IASB/FASB Joint Meeting –week beginning 19 July 2010 FASB ED Session –July 14, 2010

IASB Agenda reference	**2E**
FASB Agenda reference	**116**

Staff Paper

Project	**Leases**
Topic	**Additional disclosures**

Introduction

1. In June 2010, the boards decided that:

   (a) lessors will apply a hybrid approach based on their exposures to the risks and benefits of the underlying asset at the end of the lease.

   (b) purchase options are only recognised when exercised.

2. This paper proposes additional disclosure requirements based on those decisions. The Appendix to this paper provides a draft in ED format the staff recommendations.

Lessor accounting: which model?

3. Paper 2A/112 proposes guidance to help a lessor decide which approach to apply. Because one lessor could have many types of leases, it is possible that a lessor could be applying both models at the same time. This may reflect the business model(s) of the lessor, but it does not necessarily provide information for users to compare.

4. Therefore we recommend that, in addition to the overarching disclosure principles for leases, the lessor has to disclose the following information:

(a) explain in its accounting policy which model (or models) the lessor applies. This is not an additional requirement because IAS 1 *Presentation of Financial Statements* and the guidance in Topic 235 *Notes to Financial Statements* require an entity to disclose significant accounting policies.

(b) explain the types of risks/benefits of the underlying asset that the lessor weighed in order to determine which model to apply. This will provide to users insight on how management assesses the risks/benefits of the underlying asset.

(c) If a lessor applies both approaches for its leases, it will separately disclose in the notes any impairment in a reporting period for the underlying asset or residual asset separately under either approach. This is because the assessment for impairment is very different – under performance obligation, the lessor assesses a net of the underlying asset and receivable and under derecognition, the lessor only assesses the residual asset.

5. We considered requiring the lessor to separately disclose all of their assets, liabilities and other income and expenses arising from each approach. However, we think that apart from what we propose above, most of the assets, liabilities, income and expenses arising from each approach are going to be quite obvious to users (see the table 1 below).

6. Some may question if the lessor should separately disclose the interest income for each approach. Because the computation and nature of the interest income under the performance obligation and derecognition approaches are the same, we do not recommend requiring this disclosure.

Table 1

	Performance obligation		Derecognition	
Statement of financial position	Underlying asset	X	Lease receivable	X
	Lease receivable	X	(separate from other receivables)	
	Performance Obligation	(X)		
	Net lease asset / liability	X	PP&E (by class):	
			Residual asset	X
			Owned assets	X
Statement of comprehensive income	Lease income	X	Revenue	X
	Interest income	X	Cost of sales	(X)
	Depreciation	(X)	(gross or net depending on business model)	
	(separate presentation)		Interest income	X

Question 1

Do you agree with the staff recommendation that a lessor shall also disclose:

a) The accounting policy on which model(s) that the lessor applies

b) The types of risks/benefits of the underlying asset that the lessor considered when deciding which approach to apply.

c) Separately for each type of lessor approach any impairment that occurred.

Purchase options

7. As mentioned above, the boards tentatively decided that purchase options are only recognised when exercised. A lessee or lessor will not recognise the effects of purchase options in their assets or liabilities.

8. We recommend that an entity discloses the existence and principal terms of any options for the lessee to purchase the underlying asset because it informs users

about the existence of such arrangements and whether the lessee has the flexibility or option to purchase the underlying asset from the lessor.

Question 2
Do you agree with the staff recommendation that an entity discloses the existence and principal terms of any purchase options?

Appendix: draft ED on additional disclosures proposed

Disclosure

Information that identifies and explains the amounts in the financial statements

1. An entity shall disclose:

   (a) the nature of its lease arrangements, including:

   …

   (iv) the existence and principle terms of any options for the lessee to purchase the underlying asset.

2. A lessor shall disclose the information about its exposure to the risks and benefits associated with an underlying asset that it used to determine whether it applied the performance obligation approach or the derecognition approach to the lease of the underlying asset.

3. A lessor that applies both the performance obligation and derecognition accounting model shall disclose separately any impairment loss on the underlying asset or residual asset separately under either approach.