expensed as incurred



7. Lessee accounting

⑤ Subsequent measurement – specific issues (ED.43-53)

- **reassessment of the lease liability**

- **reassess lease payments if there is a change in any of the following**

- Δ lease term + Δ assessment regarding option to purchase the underlying asset +
Δ residual value guarantee + Δ index / rate (per end of reporting period)

- **reassess discount rate if there is a change in any of the following**

- Δ lease term + Δ assessment regarding option to purchase the underlying asset +
Δ reference interest rate

unless, the possibility of change was reflected in determining the discount rate at the commencement date


- **recognition of amounts stemming from the remeasurement**

- basic principle – corresponding adjustment to RoU-asset: not effecting net income
- due to Δ index / rate and regarding current period: effecting net income
- if carrying amount RoU-asset = 0 => remaining amount: effecting net income



7. Lessee accounting

⑤ Subsequent measurement – specific issues

- **amortisation of the RoU-asset**
 - **Type A lease** (discrete P&L line-item „amortisation“)
 - straight-line, unless another systematic basis is more representative of the pattern in which the lessee expects to consume the RoU-asset’s future economic benefits
 - amortisation period: **from** the commencement date **to** the earlier of the end of the useful life of the RoU-asset or the end of the lease term;
if significant economic incentive to exercise a purchase option: the amortisation period is determined by the useful life of the underlying asset
 - otherwise depreciation requirements of IAS 16 shall be applied
 - **Type B lease** (expense aggregated to one P&L line-item = lease expense)
 - Δ between „periodic lease cost“ and „periodic unwinding of the discount“ 
- **impairment of the RoU-asset: IAS 36**
- **alternative measurement bases for the RoU-asset**




7. Lessee accounting

⑥ Presentation (ED.54-57)

- **statement of financial position / alternative disclosure in the notes:**
 - RoU-assets (separately from other assets), separately Type A and B leases and leases measured at revalued amounts
 - lease liabilities (separately from other liabilities), separately Type A and B leases

<u>if</u>	no separate presentation,
<u>then</u>	present RoU-assets within the same line item as the corresponding underlying assets if owned,
<u>and</u>	disclose which line items in the SoFP include RoU-assets and lease liabilities

- **statement of profit or loss and other comprehensive income:**
Type A: unwinding of the discount and amortisation – **Type B:** one expense line item 
- **statement of cash flows**
 - **Type A** – payments of lease-principals excl. interest: **financing activities**
 - payments of interest-portion: **in accordance with requirements of IAS 7**
 - **Type B** – payments of total lease rates: **operating activities**
 - payments of variable lease rates and short-term leases: **operating activities**



7. Lessee accounting



Question 2 – lessee accounting:

Do you agree that lessee accounting should differ for different types of leases?

Question 6 – variable lease payments:

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments?



7. Lessee accounting

⑦ Disclosure (ED.58-67)

- **Objective**

Enable users of financial statements to understand, with respect to leases:

- amount,
- timing, and
- uncertainty.

Purpose of the disclosures is making available (qualitatively and quantitatively)

- (1) information about an entity's leases
- (2) the significant judgements made in applying the guidance to those leases, and
- (3) the amounts recognised in the financial statements relating to those leases.

Consideration of the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements **by the lessee**.



7. Lessee accounting

⑦ Disclosure

- **basic information**
 - **nature of the leases**
 - **leases that have not yet commenced**
 - **significant assumptions and judgements** made in applying the ED
- **reconciliation of opening and closing balances**
 - for **RoU-assets** (by classes of underlying asset, separately for RoU-assets with respect to Type A, B and revalued leases)
 - as an option not for RoU-assets, which are valued at FV (in line with IAS 40)
 - for **lease liabilities** (separately for Type A und B leases)
- **if revaluations**: date of revaluation + the amount of revaluation surplus
- **variable lease payments** (not recognised as part of the lease liability)
- **information (IAS 7) on non-cash transactions** for Type A und B leases (see IAS 7)
- **maturity analysis**: undiscounted for years 1-5 & for Σ of remainder; reconciliation to SoFP



7. Lessee accounting



Question 8 – **disclosure**:

Do you agree with the proposed disclosure requirements for lessees?



8. Lessor accounting

① Overview

- **Type A leases**

- derecognition of the underlying asset
- recognition of a lease receivable and a residual asset
- recognition of any resulting profit or loss on the lease in profit or loss (proportionally)

- **Type B leases**

- follow an approach pretty much in line with IAS 17 for operating leases



8. Lessor accounting – Type A leases

② Recognition at the commencement date (ED.68)

- **DR** lease receivable and residual asset
- **CR** (carrying amount of the) underlying asset
- **CR** profit or loss on the lease (based on an COGS- and a revenue entry)

③ Initial measurement (ED.69-75)

- **lease receivable = PV of the lease payments** (as follows) discounted using the rate the lessor charges the lessee **+ IDC:**

fixed payments (less any lease incentives payable to the lessee)

- + variable lease payments – index- or rate-based (as per commencement date)
- in-substance fixed

- ➔ + payments structured as residual value guarantees
- + exercise price of a purchase option with significant economic incentive to exercise
- + payments for penalties to terminate the lease
(if the lease term reflects the lessee exercising an option to terminate the lease)



8. Lessor accounting – Type A leases

③ Initial measurement

- **residual asset:**

gross residual asset: PV of amount lessor expects to derive from the underlying asset following the end of lease term (based on rate lessor charges the lessee)

A

+ **PV of expected variable lease payments**, which are

→ not included in the measurement of the lease receivable

→ to the extent included as expectation in determining the interest rate

B

- **any unearned profit:**

→ if at commencement date $FV >$ carrying value of the underlying asset:
profit proportionally to be attributed to the lease

$(X = [FV - \text{carrying amount}] \times [\text{lease receivable} / FV]);$

$\text{unearned profit} = [FV - \text{carrying amount}] - X$

C



8. Lessor accounting – Type A leases

④ Subsequent measurement (ED.76 ff.)

- **lease receivable**

- ↑ unwinding of the discount
- ↓ payments of the lease rate

- **residual asset (ED.82-83)**

- ↑ unwinding of the discount
- if variable lease rates were factored into determining the interest rate (but are not part of the lease receivable - see preceding slide 'initial measurement'):
 - ↓ derecognition (proportionally) of these payments – effecting net income

⑤ Recognition in profit or loss (ED.77)

- **unwinding of discount** on the lease receivable (= interest income)
- **unwinding of discount** on the gross residual asset (= interest income)
- **variable lease payments** (which are not part of the measurement of the lease receivable)
=> recognise as incurred



8. Lessor accounting – Type A leases

⑥ Subsequent measurement – specific issues

- **Reassessment of lease receivable and adjustment of carrying amounts (ED.78-81)**
 - **reassess lease payments if there is a change in any of the following**
 - Δ lease term + Δ assessment regarding option to purchase the underlying asset + Δ index / rate (per end of reporting period)
 - **reassess discount rate if there is a change in any of the following**
 - Δ lease term + Δ assessment regarding option to purchase the underlying asset + Δ reference interest rate

unless, the possibility of change was reflected at the commencement date
- => adjustment also of the residual asset (ED.78 (a)), if changes caused by**
 - Δ lease term + Δ assessment regarding option to purchase the underlying asset
- => Δ lease receivable **and** residual asset (comparing ‘before’ and ‘after’ reassessment)**
 - recognise in profit or loss (ED.78 (b))



8. Lessor accounting – Type A leases

⑥ Subsequent measurement – specific issues

- **impairment**
 - **lease receivable**: IAS 39 to be applied (collateral to be observed; [ED.84](#))
 - **residual asset**: IAS 36 to be applied ([ED.85](#))
- **residual asset as per end of lease or on (early) termination** ([ED.86-87](#))
 - **regular end of the lease**:
 - reclassification of the residual asset to the appropriate category of asset
 - **early termination** (accounting for underlying asset taken back):
 - **step 1** – test the lease receivable for impairment (IAS 39)
 - **step 2** – reclassify
 - (1.) lease receivable (less any amounts still expected to be received) +
 - (2.) residual assetin accordance with applicable IFRSs to appropriate category of the asset
 - **step 3** – account for the asset in accordance with the applicable standard



8. Lessor accounting – Type A leases

⑦ Presentation (ED.88-92)

- **statement of financial position:**
 - ‘lease assets’ (= Σ lease receivables + residual assets) separately from other assets !
- **SoFP or disclosure:**
 - lease receivable and residual asset (present separately or disclose)
- disclose separately in **statement of profit or loss and other comprehensive income** or **disclose:**
 - income arising from leases; **if** information is disclosed: information required, in which line items they are presented
- **profit or loss recognised on the lease at the commencement date:**
 - presentation / disclosure in a manner that best reflects business model(s) of lessor
- **cash flow statement:**
 - classify cash receipts from lease payments within operating activities



8. Lessor accounting – Type B leases (ED.83-97)

① Lease income

- either to be recognised straight-line over the lease term
- or – if another systematic basis is more representative – then use this basis

② IDC – initial direct cost

- recognise on the same basis as lease income

③ Variable lease payments

- recognise in the period in which that income is earned

④ Accounting for the underlying asset

- to be measured and presented in accordance with other applicable standards

⑤ Statement of cash flows

- classify cash receipts from lease payments within operating activities

Basically the same treatment
as for operating leases under IAS 17



8. Lessor accounting – Type A & B leases



Question 3 – **lessor accounting**:

Do you agree to the different approaches proposed for lessor accounting depending on the type of the lease?

Question 6 – **variable lease payments**:

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments?



8. Lessor accounting – Type A & B leases

Disclosure ([ED.98-109](#))

- **Objective**

Enable users of financial statements to understand, with respect to leases:

- amount,
- timing, and
- uncertainty.

Purpose of the disclosures is making available (qualitatively and quantitatively)

- (1) information about an entity's leases
- (2) the significant judgements made in applying the guidance to those leases, and
- (3) the amounts recognised in the financial statements relating to those leases.

Consideration of the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements **by the lessor**.



8. Lessor accounting – Type A & B leases

Disclosure

- **basic information**
 - **nature of the leases**
 - **significant assumptions and judgements**
made in applying the ED
- **lease income recognised in the reporting period, in a tabular format, including**
 - Type A leases
 - profit or loss at the commencement date
 - the unwinding of the discount on the lease receivable
 - the unwinding of the discount on the gross residual asset
 - Type B – lease income relating to the lease payments
 - variable lease payments (not included in the measurement of the lease receivable)
 - short-term lease income



8. Lessor accounting – Type A & B leases

Disclosure

- **additional disclosures – only type A leases**
 - **reconciliation of the opening and closing balances**
 - for the lease receivable
 - for the residual asset
 - **IFRS 7.31-42H with respect to leases** (risks arising from leases)
 - however in place of the maturity analyses required by IFRS 7.37 (a) for lease receivables => undiscounted for years 1-5 and for Σ of remainder; reconciliation of the undiscounted cash flows to the lease receivable recognised in the SoFP
 - **information about how the risk is managed associated with residual assets**
strategy – residual value guarantees – other means
- **additional disclosures – only type B leases**
 - **maturity analysis** of lease payments
undiscounted for years 1-5 and for Σ of remainder; separately from Type A leases



8. Lessor accounting – Type A & B leases



Question 8 – disclosure:

Do you agree with the proposed disclosure requirements for lessors?



9. IAS 40

① Lessees (ED.52):

- **principle:** if definition of *investment property* for a **RoU-asset of property** is met,
=> measurement + disclosure: IAS 40 must be applied
- **initial measurement:** in accordance with guidance of ED/2013/6 (IAS 40.25 rev)
- **subsequent measurement:** accounting policy choice
(however, as a basic principle to be applied to all *investment properties*)
 - cost model (in which case the guidance of ED/2013/6 is to be applied),
 - FV-model (incl. variable lease payments)
- in this case: it is optional to provide **disclosures required by ED.61 (ED.62)**
 - ie the reconciliation of the opening and closing balances of the RoU-assets
(by classes of leased items, separately for type A, B and revalued RoU-assets)

② Lessors

- if definition of *investment property* is met – measurement + disclosures in line with IAS 40:
✓ **type B leases** ✓ **short-term leases** ✗ **type A leases (= residual assets)**



9. IAS 40



Question 12 – consequential amendments to IAS 40:

Do you agree that a lessee's RoU-asset should be within the scope of IAS 40 if the leased property meets the definition of investment property?



10. Sale and leaseback (ED.110-117)

- ① **Determining whether the transfer of the asset is a sale:** new IFRS *Revenue*
- ② **Transfer of the asset is a sale** (ie lessor obtains control):
 - **transferor / transferee** account for the sale / purchase in accordance with applicable IFRSs and for the lease in accordance with the guidance of the ED
 - **if not at FV:** sale / purchase and lease transaction need to be adjusted
- ③ **Transfer of the asset is not a sale** (ie lessor does not obtain control):
 - **transferor** shall not derecognise the asset and account for amounts received as a financial liability in accordance with applicable standards
 - **transferee** does not recognise the transferred asset and accounts for payments made as a receivable in accordance with applicable standards
- ④ **Disclosure:** transferor and transferee need to make general disclosure per ED
 - additional disclosures to be provided by transferor: main terms and conditions of the transaction and gains or losses stemming from such transactions



11. Transition

Principle:
modified retrospective approach
(ED.C2)

Option:
retrospective approach
(ED.C6)

<p>Simplifications</p>	<p>Reliefs available</p>	<p>Carryover finance lease</p>	<p>Transition for operating leases – lessee –</p>
<ul style="list-style-type: none"> • Date of transition Beginning of earliest comparative period • Basis of information Information as available per that date <p>(ED.C5)</p>	<ul style="list-style-type: none"> • Use of hindsight • IDC need not be included in the measurement of the RoU-assets / lease receivable <p>(ED.C7)</p>	<ul style="list-style-type: none"> • No adjustments are necessary for the carrying amounts of finance lease balance sheet items <p>(ED.C10-C12 lessees; ED.C16-C18 lessors)</p>	<ul style="list-style-type: none"> • lease liability: PV of remaining lease payments • RoU-asset (type A): = lease liability $t_0 \times$ % remaining term • RoU-asset (type B): = lease liability <p>(ED.C8-C9)</p>



11. Transition



Question 7 – **transition**:

Do you agree with the proposed **modified retrospective approach** and the option provided that entities may apply all of the requirements of the ED retrospectively in accordance with IAS 8?



ED/2013/6 Leases



Overall assessment of the proposed requirements in ED/2013/6 *Leases*



Many thanks for your attention!

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