

Exposure Draft – Leases

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation

Why a lease project?

- **Existing lease accounting doesn't meet users' needs**
 - Accounting depends on classification
 - Users adjust financial statements to recognise assets and liabilities arising in operating leases
- **Complexity**
 - Difficult to define dividing line between finance and operating

- Excludes:
 - Lessors with investment property at fair value under IAS 40
 - Purchase and sale contracts
 - Leases of intangible assets
 - Leases of biological assets or to explore for or use natural resources
- Includes simplified accounting for short-term leases
 - Lessee: recognise gross asset and gross liability
 - Lessor: use accrual accounting
- Includes certain requirements for sale/leasebacks
- Incorporates IFRIC 4 to differentiate service contracts from leases

Lessee model – Right of Use

Lessee has acquired a right to use the underlying asset and is paying for that right with its lease payments

All leases in scope	
Balance sheet <ul style="list-style-type: none"> • Right-of-use asset* X • Liability to make lease payments X 	Income Statement <ul style="list-style-type: none"> • Amortisation expense X • Interest expense X

* Shown in the property, plant and equipment category

Lessee measurement

	Initial Measurement	Subsequent Measurement
Liability to make lease payments	PV of lease payments discounted using incremental borrowing rate	Amortised cost No revision of incremental borrowing rate
Right-of-use asset	Cost (= liability to make lease payments)	Amortised cost (option to revalue*)

*Revaluation of entire class of PP&E is required if right-of-use is revalued

Lessee - Options to extend lease term

- Include longest possible lease term that is more likely than not to occur in *liability to make lease payments*
- Reassess if facts or circumstances indicate that there is a significant change
- Adjust liability and right-of-use asset
- Purchase options- account for only when exercised

Lessee - Options to extend

Example

- A machine is leased for 10 years
- Lease includes an option to extend for an additional 5 years
- Lessee must decide whether to recognise:
 - a liability to make 10 years of lease payments
 - a liability to make 15 years of lease payments

Lessee - Contingent rentals

- Include expected outcome in lease asset and liability
- Include residual value guarantees
- Reassess if facts or circumstances indicate a significant change
- Adjust liability to make lease payments
and
 - profit or loss for changes related to current / past periods,
or
 - right-of-use asset for changes related to future periods

Lessee - Disclosures

- To enable users to evaluate the nature, amount, timing, and uncertainty of cash flows arising from lease contracts and how the entity manages those cash flows
- Include:
 - Nature of lease arrangements
 - Maturity analysis of contractual and total lease payments
 - Roll-forward of right-of-use asset and liability for lease payments
 - Discount rate(s)

Lessee - Transition

- All leases except simple finance leases
 - Simplified retrospective approach
 - Present value of remaining lease payments
 - Effective date: TBD

Liability to make lease payments	=	Right-of-use asset	=	PV of lease payments
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- Adjust for prepaid or accrued rentals
- Review asset for impairment
- For simple finance leases, the measurement of the assets and liabilities would not be changed on transition or subsequently

Lessor model - Right of Use

- Based on exposure to risks or benefits of the underlying asset during or subsequent to the expected term of the lease contract
- Counterparty credit risk is not considered

Does the lessor retain significant risks or benefits of the underlying asset?

No

Derecognition approach

Yes

Performance Obligation approach

Does the lessor retain significant risks or benefits of the underlying asset?

No

Derecognition approach

Balance sheet

- Residual asset X
- Right to receive lease payments X

Income Statement

- Revenue X
- Cost of sales (X)
(gross or net based on business model)
- Interest income X

Does the lessor retain significant risks or benefits of the underlying asset?

Yes

Performance obligation approach

Balance sheet

(Gross with linked presentation)

• Underlying asset	X
• Right to receive lease payments	X
• Lease liability	<u>(X)</u>
Net lease asset (liability)	X

Income Statement

(Separate presentation –IASB)

• Lease income	X
• Depreciation expense	(X)
• Interest income	X

Lessor model - measurement

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	Initial Measurement	Subsequent Measurement
Derecognition approach		
Right to receive lease payments	PV of lease payments discounted using the rate charged in the lease	Amortised cost
Residual asset	Allocated carrying amount	No remeasurement (except for impairment)
Performance Obligation approach		
Right to receive lease payments	PV of lease payments discounted using the rate charged in the lease	Amortised cost
Lease liability	Transaction price (= right to receive payments)	Recognise income as the liability is satisfied over the lease term

Lessor - Options to extend lease term

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- Include longest possible lease term that is more likely than not to occur in *right to receive lease payments*
- Reassess if facts or circumstances indicate that there is a significant change
- Adjust right to receive and liability or residual asset
- Purchase options - account for only when exercised

- Treatment of changes in estimates

Derecognition approach:

- Recognise change in assessment as a derecognition/re-recognition event for the residual asset

Performance obligation approach:

- Recognise change in right to receive lease payments as an adjustment to the lease liability

Lessor - Contingent rentals

- Include expected outcome in right to receive rentals *only if measured reliably*
- Include residual value guarantees
- Reassess if facts or circumstances indicate a significant change

- Treatment of changes in estimates

Derecognition approach:

- Change is a derecognition/ re-recognition event for the residual asset
- Adjust right to receive lease payments and profit or loss

Performance obligation approach:

- If change is related to a satisfied lease liability, adjust right to receive lease payments and profit or loss
- If change is related to an unsatisfied lease liability, adjust the lease liability

- To enable users to evaluate the nature, amount, timing, and uncertainty of cash flows arising from lease contracts and how the entity manages those cash flows
- Include:
 - Nature of lease arrangements, including contingencies
 - Short-term leases and service obligations
 - Maturity analysis of right to receive lease payments
 - Any restrictions on leased assets
 - Revenue recognition information
 - Roll-forward of right to receive lease payments and residual asset or lease liability

Transition – Lessor:

- All leases
 - Simplified retrospective approach
 - Present value of remaining lease payments
 - Effective date: TBD

Derecognition approach

Right to receive lease payments =
PV of lease payments

Residual asset = Fair value

PO approach

Right to receive lease payments =
Lease liability = PV of lease payments

Sale / leasebacks

- Account for transaction as sale/leasebacks if it is determined that the underlying asset has been sold
 - at the end of the contract control of the underlying asset will be transferred, and
 - all but a trivial amount of the risks and benefits associated with the underlying asset have been transferred to the buyer/lessor
- Adjust assets, liabilities, gains and losses recognised to reflect market rentals

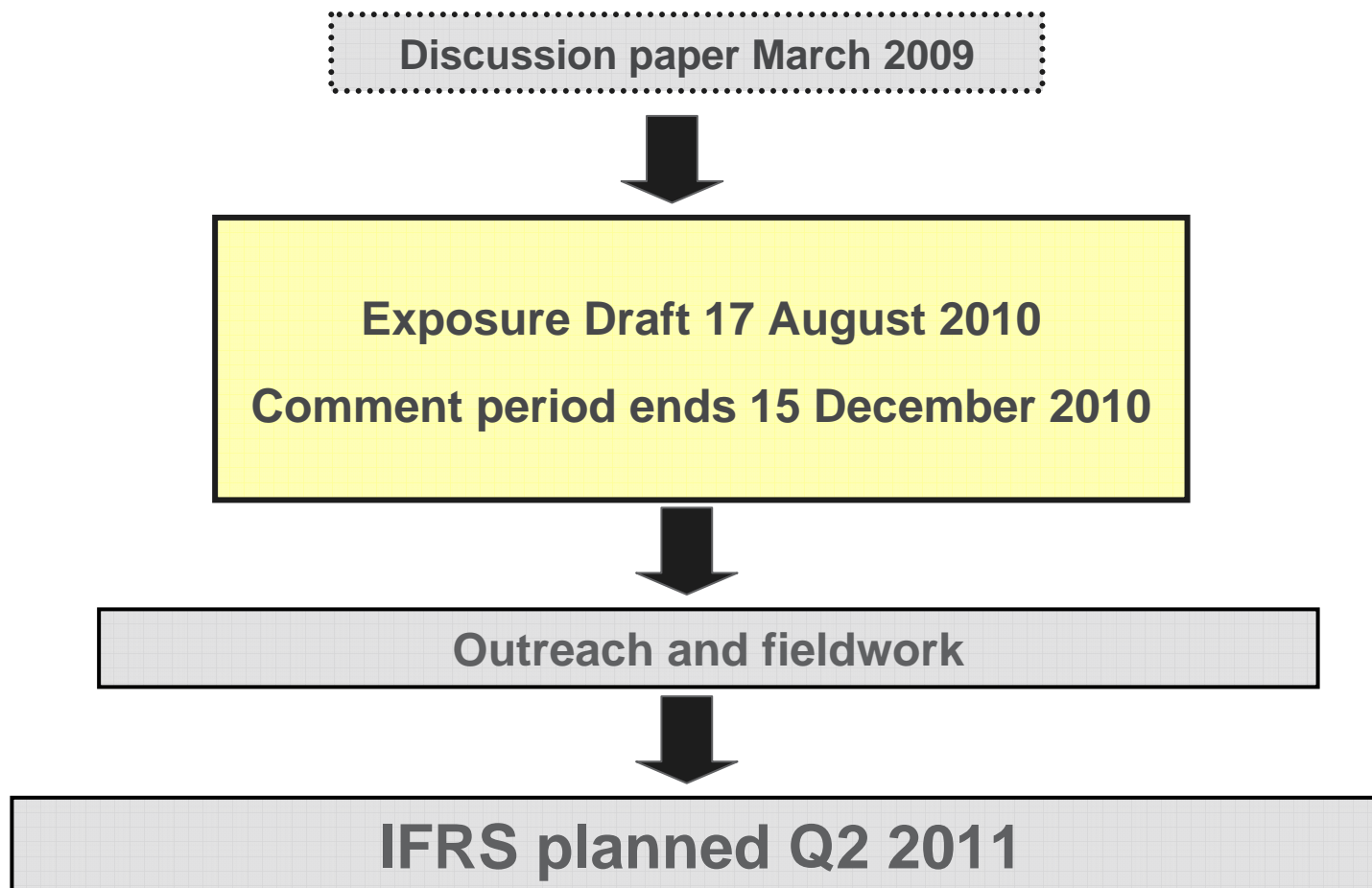
Subleases

- Account for assets/liabilities in accordance with the related lessee and lessor models
- Separately present the liability to make lease payments to the head lessor
- Disclose the nature and amount of significant subleases
- Show the leased asset, right to receive lease payments and lease liability with “linked” presentation under the performance obligation approach
- Present all assets and liabilities gross under the derecognition approach

First time adoption

- Apply the proposed transition requirements
- Recognise lease assets and liabilities at the present value of the lease payments for all leases
- No relief for simple finance leases-account for in the same way as other leases on first time adoption

What's next?



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Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

