**Leases—Joint Project of the FASB and the IASB**

Last updated on April 17, 2013. Please refer to the [Current Technical Plan](http://www.fasb.org/cs/ContentServer?c=Page&pagename=FASB%2FPage%2FSectionPage&cid=1218220137074) for information about the expected release dates of exposure documents and final standards.   
  
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**(Updated sections are indicated with an asterisk \*)**

*This project update summarizes the project activities and decisions of the FASB and the IASB (Boards). It was prepared by the staff and is for the information and convenience of their constituents. All decisions of the Boards are tentative, may change at future Board meetings, and do not change current accounting and reporting requirements. Decisions of the Boards become final only after extensive due process.*

[Due Process Documents](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=900000011123&pf=true#due_process)  
[Project Objective and Summary of the Proposed Model](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=900000011123&pf=true#objective)  
[Outreach/Field Work](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=900000011123&pf=true#outreach)  
**\***[Decisions Reached at the Last Meeting](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=900000011123&pf=true#decisions)  
**\***[Summary of Decisions Reached to Date](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=900000011123&pf=true#summary)  
**\***[Next Steps](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=900000011123&pf=true#next_steps)  
**\***[Board/Other Public Meeting Dates](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1176157191457)   
[Background Information](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1176154540204)  
[Contact Information](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=900000011123&pf=true#contact)

**DUE PROCESS DOCUMENTS**

On July 21, 2011, the Boards agreed unanimously to reexpose their revised proposals for a leases standard.

* Read the [press release](http://www.fasb.org/cs/ContentServer?site=FASB&c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FNewsPage&cid=1176158769935) announcing the decision to reexpose.

On August 17, 2010, the Boards published, for public comment, an Exposure Draft, *Leases*. The comment period for the Exposure Draft ended on December 15, 2010.

* Download the [FASB Exposure Draft](http://www.fasb.org/cs/ContentServer?site=FASB&c=Page&pagename=FASB%2FPage%2FSectionPage&cid=1176157086783).
* Download the [IASB Exposure Draft](http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/ed10/Ed.htm).
* Read the [press release](http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FNewsPage&cid=1176157190891) introducing the Exposure Draft.
* Read the [FASB In Focus](http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176157198084) and the [IASB Snapshot](http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/ed10/Documents/LeasesSnapShot0810.pdf), which provide summaries of the proposals contained in the Exposure Draft
* Listen Now or Download the [Podcast](http://www.fasb.org/cs/ContentServer?c=Page&pagename=FASB%2FPage%2FSectionPage&cid=1176156828276) on the Exposure Draft.
* Read the Exposure Draft [Comment Letters](http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1850-100).
* Read the Exposure Draft [Comment Letter Summary](http://www.fasb.org/cs/ContentServer?site=FASB&c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176158279406).

On March 19, 2009, the Boards published, for public comment, a Discussion Paper, *Leases: Preliminary Views.* The comment period for the Discussion Paper ended on July 17, 2009.

* Download the [FASB Discussion Paper](http://www.fasb.org/cs/ContentServer?site=FASB&c=Page&pagename=FASB%2FPage%2FSectionPage&cid=1176157086783).
* Download the [IASB Discussion Paper](http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/DPMar09/Pages/DP.aspx), which is the same except for minor differences in spelling, style, and format.
* Read the [press release](http://www.fasb.org/news/nr031909.shtml) introducing the Discussion Paper.
* Read a [snapshot](http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/DPMar09/Documents/Lease_Snapshot_Final.pdf) of the Boards’ preliminary views in the Discussion Paper.
* Read the Discussion Paper [Comment Letters](http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/DPMar09/Comment-Letters/Pages/Comment-letters.aspx).
* Read the Discussion Paper [Comment Letter Summary](http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156565147).

**PROJECT OBJECTIVE AND SUMMARY OF THE PROPOSED MODEL**

* Leasing is an important activity for many entities. Therefore, it is important that lease accounting provides users of financial statements with a complete and understandable picture of an entity’s leasing activities. The existing accounting models for leases require lessees to classify their leases as either capital leases or operating leases. However, those models have been criticized for failing to meet the needs of users of financial statements because they do not provide a faithful representation of leasing transactions. In particular, they omit relevant information about rights and obligations that meet the definitions of assets and liabilities in the Boards’ conceptual framework. The models also lead to a lack of comparability and undue complexity because of the sharp bright-line distinction between capital leases and operating leases. As a result, many users of financial statements adjust the amounts presented in the statement of financial position to reflect the assets and liabilities arising from operating leases.
* Accordingly, the Boards initiated a joint project to develop a new approach to lease accounting that would ensure that assets and liabilities arising under leases are recognized in the statement of financial position.
* To meet that objective, the Boards are jointly developing draft guidance on leases and, hence, are proposing an International Financial Reporting Standard (IFRS) and amendments to the *FASB Accounting Standards Codification*®. The Boards are developing the proposals after considering responses to their Discussion Paper and their 2010 Exposure Draft.
* Although many of the problems associated with existing lease guidance relate to the treatment of operating leases in the financial statements of lessees, keeping the existing lease guidance for lessors would be inconsistent with the proposed approach to lessee accounting. It also would be inconsistent with the Boards’ proposed approach to revenue recognition, which is described in the amendments in the proposed FASB Accounting Standards Update, *Revenue Recognition (Topic 605): Revenue from Contracts with Customers.* Consequently, the Exposure Draft on leases deals with both lessee accounting and lessor accounting.

**OUTREACH/FIELD WORK**

*Webcast*  
  
On Thursday July 19, 2012, the staff of the IASB and the FASB held a joint webcast to provide an update on the lessee and lessor accounting proposals, focusing on the decisions reached at the joint Board meeting in June 2012. Click [here](http://event.on24.com/r.htm?e=496166&s=1&k=EC8AB2AD2710007DA9E23325E3DFABF3) for a recording of the webcast presentation. A podcast recording of the Question and Answer session is available [here](http://media.ifrs.org/Leasespodcast190712.WAV).  
  
*Joint Working Group Meetings*  
The Boards held joint leases working group meetings following the issuance of the 2010 ED as follows:

* Tuesday, January 24, 2012, in both Norwalk, CT, and London
* Monday, April 11, 2011, in London
* Friday, January 7, 2011, in Norwalk, CT.

*Public Roundtable Meetings*  
  
The Boards held public roundtable meetings in December 2010 and January 2011 to discuss their August 2010 Exposure Draft on Leases. The Boards’ purpose in holding those meetings was to engage in a constructive dialogue about the Exposure Draft with a wide variety of stakeholders. To ensure the Boards received broad-based input, meeting participants represented a variety of perspectives, including those of preparers, auditors, investors, and other users of financial statements.  
  
The public roundtable meeting dates were as follows:

* Friday, December 17, 2010, in London
* Monday, December 20, 2010, in Hong Kong
* Wednesday, January 5, 2011, in Chicago, Illinois
* Thursday, January 6, 2011, in Norwalk, Connecticut

*Workshops*  
  
Representatives and staff members from each Board attended 15 preparer workshop meetings with over 90 participants in the following countries:

* November 22, 2010, in Brazil (two sessions)
* November 22, 2010, in Toronto (one session)
* November 24 and 25, 2010, in London (three sessions)
* November 29 and 30, 2010, in Norwalk, CT (four sessions)
* December 2, 2010, in Seoul (one session)
* December 3, 2010, in Tokyo (two sessions)
* December 7, 2010, in Melbourne (two sessions)

*Preparer Questionnaire*  
  
On September 2, 2010, the Boards published a questionnaire for lessees and lessors as part of their outreach on the Leases project.

In the questionnaire, the Boards are surveying organizations on their use of, and accounting for, leases. Completing the questionnaire does not require knowledge of the Boards' proposals. [More details](http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Outreach/Pages/ED-outreach.aspx).

*Investor Questionnaire*  
  
On September 14, 2010, the FASB published a questionnaire for investors and analysts as part of its outreach on the Leases project.  
  
In the questionnaire, the Board asks how the proposed new leases guidance might affect financial statement users’ analysis. [More details](http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Outreach/Pages/ED-outreach.aspx).

**\*DECISIONS REACHED AT THE LAST MEETING (April 10, 2013)**

The Board discussed the effects of the decisions reached in the leases project on financial reporting complexity. The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot.

**\*SUMMARY OF TENTATIVE DECISIONS REACHED TO DATE (As of April 10, 2013)**

During the redeliberation process, the Boards considered a summary of:

1. The feedback received in response to the Exposure Draft, *Leases*, which was published for public comment in August 2010
2. Outreach activities undertaken after the publication of the Exposure Draft to explain the proposals in the Exposure Draft and to obtain feedback on the proposals.

***Leases Re-exposure Announcement***  
  
The Boards agreed unanimously to reexpose their revised proposals for a leases standard.  
  
Reexposing the revised proposals will provide interested parties with an opportunity to comment on revisions that the Boards have undertaken since the publication of the Leases Exposure Draft.  
  
***Definition of a Lease***  
In the2010 Leases Exposure Draft, the Boards defined a lease as a contract in which the right to use a specified asset (the underlying asset) is conveyed, for a period of time, in exchange for consideration.  
  
The Boards tentatively decided the following in relation to applying that definition, having considered feedback received from targeted outreach meetings held during March 2011 as well as feedback received in comment letters and through other outreach:

1. An entity would determine whether a contract contains a lease on the basis of the substance of the contract, by assessing whether:
   1. The fulfilment of the contract depends on the use of a specified asset
   2. The contract conveys the right to control the use of a specified asset for a period of time.
2. A contract would convey that right to control the use if the customer has the ability to direct the use, and receive the benefit from use, of a specified asset throughout the lease term. Guidance on separating the use of a specified asset from other services should be aligned with the Boards’ tentative decisions in March 2011 relating to the separation of lease and non-lease components.
3. A *specified asset* refers to an asset that is explicitly or implicitly identifiable.
4. A physically distinct portion of a larger asset of which a customer has exclusive use is a specified asset. A capacity portion of a larger asset that is not physically distinct (for example, a capacity portion of a pipeline) is not a specified asset.

***Scope***  
  
Leases of intangibles are not required to be accounted for in accordance with the leases standard.   
  
The following are within the scope of the leases standard:

1. Right-of-use assets in a sublease
2. Leases of noncore assets
3. Long-term leases of land.
4. The Boards tentatively decided not to provide a scope exclusion from the leases standard for assets often treated as inventory, such as non-depreciating spare parts, operating materials, and supplies, and that are associated with the leasing of another underlying asset.

The following are not within the scope of the leases standard:

1. Leases for the right to explore for or use minerals, oil, natural gas and similar non-regenerative resources
2. Leases of biological assets, including (U.S. generally accepted accounting principles [GAAP] only) timber
3. (IFRSs only) Leases of service concession arrangements within the scope of IFRIC 12, *Service Concession Arrangements*
4. Short term leases.

The Board decided to remove the guidance in paragraph 350-40-25-16 (internal-use software), which requires entities to analogize to Topic 840 on leases when determining the asset acquired in a software licensing agreement.  
  
***Confirmation of the Right-of-Use Model***  
  
The Boards affirmed the decision in the Leases Exposure Draft to apply a right-of-use model to all lease arrangements. Under that model, a lessee in an arrangement that is, or contains, a lease would recognize an asset representing its right to use an underlying asset during the lease term and a liability representing its obligation to make lease payments during the lease term. ***Lessee Accounting***  
  
The Boards confirmed that a lessee should account for the following:

1. Some leases using an approach similar to that proposed in the 2010 leases Exposure Draft, the Interest and Amortization (I&A) approach. This accounting approach would require a lessee to:
   1. Initially recognize a liability to make lease payments and a right-of-use asset, both measured at the present value of the lease payments.
   2. Subsequently measure the liability to make lease payments using the effective interest method.
   3. Amortize the right-of-use asset on a systematic basis that reflects the pattern of consumption of the expected future economic benefits.
   4. Recognize interest expense and amortization expense separately in the income statement.
2. Some leases using an approach that results in a SLE in its statement of comprehensive income. This accounting approach would require a lessee to:
   1. Initially recognize a liability to make lease payments and a right-of-use asset, both measured at the present value of the lease payments.
   2. Subsequently measure the liability to make lease payments using the effective interest method.
   3. Measure the right-of-use asset each period as a balancing figure such that the total lease expense would be recognized on a straight-line basis, regardless of the timing of lease payments.
   4. Recognize lease expense as one amount in the income statement.

The Boards also tentatively decided that a lessee should distinguish between those different leases based on whether the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term. That principle should be applied by using a practical expedient based on the nature of the underlying asset as follows:

1. Leases of property (land or a building—or part of a building—or both) should be accounted for using the straight-line approach unless:
   1. The lease term is for the major part of the economic life of the underlying asset; or
   2. The present value of fixed lease payments accounts for substantially all of the fair value of the underlying asset.
2. Leases of assets other than property should be accounted for using an approach similar to that proposed in the 2010 leases Exposure Draft unless:
   1. The lease term is an insignificant portion of the economic life of the underlying asset; or
   2. The present value of the fixed lease payments is insignificant relative to the fair value of the underlying asset.

The determination of which approach to use would be made only at lease commencement and would not be reassessed.  
 ***Lessor Accounting***  
  
The Boards tentatively decided that a lessor should distinguish between leases to which the receivable and residual approach applies and leases to which an approach similar to operating lease accounting applies using the same criteria as noted above for lessee accounting. Consequently, a lessor would apply the receivable and residual approach to leases for which the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term.  
  
The Boards decided that for all lease contracts within the scope of the receivable and residual approach, a lessor should:

1. Initially measure the right to receive lease payments at the present value of the lease payments, discounted using the rate the lessor charges the lessee, and subsequently measure at amortized cost applying an effective interest method.
2. Initially measure the residual asset as an allocation of the carrying amount of the underlying asset. The initial measurement of the residual asset comprises two amounts: (a) the gross residual asset, measured at the present value of the estimated residual value at the end of the lease term discounted using the rate the lessor charges the lessee and (b) the deferred profit, measured as the difference between the gross residual asset and the allocation of the carrying amount of the underlying asset.
3. Subsequently measure the gross residual asset by accreting to the estimated residual value at the end of the lease term using the rate the lessor charges the lessee. The lessor would not recognize any of the deferred profit in profit or loss until the residual asset is sold or re-leased.
4. Present the gross residual asset and the deferred profit together as a net residual asset.

The Boards tentatively decided that, when applying the receivable and residual approach, a lessor should measure the underlying asset as the sum of the carrying amount of the lease receivable (after any impairment) and the net residual asset when re-recognizing the underlying asset on termination of the lease before the end of the lease term.The Boards tentatively decided that for all leases not within the scope of the receivable and residual approach, a lessor should continue to recognize the underlying asset and recognize lease income over the lease term.  
  
***Lease Components***  
  
The Boards tentatively decided to include guidance in the revised Exposure Draft on how to identify separate lease components within a contract. That guidance would be similar to the proposed guidance in paragraphs 28 and 29 of the 2011 Revenue Recognition Exposure Draft about the identification of separate performance obligations. An entity would be required to account for each separate lease component as a separate lease.  
  
The Boards tentatively decided to include guidance in the revised Exposure Draft on how to determine the nature of the underlying asset (for example, leases of property or leases of assets other than property) for classification purposes when one lease component contains the right to use more than one asset. The Boards tentatively decided that an entity should determine the nature of the underlying asset for classification purposes on the basis of the nature of the primary asset within the lease component.  
  
The Boards tentatively decided that when applying the classification guidance to a property lease component that contains both land and a building, an entity:

1. Is not required to allocate lease payments between the land and the building; and
2. Would assess whether the lease term is for a major part of the remaining economic life of the building.

***Leveraged Leases***  
  
The FASB tentatively decided that:

1. A lessor would account for leveraged leases under the proposed new leases guidance. There would not be a different lessor approach for leveraged leases.
2. A lessor should apply the proposed leases guidance to existing leveraged leases retrospectively.

***Subleases***  
  
The Boards tentatively decided the following:

1. A head lease and a sublease should be accounted for as separate transactions.
2. An intermediate lessor, as a lessee in a head lease arrangement, should account for its assets and liabilities arising from the head lease in accordance with the decisions-to-date for all lessees.
3. An intermediate lessor, as a lessor in a sublease arrangement, should account for its assets and liabilities arising from the sublease in accordance with the decisions-to-date for all lessors.
4. For purposes of assessing which lease approach to apply in a sublease, a lessor and a lessee should evaluate the lease with reference to the underlying asset, not the ROU asset, to determine the appropriate accounting approach to apply to the sublease.

***Lease Term***  
  
The lease term is defined, for both lessees and lessors, as follows:

The lease term is the noncancellable period for which the lessee has contracted with the lessor to lease the underlying asset, together with any options to extend or terminate the lease when there is a significant economic incentive for an entity to exercise an option to extend the lease, or for an entity not to exercise an option to terminate the lease.

A lessee and a lessor should reassess the lease term only when there is a significant change in relevant factors such that the lessee would then either have, or no longer have, a significant economic incentive to exercise any options to extend or terminate the lease. ***Contract Modifications or Changes in Circumstances after the Date of Inception of the Lease***  
  
The Boards tentatively decided to provide guidance on accounting for changes after the date of inception of the lease as follows:

1. A modification to the contractual terms of a contract that is a substantive change to the existing contract should result in the modified contract being accounted for as a new contract.
2. A change in circumstances other than a modification to the contractual terms of the contract that would affect the assessment of whether a contract is, or contains, a lease should result in a reassessment as to whether the contract is, or contains, a lease.

***Variable Lease Payments and Other Lease Payment Considerations***  
  
Variable lease payments (VLPs) include any lease payments that arise under the contractual terms of a lease because of changes in facts or circumstances occurring after the date of inception of the lease, other than the passage of time.  
  
VLPs are excluded from the lessor’s receivable (under the receivable and residual approach) unless the VLPs are linked to an index or rate.  
  
*Variable lease payments that are in-substance fixed lease payments*  
  
The lessee’s liability and lessor’s receivable should include lease payments that are in-substance fixed lease payments, but are structured as variable lease payments in form.   
  
*Variable lease payments that depend on an index or a rate*  
  
The Boards tentatively decided the following for lease payments that depend on an index or a rate included in the lessee’s liability to make lease payments and the lessor’s right to receive lease payments:

1. Lease payments that depend on an index or a rate should be initially measured using the index or rate that exists at the date of commencement of the lease.
2. Lease payments that depend on an index or a rate should be reassessed using the index or rate that exists at the end of each reporting period.
3. Lessees should reflect changes in the measurement of lease payments that depend on an index or a rate (a) in net income to the extent that those changes relate to the current reporting period and (b) as an adjustment to the right-of-use asset to the extent that those changes relate to future reporting periods.
4. Lessors should recognize changes in the right to receive lease payments due to reassessments of variable lease payments that depend on an index or a rate immediately in profit or loss.

*Embedded Derivatives in Lease Contracts*  
  
The Boards tentatively decided that an entity should assess whether a lease contract includes embedded derivatives that should be bifurcated and accounted for in accordance with applicable U.S. GAAP and IFRS guidance on derivatives.   
  
*Residual value guarantees*  
  
Lease payments should include amounts expected to be payable under residual value guarantees, except for amounts payable under guarantees provided by an unrelated third party.  
  
The Boards discussed the subsequent measurement of residual value guarantees by lessees (excluding guarantees provided by an unrelated third party) and tentatively decided that:

1. The amounts expected to be payable under residual value guarantees included in the measurement of the lessee’s right-of-use asset should be amortized consistently with how other lease payments that are included in the measurement of a right-of-use asset are amortized. That is, amortization should be on a systematic basis from the date of commencement of the lease to the end of the lease term, or over the useful life of the underlying asset, if this is shorter. The method of amortization should reflect the pattern in which the economic benefits of the right-of-use asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method should be used.
2. The amounts expected to be payable under residual value guarantees that are included in the measurement of the lessee’s liability to make lease payments should be reassessed when events or circumstances indicate that there has been a significant change in the amounts expected to be payable under residual value guarantees. An entity would be required to consider all relevant factors to determine whether events or circumstances indicate that there has been a significant change.
3. The amount of the change to the lessee’s liability to make lease payments arising from changes in estimates of residual value guarantees should be recognized (a) in net income to the extent that those changes relate to current or prior periods and (b) as an adjustment to the right-of-use asset to the extent those changes relate to future periods. The allocation for changes in estimates of residual value guarantees should reflect the pattern in which the economic benefits of the right-of-use asset will be consumed or were consumed. If that pattern cannot be reliably determined, an entity should allocate changes in estimates of residual value guarantees to future periods.

The Boards discussed the accounting for residual value guarantees by lessors and tentatively decided that:

1. The leases standard would provide guidance on accounting for all residual value guarantees, regardless of whether they are provided by a lessee, a related party, or a third party.
2. A lessor would not recognize amounts expected to be received under a residual value guarantee until the end of the lease. However, the lessor would consider those guarantees when determining whether the residual asset is impaired.

*Term option penalties*  
  
The accounting for term option penalties should be consistent with the accounting for options to extend or terminate a lease. That is, if a lessee would be required to pay a penalty if it does not renew the lease and the renewal period has not been included in the lease term, then that penalty should be included in the recognized lease payments.  
  
***Lessee Subsequent Measurement Issues***   
  
*Foreign exchange differences*  
  
The Boards discussed the accounting by lessees for leases denominated in a foreign currency. The Boards tentatively decided that foreign exchange differences related to the liability to make lease payments should be recognized in profit or loss, consistently with foreign exchange guidance in existing IFRSs and U.S. GAAP.   
  
*Impairment*  
  
The Boards discussed impairment of the lessee’s right-of-use asset. The Boards tentatively decided to affirm the proposal in the Leases Exposure Draft to refer to existing guidance in IFRSs and U.S. GAAP for impairment of the right-of-use asset.  
  
The Boards also discussed the accounting after an impairment of the ROU asset under the SLE approach and decided that when the ROU asset is impaired, the lessee should continue to recognize the remaining lease expense in each period on a straight-line basis. However, the total lease expense recognized in any period should not be lower than the amount of the periodic unwinding of the discount on the lease liability. When the ROU is fully impaired, this would result in the lessee recognizing the remaining lease expense in an amount equal to the periodic unwinding of the discount on the lease liability (that is, the remaining lease expense would no longer be recognized on a straight-line basis). The lessee should present lease expense recognized in the remaining periods in accordance with the decisions reached under the SLE approach.  
  
*Revaluation (IASB only)*  
  
The IASB discussed revaluation of the lessee’s right-of-use asset. The IASB tentatively decided to affirm the proposals in the Leases Exposure Draft allowing revaluation of the right-of-use asset.   
  
***Lessor Subsequent Measurement Issues***  
  
*Application of financial asset guidance to the right to receive lease payments*  
  
The Boards tentatively decided that:

1. A lessor should subsequently measure the right to receive lease payments using the effective interest method.
2. A lessor should refer to existing financial instruments guidance (IAS 39, *Financial Instruments: Recognition and Measurement,* and Topic 310, *Receivables*) to assess the impairment of that right to receive lease payments.
3. The leases standard should not contain an option for fair value measurement of the right to receive lease payments.

The Boards instructed the staff to analyze further whether there should be a requirement to measure the right to receive lease payments at fair value if that right were held for sale.  
  
*Impairment of the residual asset*  
  
The Boards tentatively decided that a lessor should refer to IAS 36, *Impairment of Assets,* or Topic 360, Property, Plant, and Equipment, as appropriate, to assess the impairment of the residual asset.  
  
*Revaluation of the residual asset (IASB only)*  
  
The IASB tentatively decided that revaluation of the residual asset should be prohibited.  
  
*Accounting for the residual asset when there are variable lease payments*  
  
The Boards discussed the subsequent measurement of a lessor’s residual asset when the lease contract includes variable lease payments that are not recognized as a part of the lease receivable at lease commencement.  
  
The Boards tentatively decided that:

1. If the rate the lessor charges the lessee does not reflect an expectation of variable lease payments, the lessor would not make any adjustments to the residual asset with respect to variable lease payments.
2. If the rate the lessor charges the lessee reflects an expectation of variable lease payments, the lessor would adjust the residual asset on the basis of its expectation of variable lease payments by recognizing a portion of the cost of the residual asset as an expense when variable lease payments are recognized in profit or loss. Any difference between actual and expected variable lease payments would not result in any further adjustment to the residual asset with respect to variable lease payments.

***Lessee Presentation and Disclosure***  
  
*Disclosures*  
  
The Boards discussed lessee disclosures and tentatively decided that a lessee should disclose the following:

1. IASB only—A reconciliation of the opening and closing balance of right-of-use assets under both the I&A approach and the SLE approach, disaggregated by class of underlying asset.
2. A reconciliation of the opening and closing balance of lease liabilities under both the I&A approach and the SLE approach (unlike the Exposure Draft, a lessee would not be required to disaggregate the reconciliation by class of underlying asset). The reconciliation should include interest or the unwinding of the discount, thereby requiring that the lessee present and disclose any accrued interest or accretion on the lease liability together with the lease liability balance itself.
   1. FASB only—Nonpublic entities are exempt from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.
3. A single maturity analysis of the undiscounted cash flows that are included in the liability to make lease payments. The maturity analysis should show, at a minimum, the undiscounted cash flows to be paid in each of the first five years after the reporting date and a total of the amounts for the years thereafter. The analysis should reconcile to the lease liability.
   1. Additionally, the FASB tentatively decided not to bifurcate the disclosure of the maturity of contractual commitments associated with services and other nonlease components between the two types of leases
4. Information about the principal terms of any lease that has not yet commenced if the lease creates significant rights and obligations for the lessee.
5. Information required in paragraphs 73(a)(ii)-73(a)(iii) of the Exposure Draft (the Boards will provide guidance, illustrations, or both about those requirements).
6. Expenses relating to variable lease payments not included in the lease liability recognized in the reporting period.

Additionally, the Boards tentatively decided that a lessee is not required to disclose the following:

1. The discount rate used to calculate the liability to make lease payments.
2. The range of discount rates used to calculate the liability to make lease payments.
3. The fair value of the liability to make lease payments.
4. The existence and principal terms of any options for the lessee to purchase the underlying asset, or initial direct costs incurred on a lease.
5. Information about arrangements that are no longer determined to contain a lease.

With regard to future contractual commitments:

1. The IASB tentatively decided that a lessee is not required to disclose the future contractual commitments associated with services and other nonlease components that are separated from a lease contract.
2. The FASB tentatively decided that a lessee should disclose the future contractual commitments associated with services and other nonlease components that are separated from a lease contract.

*Statement of financial position*  
  
The Boards tentatively decided the following for leases under both the I&A approach and the SLE approach:

1. Separately present in the statement of financial position or disclose in the notes to the financial statements right-of-use assets and lease liabilities. If right-of-use assets and lease liabilities are not separately presented in the statement of financial position, the disclosures should indicate in which line item in the statement of financial position the right-of-use assets and liabilities to make lease payments are included.
2. Present the right-of-use asset as if the underlying asset were owned.

The Boards also decided that it is not necessary to clarify whether the right-of-use asset is a tangible or an intangible asset.  
  
*Statement of cash flows*  
  
The Boards discussed the lessee’s statement of cash flows under the I&A approach, and tentatively decided that a lessee should:

1. Classify cash paid for lease payments relating to the principal within financing activities.
2. Classify or disclose cash paid for lease payments relating to interest in accordance with applicable IFRSs or U.S. GAAP on the statement of cash flows.
3. Classify cash paid for variable lease payments not included in the measurement of the liability to make lease payments as operating activities.
4. Classify cash paid for short-term leases not included in the liability to make lease payments as operating activities.

The Boards discussed the lessee’s statement of cash flows for leases for which the lessee recognizes a SLE, and tentatively decided that a lessee should:

1. Classify cash paid for lease payments within operating activities.
2. Disclose the ROU asset acquired as a supplemental noncash transaction.

The Boards tentatively decided that a lessee should disclose:

1. The expense recognized in the reporting period for variable lease payments not included in the liability to make lease payments.
2. The acquisition of a right-of-use asset in exchange for a liability to make lease payments as a supplemental noncash transaction disclosure.

***Lessor Presentation and Disclosure***  
  
*Disclosures*  
  
The Boards discussed the disclosure requirements for lessors that account for leases under the receivable and residual approach. The Boards tentatively decided to require disclosure of the following:

1. A table of all lease related income items recognized in the reporting period disaggregated into (a) profit, recognized at lease commencement (split into revenue and cost of sales if that is how the lessor has presented the amounts in the statement of comprehensive income); (b) interest income on the lease receivable; (c) interest income on the residual asset; (d) variable lease income; (e) short-term lease income; and (f) income from leases not under the receivable and residual approach.
2. Information about the basis and terms on which variable lease payments are determined required in paragraph 73(a)(ii) of the 2010 Exposure Draft.
3. Information about the existence and terms of options, including for renewal and termination required in paragraph 73(a)(iii) of the 2010 Exposure Draft.
4. A qualitative description of purchase options in leasing arrangements, including information about the extent to which the entity is subject to such agreements.
5. A reconciliation of the opening and closing balance of the right to receive lease payments and residual assets.
6. A maturity analysis of the undiscounted cash flows that are included in the right to receive lease payments. The maturity analysis should show, at a minimum, the undiscounted cash flows to be received in each of the first five years after the reporting date and a total of the amounts for the years thereafter. The analysis should reconcile to the right to receive lease payments. The Boards noted a potential redundancy with disclosures proposed in other active projects and agreed to avoid redundancy wherever possible.
7. In addition to the disclosure about residual asset risk and residual value guarantee proposed in the 2010 Exposure Draft, information about how the entity manages its exposure to the underlying asset, including (a) its risk management strategy in this respect, (b) the carrying amount of the residual asset that is covered by residual value guarantees, and (c) whether the lessor has any other means of reducing its exposure to residual asset risk (for example, buyback agreements with the manufacturer from whom the lessor purchased the underlying asset; options to put the underlying asset back to the manufacturer).

Additionally, the Boards tentatively decided that a lessor is not required to disclose the following:

1. The initial direct costs incurred in the period
2. The weighted average or range of discount rates used to calculate the right to receive lease payments
3. The fair value of the right to receive lease payments or the residual asset.

*Interim Disclosures*The Boards tentatively decided not to amend IAS 34, *Interim Financial Reporting*, and Topic 270, Interim Reporting, to require lessee disclosures at interim periods.   
  
The FASB tentatively decided to amend Topic 270 to require a lessor to provide a table of all lease-related income items in its interim financial statements.   
  
The IASB decided to amend IAS 34 to require a lessor to disclose total lease income in its interim financial statements. Additional information about that lease income would be required if there has been a significant change from the end of the last annual reporting period.  *Statement of financial position*  
  
The Boards tentatively decided that a lessor should either:

1. Present the lease receivable and the residual asset separately in the statement of financial position, summing to a total lease assets
2. Present the lease receivable and residual asset in the statement of financial position as lease assets, with those two amounts disclosed in the notes to the financial statements.

*Statement of comprehensive income*  
  
The Boards discussed presentation requirements for lessors in the statement of comprehensive income. The Boards tentatively decided that a lessor should present:

1. The accretion of the residual asset as interest income.
2. The amortization of initial direct costs as an offset to interest income.
3. Lease income and lease expense (for example, revenue and cost of sales) in the statement of comprehensive income either in separate line items (gross) or in a single line item (net), on the basis of which presentation best reflects the lessor’s business model.

The Boards also tentatively decided that a lessor should separately identify income and expenses arising from leases by either separate presentation in the statement of comprehensive income or disclosure in the notes to the financial statements. If disclosed, the notes should reference the line item in which the income is presented.   
 *Statement of cash flows*  
  
The Boards tentatively decided that a lessor should classify the cash inflows from a lease as operating activities in the statement of cash flows.  
  
*Disclosure Requirements for Lessors with Leases of Investment Property*  
  
The Boards discussed the disclosure requirements for lessors with leases of investment property not within the scope of the receivable and residual approach. The Boards tentatively decided to require disclosure of the following:

1. A maturity analysis of the undiscounted future noncancellable lease payments. The maturity analysis should show, at a minimum, the undiscounted cash flows to be received in each of the first five years after the reporting date and a total of the amounts in the years thereafter. That maturity analysis would be separate from the maturity analysis of the payments related to the right to receive lease payments under the receivable and residual approach.
2. Both minimum contractual lease income and variable lease payment income within the table of lease income.
3. The cost and carrying amount of property on lease or held for leasing by major classes of property according to nature or function, and the amount of accumulated depreciation in total.
4. Information about leases that are not within the scope of the receivable and residual approach consistent with paragraph 73 of the 2010 Exposure Draft, updated for decisions the Boards have reached to date. That information would include the following:
   1. A general description of those lease arrangements
   2. Information about the basis and terms on which variable lease payments are determined
   3. Information about the existence and terms of options, including for renewal and termination
   4. A qualitative description of purchase options, including information about the percentage of assets subject to such agreements
   5. Any restrictions imposed by lease arrangements.

***Distinguishing between a Lease and a Purchase or a Sale***  
  
Guidance should not be provided in the leases standard for distinguishing a lease of an underlying asset from a purchase or a sale of an underlying asset. That is, if an arrangement does not contain a lease, it should be accounted for in accordance with other applicable standards (for example, property, plant, and equipment or revenue recognition).   
  
***Accounting for Purchase Options***  
Lessees and lessors should include the exercise price of a purchase option (including bargain purchase options) in the measurement of the lessee’s liability to make lease payments and the lessor’s right to receive lease payments, if the lessee has a significant economic incentive to exercise the purchase option. If it is determined that the lessee has a significant economic incentive to exercise the purchase option, the right-of-use asset recognized by the lessee should be amortized over the economic life of the underlying asset rather than over the lease term.   
  
***Reassessment of Options in a Lease***  
The Boards discussed how lessees and lessors should reassess whether a lessee has a significant economic incentive to exercise:

1. An option to extend or terminate a lease
2. An option to purchase the underlying asset.

The Boards tentatively decided that a lessee and a lessor should consider contract-based, asset-based, and entity-based factors in reassessing whether a lessee has a significant economic incentive to exercise an option. The Boards noted that all these factors should be considered together and the existence of only one factor does not necessarily, by itself, signify a significant economic incentive to exercise the option.   
  
The Boards tentatively decided that the thresholds for evaluating a lessee’s economic incentive to exercise options to extend or terminate a lease and options to purchase the underlying asset should be the same for both initial and subsequent evaluation, except that a lessee and lessor should not consider changes in market rates after lease commencement when evaluating whether a lessee has a significant economic incentive to exercise an option.   
  
The Boards tentatively decided that changes in lease payments that are due to a reassessment in the lease term should result in:

1. A lessee adjusting its obligation to make lease payments and its right-of-use asset
2. A lessor adjusting its right to receive lease payments and any residual asset, and recognizing any corresponding profit or loss (pending the Boards’ decision on lessor accounting).

***Short-Term Leases***  
  
A *short-term lease* is defined as follows:

A lease that, at the date of commencement of the lease, has a maximum possible term, including any options to renew, of 12 months or less.

The Boards tentatively decided that for short-term leases a lessee need not recognize lease assets or lease liabilities. For those leases, the lessee should recognize lease payments in profit or loss on a straight-line basis over the lease term, unless another systematic and rational basis is more representative of the time pattern in which use is derived from the underlying asset.  
  
The Boards also tentatively decided that a lessee may elect to apply the recognition and measurement requirements in the leases guidance to short-term leases.

Lessors may elect, as an accounting policy for a class of underlying asset(s), to account for all short-term leases by not recognizing lease assets or lease liabilities and by recognizing lease payments in profit or loss on a straight-line basis over the lease term, unless another systematic and rational basis is more representative of the time pattern in which use is derived from the underlying asset.   
  
***Inception versus Commencement***  
  
The leases standard would:

1. Require a lessee and a lessor to recognize and initially measure lease assets and lease liabilities (and derecognize any corresponding assets and liabilities) at the date of commencement of the lease.
2. Require a lessee and a lessor to use a discount rate calculated at the date of commencement when initially measuring lease assets and lease liabilities.
3. Include application guidance on the accounting for costs incurred by the lessee before the date of commencement of a lease.
4. Include application guidance on the accounting for lease payments made by the lessee before the date of commencement of a lease.
5. Include application guidance on the accounting for incentives provided by the lessor to the lessee. This would clarify that a lessee will deduct all lease incentives from the initial measurement of the right-of-use asset.

The Boards also discussed the accounting for a lease contract between the date of inception and the date of commencement of a lease when the contract meets the definition of an onerous contract. The IASB affirmed the Leases Exposure Draft proposal to exclude from the scope of the leases standard leases between the date of inception and the date of commencement if they meet the definition of an onerous contract. Such leases would be accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* until the date of commencement. The FASB also indicated support for applying Topic 450, Contingencies, to those contracts that meet the definition of an onerous contract before the date of commencement but noted that this issue would be reviewed when the Board considers impairment at a future meeting.  
  
***Initial Direct Costs***  
  
The term *initial direct costs* is defined as follows:

Costs that are directly attributable to negotiating and arranging a lease that would not have been incurred had the lease transaction not been made.

Lessees and lessors should capitalize initial direct costs by adding them to the carrying amount of the right-of-use asset and the right to receive lease payments, respectively.   
  
***Transfer/Securitization of Lease Receivables***  
  
The Boards discussed the measurement of lease receivables held for the purpose of sale and the derecognition guidance to be applied when lease receivables are transferred or sold.   
  
The Boards tentatively decided that a lessor:

1. Should not measure a lease receivable at fair value, even if part or all of that receivable is held for the purpose of sale.
2. Should apply existing derecognition requirements (in IFRS 9, *Financial Instruments,* or Topic 860, Transfers and Servicing) to lease receivables, but allocate the carrying amount of a lease receivable on the basis of its fair value excluding any option elements and variable lease payments that are not transferred.
3. Should apply the disclosure requirements in IFRS 7, *Financial Instruments: Disclosures,* and Topic 860 for transferred lease receivables.

***Discount Rate***  
  
The discount rate to be used by lessees and lessors should be as follows:

1. The lessee would use the rate the lessor charges the lessee when that rate is available; otherwise, the lessee would use its incremental borrowing rate.
2. The lessor would use the rate the lessor charges the lessee.
3. The rate the lessor charges the lessee could be the lessee’s incremental borrowing rate, the rate implicit in the lease or, for property leases, the yield on the property. When more than one indicator of the rate that the lessor charges the lessee is available, the rate implicit in the lease should be used.
4. FASB only—The Board tentatively decided that nonpublic entities should be provided a practical expedient to use a risk-free discount rate, with a term comparable to that of the lease term, as an accounting policy election for all leases. If an entity elects to use a risk-free discount rate, that fact should be disclosed.

The Boards also tentatively decided to provide application guidance for the determination of the discount rate when considering the use of a group discount rate and determining the yield on property.   
  
***Reassessment of the Discount Rate***   
  
The Boards discussed whether there are circumstances that would require a lessee or a lessor to reassess the discount rate that is used to measure the present value of lease payments.   
  
The Boards tentatively decided that the discount rate should not be reassessed if there is no change in the lease payments.   
  
The Boards tentatively decided that the discount rate should be reassessed when the changes below are not reflected in the initial measurement of the discount rate:

1. When there is a change in lease payments that is due to a change in the assessment of whether the lessee has a significant economic incentive to exercise an option to extend a lease or to purchase the underlying asset.
2. When there is a change in lease payments that is due to the exercise of an option that the lessee did not have a significant economic incentive to exercise.

The Boards also decided that a lessee or lessor should determine a revised discount rate using the spot rate at the reassessment date and should then apply that rate to the remaining lease payments (that is, to the remaining payments due in the initial lease plus the payments due during the extension period or upon exercise of a purchase option).  
  
***Separating Lease and Nonlease Components of a Contract***  
  
An entity should be required to identify and separately account for the lease and the nonlease components of a contract.  
  
In allocating payments in a contract between the lease and nonlease components of the contract:

1. The lessor should allocate payments in accordance with the guidance on revenue recognition.
2. The lessee should allocate payments as follows:
   1. If the purchase price of each component is observable, the lessee would allocate the payments on the basis of the relative purchase prices of individual components.
   2. If the purchase price of one or more, but not all, of the components is observable, the lessee would allocate the payments on the basis of a residual method.
   3. If there are no observable purchase prices, the lessee would account for all the payments required by the contract as a lease.

The Boards directed the staff to include application guidance on how a lessee should determine what would be an observable price, considering the relevance of guidance in other projects such as revenue recognition.  
  
***Sale and Leaseback Transactions***  
  
When a sale has occurred, the transaction would be accounted for as a sale and then a leaseback. If a sale has not occurred, the entire transaction would be accounted for as a financing.   
  
When determining whether a sale has occurred in a sale and leaseback transaction, an entity should apply the guidance developed in the revenue recognition project to the entire transaction.  
The existence of the leaseback does not, in isolation, prevent the transaction from being accounted for as a sale and a leaseback.  
  
However, if the leaseback is such that the seller/lessee has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, a sale has not occurred. For the purposes of a sale and leaseback transaction, the seller/lessee is assumed to have the ability to direct the use of and obtain substantially all of the remaining benefits from the asset if:

1. The lease term is for the major part of the economic life of the underlying asset; or
2. The present value of the minimum lease payments accounts for substantially all of the fair value of the underlying asset.

If there are multiple lease components in the transaction, the assessment should be performed for each lease component separately.  
  
If an entity concludes that a sale has not occurred in accordance with the revenue recognition guidance, the entire transaction should be accounted for as a financing arrangement. The wording in the revised Leases Exposure Draft will be aligned with the wording in the revenue recognition guidance in this respect.  
  
The Boards affirmed the decision in the Leases Exposure Draft that in a transaction accounted for as a sale and leaseback:

1. When the consideration is at fair value, the gains and losses arising from the transaction should be recognized when the sale occurs.
2. When the consideration is not established at fair value, the assets, liabilities, gains and losses recognized should be adjusted to reflect current market rentals.

The seller/lessee would adopt the *whole asset* approach in a sale and leaseback transaction. The whole asset approach deems that in a sale and leaseback transaction, the seller/lessee sells the entire underlying asset and leases back a right-of-use asset relating to the underlying asset.  
  
***Cancellable Leases***  
  
The Boards discussed the accounting treatment for leases that (1) are cancellable by both the lessee and lessor with minimal termination payments or (2) include renewal options that must be agreed to by both the lessee and the lessor. The Boards tentatively decided that the lease proposals should be applied only to periods for which enforceable rights and obligations arise. Therefore, such cancellable leases would meet the definition of short-term leases if the initial noncancellable period, together with any notice period, is less than one year. In reaching that decision, the Boards also tentatively decided not to change their previous decisions on the definitions of short-term leases and lease term.  
  
***Transition***  
  
The Boards discussed transition requirements and transition disclosures for lessees and lessors.  
  
The FASB and the IASB tentatively decided to provide specific transition relief for existing finance, capital, sales-type, and direct financing leases. Lessees and lessors would not be required to make any adjustments to the carrying amount of any assets and liabilities associated with those leases at transition. Specific guidance on the subsequent measurement of those assets and liabilities will be provided in the revised leases Exposure Draft. The Boards’ intent for including that guidance is to provide accounting that is consistent with how most of those leases would have been accounted for under IAS 17 and Topic 840. The revised leases Exposure Draft will supersede IAS 17 and Topic 840.  
  
*Lessees*  
  
The Boards tentatively decided that for operating leases existing at the beginning of the earliest comparative period presented, a lessee should:

1. Recognize liabilities to make lease payments at transition measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of the effective date for each portfolio of leases with reasonably similar characteristics. The incremental borrowing rate for each portfolio of leases should consider the lessee’s total leverage, including leases in other portfolios.
2. Recognize ROU assets by applying a fully retrospective transition approach; or
   1. For I&A leases: Recognize ROU assets equal to the proportion of the liability to make lease payments at lease commencement calculated on the basis of the remaining lease term.
   2. For SLE leases: Recognize a ROU asset for each outstanding lease, measured at the amount of the related lease liability.
3. Record to retained earnings any difference between the liabilities to make lease payments and the right-of-use assets at transition.

The Boards also tentatively decided that when lease payments are uneven over the lease term, a lessee should adjust the right-of-use asset recognized at the beginning of the earliest comparative period presented by the amount of any recognized prepaid or accrued lease payments.   
  
*Lessors*  
  
For operating leases existing at the beginning of the earliest comparative period presented, the Boards tentatively decided that a lessor should:

1. Recognize a right to receive lease payments, measured at the present value of the remaining lease payments, discounted using the rate charged in the lease determined at the date of commencement of the lease, subject to any adjustments required to reflect impairment.
2. Recognize a residual asset consistent with the initial measurement of the residual asset under the receivable and residual approach, using information available at the beginning of the earliest comparative period presented.
3. Derecognize the underlying asset.

The Boards also tentatively decided that when lease payments are uneven over the lease term, a lessor should adjust the cost basis in the underlying asset that is derecognized at the date of the earliest comparative period presented by the amount of any recognized prepaid or accrued lease payments.  
  
*Lessees and lessors*  
  
To ease the potential burden of applying the final standard in the first year of application, the Boards tentatively decided that lessees and lessors may elect the following reliefs:

1. An entity is not required to evaluate initial direct costs for contracts that began before the effective date.
2. An entity may use hindsight in comparative reporting periods including the determination of whether or not a contract is or contains a lease.

The Boards also tentatively decided that lessees and lessors should provide transition disclosures consistent with Topic 250, Accounting Changes and Error Corrections, and IAS 8, *Accounting Policies, Changes in Estimates and Errors,* without the disclosure of the effect of the change on income from continuing operations, net income, any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted. Additionally, if an entity elects any of the available reliefs, the entity should disclose which reliefs it elected.  
  
Notwithstanding all of the above tentative decisions on transition, the Boards tentatively decided that a lessee or lessor could choose to apply the requirements in the new leases standard retrospectively in accordance with Topic 250 or IAS 8.  
  
*Sale and leaseback transactions*  
  
The Boards reached the following tentative decisions regarding transition accounting for sale and leaseback transactions entered into prior to the effective date.

1. For a sale and leaseback transaction that resulted in capital lease (U.S. GAAP) or finance lease (IFRSs) classification, a seller/lessee would not reevaluate the sale recognition conclusion previously reached, would not remeasure lease assets and lease liabilities previously recognized on the statement of financial position, and would continue to amortize any deferred gain or loss on sale over the lease term in the statement of comprehensive income.
2. For a sale and leaseback transaction that resulted in operating lease classification or the sale recognition criteria previously were not met, a seller/lessee would reevaluate the sale conclusion based on the criteria for transfer of control of an asset in the proposed revenue standard. If the criteria were met, a seller/lessee would measure lease assets and lease liabilities in accordance with the Boards’ previous tentative decisions regarding transition for leases that are currently classified as operating leases and would recognize any deferred gain or loss in opening retained earnings upon transition to the new leases guidance.
3. Alternatively, a seller/lessee may elect to apply the requirements in the proposed leases standard retrospectively.

*Business combinations*  
The Boards tentatively decided that, upon transition, a lessee that previously recognized assets or liabilities relating to favorable or unfavorable terms in acquired operating leases should derecognize those assets or liabilities and adjust the carrying amount of the right-of-use asset by the amount of any asset or liability derecognized.   
  
The FASB tentatively decided that, upon transition, a lessor applying the receivable and residual approach that previously recognized assets or liabilities relating to favorable or unfavorable terms in acquired operating leases should derecognize those assets or liabilities and adjust retained earnings upon transition.  *Other transition considerations*  
  
The Boards tentatively decided that no transition guidance was necessary for short-term leases, investment property measured at fair value, subleases, useful lives of leasehold improvements, build-to-suit leases, and in-substance purchases and sales.  
  
The Boards tentatively decided that, on transition to the new leases guidance, a lessor would continue to account for the securitization of lease receivables associated with current operating leases as secured borrowings in accordance with existing U.S. GAAP and IFRSs. This tentative decision applies to a lessor regardless of whether the lessor elects a fully retrospective approach to transition.   
  
The FASB confirmed its previous tentative decision regarding the scope of the proposed leases standard for arrangements that currently are within the scope of Topic 840 (originally issued as EITF Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease")*.* The transition exception in Issue 01-8 would no longer be available. Consequently, an entity would be required to account for a lease in an arrangement that contains a lease based on the facts and circumstances existing at the effective date of the new leases standard, even when it previously applied the transition exception in Issue 01-8.  
  
***Consequential Amendments***  
  
*Business combinations*  
  
The Boards tentatively decided the following in relation to the measurement of lease assets and lease liabilities acquired in a business combination:

1. If the acquiree is a lessee, an acquirer should recognize a liability to make lease payments and a right-of-use asset. The acquirer should measure:
   1. The liability to make lease payments at the present value of future lease payments in accordance with the proposed leases guidance, as if the associated lease contract is a new lease at the acquisition date
   2. The right-of-use asset equal to the liability to make lease payments, adjusted for any off-market terms in the lease contract.
2. If the acquiree is a lessor applying the receivable and residual approach, an acquirer should recognize a right to receive lease payments and a residual asset. The acquirer should measure:
   1. The right to receive lease payments at the present value of future lease payments in accordance with the proposed leases guidance, as if the associated lease contract is a new lease at the acquisition date
   2. The residual asset as the difference between the fair value of the underlying asset at the acquisition date and the carrying amount of the right to receive lease payments.
3. If the acquiree is a lessor applying the SLE approach, an acquirer should apply the guidance in IFRS 3, *Business Combinations* or Topic 805, Business Combinations, that relates to acquired operating leases.
4. If the acquiree has leases for which, at the date of acquisition, the maximum remaining term of the lease contract is 12 months or less, an acquirer should not recognize separate assets or liabilities related to the lease contract at the acquisition date.

*Borrowing costs*  
  
The Boards tentatively decided that interest expense incurred in a lease should be included in the scope of IAS 23, *Borrowing Costs,* and Topic 835, Interest, for the purposes of determining the interest costs or borrowing costs that could be capitalized.  
  
*Related Party Leases*  
  
The Board tentatively decided not to provide specific guidance on recognition and measurement for related party leases. The Board tentatively decided to emphasize the requirements for related party disclosures with, at a minimum, a link to related party guidance.  
  
***Exposure Draft Comment Period***   
  
The Boards tentatively decided that the revised Exposure Draft for leases should have a comment period of 120 days.  
  
***Balloting***  
  
The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot.

**\*NEXT STEPS**

The staff is drafting the revised Exposure Draft.  
  
Please see the [Current Technical Plan](http://www.fasb.org/cs/ContentServer?c=Page&pagename=FASB%2FPage%2FSectionPage&cid=1218220137074) for more information about the project timeline.

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