



## Press release

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### Frequently asked questions on changes to lease accounting

The Basel Committee today issued responses to Frequently Asked Questions (FAQs) related to the changes to lease accounting promulgated by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB).

In 2016, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) revised the accounting for lease transactions.<sup>1</sup> Both standards are effective as of 1 January 2019 for calendar year-end entities, with early adoption permitted within the standards. While there are some differences between the IASB and FASB versions of the new lease accounting standards, they are consistent on the most fundamental change – they both require that most leases will be reflected on a lessee's balance sheet as an obligation to make lease payments (a liability) and a related right-of-use (ROU) asset (an asset). The following questions arise for banks in their capacity as lessees.

#### FAQs on the treatment of the ROU Asset

1. Most intangible assets are deducted from regulatory capital, while tangible assets generally are not. Is the lessee's recognised asset under the new lease accounting standards (the ROU asset) an asset that is tangible or intangible?

**Answer:** For regulatory capital purposes, an ROU asset should not be deducted from regulatory capital so long as the underlying asset being leased is a tangible asset.

2. Where the underlying asset being leased is a tangible asset, should the ROU asset be included in risk-based capital and leverage ratio denominators?

**Answer:** Yes, the ROU asset should be included in the risk-based capital and leverage denominators. The intent of the revisions to the lease accounting standards was to more appropriately reflect the economics of

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<sup>1</sup> IFRS 16 – *Leases* was issued in January 2016 and FASB Accounting Standards Update No. 2016-02, *Leases (Topic 842)* was issued in February 2016



leasing transactions, including both the lessee's obligation to make future lease payments, as well as a ROU asset reflecting the lessee's control over the leased item's economic benefits during the lease term.

3. Where the underlying asset being leased is a tangible asset, what risk weight should be assigned to the ROU asset for regulatory capital purposes?

**Answer:** The ROU asset should be risk-weighted at 100%, consistent with the risk weight applied historically to owned tangible assets and to a lessee's leased assets under leases accounted for as finance leases in accordance with existing accounting standards.