Boards Meet to Further Deliberate Proposed Revisions to Lease Accounting

On Thursday, January 23, the FASB and IASB held a joint non-decision making meeting to discuss the Leases Project. Its purpose was to identify a number of proposed options and staff recommendations to be considered at future decision-making meetings, the next of which will be scheduled sometime in March at the FASB offices in Norwalk, CT. Here's a brief summary of what was discussed:

Lessor Accounting

The staff offered three choices for Lessor accounting:

1) Current GAAP,
2) Current GAAP with sales type accounting only if the lease transfers "control" to the lessee per the proposed Revenue Recognition standard, or
3) Business model (finance lessors use finance lease accounting and operating lessors use operating lease accounting for all their leases)

Business model was not discussed much. A move to "control" as the basis for sales type accounting would reduce the number of leases qualifying for gross profit recognition (i.e., sales type lease accounting). Members of both Boards seemed to prefer a revenue recognition accounting model. The discussion centered around abandoning symmetry in lessee and lessor accounting. The Boards are sympathetic to equipment lessors in the operating lease business as they discussed useful life issues that could change classification if business model is not used. Equipment finance companies should be pleased with the direction of lessor accounting, except for the restrictions on sales type accounting, the likely loss of leveraged lease accounting and, perhaps, the limited view of third party involvement affecting sale accounting.

Lessee Accounting

Lessee small ticket: the Boards are leaning towards keeping the definition of short term for an exemption but allowing simplified accounting for other small ticket leases. They look to make necessary calculations on a portfolio basis, believing (mistakenly, we think) that this offers less complexity in accounting for small ticket lease transactions.

Otherwise, the apparent split in thinking by the IASB and FASB on other aspects of lessee accounting remains. The FASB agrees with many of ELFA positions, including consideration of bankruptcy as important component in classifying and reporting on the balance sheet and expense recognition. The IASB seems to be reverting to the one lease model contained in the first Exposure Document (ED), or the classification by asset type and consumption per the second ED. Most notable is the IASB position supporting straight line rent expense for real estate lessees.

The staff offered three choices for Lessee accounting:

1) Type A for all leases (consistent with the first ED),
2) Type A for most equipment leases (consistent with the second ED), or
3) Existing GAAP classifications and P&L

Next Steps/Outlook

The staff was asked to develop papers for future decision-making meetings schedule to begin in March (date TBD.) Given the difficulty both Boards continue to have in achieving consensus on lessee accounting, the upcoming meetings promise to be very contentious.