

STAFF PAPER

March 2015

Accounting Standards Advisory Forum

Project	Leases
Paper topic	Project finalisation
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Objective of the meeting

36. Sitzung IFRS-FA am 05.03.2015
36_04b_IFRS-FA_Leases_ASAF

1. Since the December 2014 ASAF meeting, the IASB has completed redeliberations on most aspects of the leases project, as described below. We are now moving into the finalisation stage of the project.
2. The IASB expects to issue a new *Leases* Standard before the end of 2015. At that time, the IASB will also publish an Effects Analysis describing (a) the likely effects of the changes to the accounting requirements for leases, and (b) the work that the IASB has undertaken throughout the project to assess those effects.
3. At this meeting we are seeking the advice of the ASAF members on the content and communication of the effects of the new *Leases* Standard.

Update on the project since the December 2014 ASAF meeting

4. The IASB has reached tentative decisions on the following topics since the December 2014 ASAF meeting:
 - (a) the definition of a lease (discussion finalised in December 2014, with no change to the tentative decisions reached by the IASB and the FASB in October 2014. The boards have jointly agreed the definition of a lease and the guidance supporting that definition);
 - (b) lessee disclosures (discussed in January 2015);

- (c) transition requirements (discussed in February 2015); and
 - (d) small asset leases (discussed in February 2015—the IASB reaffirmed its previous tentative decision to provide an exemption for small asset leases).
5. Regarding disclosures, the boards have changed the disclosures proposed in the 2013 ED based on the feedback received in order to provide the most relevant information to investors and analysts at a reasonable cost for preparers. So, for example, a lessee is required to provide a breakdown of lease costs (eg amortisation, interest, variable lease expenses) and information about lease cash flows, but is not required to provide information about lease assets and liabilities beyond that required for other non-financial assets or financial liabilities.
6. Regarding transition, the IASB tentatively decided to provide substantive cost relief, with the main decisions being as follows:
- (a) A lessee is not required to restate comparatives, nor is it required to apply the new *Leases* Standard to leases ending within 12 months of the date of transition. Instead, it would calculate a cumulative catch up adjustment at the date of transition for leases ongoing at that date.
 - (b) A lessee has a choice of how to measure the right-of-use (ROU) asset on transition. We think this choice will be ‘self-policing’ in the sense that the least costly option (which is to measure the ROU asset based on the lease liability measurement) would result in higher future amortisation expenses than the more costly option (which is based on retrospective measurement). Because of this, we anticipate lessees choosing to measure ROU assets on a retrospective basis for leases that are particularly significant.
 - (c) An entity is not required to reassess whether a contract contains a lease—it can carry forward its previous assessment under IFRIC 4 *Determining whether an Arrangement contains a Lease*.
7. The discussions remaining include a paper asking the IASB for permission to ballot (which will include an overview of the tentative decisions and an assessment of compliance with the IASB’s due process requirements). This will

be discussed in March 2015. We will also bring papers on the effective date and any sweep issues that arise to future board meetings.

The likely effects of the new *Leases* Standard

8. As mentioned above, when the new *Leases* Standard is issued, the IASB will also publish an Effects Analysis describing (a) the likely effects of the changes to lease accounting, and (b) the work that the IASB has undertaken to assess those effects.
9. We gather information about the likely effects of any new requirements throughout the course of a project. On the leases project, we have provided information about some of the likely effects of the new *Leases* Standard at various stages of the project—for example, the basis for conclusions to the 2013 ED (paragraphs BC329-BC466) included the IASB’s assessment of the likely effects at that time and based on the proposals within the 2013 ED. In March 2014, agenda paper 3I¹ included some additional quantitative information about the likely effects. Some of that information as well as additional information on quantitative effects was included in the *Leases* Project Update² published in August 2014.
10. Our initial thoughts are that the Effects Analysis would include the following information:
 - (a) An overview of the lease accounting requirements in the new *Leases* Standard;
 - (b) The likely effects of the new requirements on reported information;
 - (c) Information about the entities that are likely to be most affected (eg particular industry sectors or particular regions);
 - (d) The likely benefits of the new requirements;
 - (e) The likely costs of applying the new requirements, to include costs on initial application as well as ongoing costs;

¹ <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/March/3I-Leases-Education%20session%20cover%20memo.pdf>

² <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/Project-Update-Leases-August-2014.pdf>

- (f) The likely effects on key financial ratios; and
 - (g) Other possible effects of the new *Leases* Standard, such as the possible effect on:
 - (i) the cost of borrowing and debt covenants; and
 - (ii) regulatory capital requirements.
11. We are in the process of preparing a document setting out the likely effects of the IASB lessee accounting model on reported information that we will distribute to you as soon as complete.

Questions for ASAF members

As we move into the finalisation phase of the project, we are keen to obtain your advice on the content and communication of the likely effects of the new *Leases* Standard:

- 1) What possible effects should be assessed and included in the Effects Analysis?
- 2) Is there anything that we should consider doing in communicating with stakeholders in advance of issuing the new Standard?