IASB Update

From the International Accounting Standards Board

1 November 2011

Welcome to IASB Update

The IASB met on 1 November 2011 in a public meeting, with some Board members participating by telephone or videoconference. The meeting was held jointly with the FASB with FASB Board members participating via videoconference from Norwalk.

One IASB Board member was not able to participate in the meeting.

The three papers discussed were originally scheduled to be discussed in the meeting held on 18 and 19 October.

The topic discussed at the joint IASB/FASB meeting was:

- Leases

Contact us

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
E-mail: info@ifrs.org
Website: www.ifrs.org

Future Board meetings

The next Board meetings in 2011 are:
7 November
12-16 December

Archive of IASB *Update* Newsletter

Click here for archived copies of past issues of IASB *Update* on the IASB website.

Podcast summaries

To listen to a short Board meeting audio summary (podcast) of previous Board meetings, click here.

Leases

The FASB and the IASB discussed the disclosure requirements for lessors that account for leases under the receivable and residual approach, transition requirements for sale and leaseback transactions and other transition considerations for the proposed leases guidance.

Lessor disclosure

The boards tentatively decided to require disclosure of the following items for lessors that account for leases under the receivable and residual approach:

1. A table of all lease-related income items that were recognised in the reporting period, disaggregated into (a) profit, recognised 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; and (e) short-term lease income. All board members present agreed.
2. Information about the basis and terms on which variable lease payments are determined as required in paragraph 73(a)(ii) of the 2010 exposure draft. All board members present agreed.
3. Information about the existence and terms of options, including options for renewal and

termination as required in paragraph 73(a)(iii) of the 2010 exposure draft. All board members present agreed.

4. A qualitative description of purchase options in leasing arrangements, including information about the extent to which the entity is subject to such agreements. Ten IASB members and six FASB members agreed.
5. A reconciliation of the opening and closing balance of the right to receive lease payments and residual assets. All board members present agreed.
6. A maturity analysis of the undiscounted cash flows included in the right to receive lease payments. Twelve IASB members and all FASB members agreed. 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. All IASB members present and 6 FASB members agreed.
7. In addition to the disclosure about residual asset risk and residual value guarantees 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, or options to put the underlying asset back to the manufacturer). Eleven IASB members and six FASB members agreed.

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

1. The initial direct costs incurred in the period (12 IASB members and all FASB members agreed);
2. The weighted average or range of discount rates used to calculate the right to receive lease payments (10 IASB members and 4 FASB members agreed); and
3. The fair value of the right to receive lease payments or the residual asset (10 IASB members and 4 FASB members agreed).

Sale and leaseback transition

The boards reached the following tentative decisions regarding transition accounting for sale and leaseback transactions entered into prior to the effective date:

- For a sale and leaseback transaction that resulted in a capital lease (US GAAP) or finance lease (IFRS) classification, a seller/lessee would not re evaluate the sale recognition conclusion reached previously, would not remeasure lease assets and lease liabilities that had been previously recognised in the statement of financial position, and would continue to amortise any deferred gain or loss on sale over the lease term in the statement of comprehensive income.
- For a sale and leaseback transaction that resulted in an operating lease classification or for which the sale recognition criteria were previously not met, a seller/lessee would re evaluate 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 recognise any deferred gain or loss in opening retained earnings upon transition to the new leases guidance.
- Alternatively, a seller/lessee may elect to apply the requirements in the proposed leases standard retrospectively.

All board members present agreed.

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 plan to consider at a future meeting whether transition guidance is necessary for secured borrowings and investment property that is not measured at fair value. All board members present agreed.

Next Meeting

The next meeting will be held on the afternoon (London time) of Monday 7 November. The only item scheduled to be discussed is the proposal to defer the effect date of IFRS 9 *Financial instruments*.

Go to the top of this page