

Financial Reporting Update Issue 75 – March 2014

Lease Accounting – The FASB and IASB take divergent paths on key aspects

27 March 2014

Since issuing the [Exposure Draft ED/2013/6 Leases](#) in 2013, the IASB and FASB (the “Boards”) have received over 600 comment letters and have held subsequent outreach meetings to listen to the concerns of investors, analysts, regulators and preparers. The Boards held preliminary discussions on key issues in January 2014, where the Board members differed on key aspects of the proposals.

On 18 and 19 March 2014, the Boards re-deliberated the proposals, covering both lessee and lessor accounting, and potential simplifications of the accounting models. Although both Boards remain committed to on-balance sheet recognition of leases by lessees, the Boards could not reach a consensus on certain key issues.

The following table summarises the tentative decisions reached at the meetings:

Topic	IASB decisions	FASB decisions
Lessee accounting model	<ul style="list-style-type: none"> Single lease accounting model (<i>except for short-term and small-ticket leases as mentioned below</i>) No lease classification test All leases on-balance sheet <ul style="list-style-type: none"> Treated as purchase of asset on a financed basis 	<ul style="list-style-type: none"> Dual lease accounting model Lease classification test based on IAS 17 classification criteria All leases on-balance sheet <ul style="list-style-type: none"> Type A leases treated as purchase of asset on a financed basis Type B leases qualify for straight-line recognition of total lease expense
	<ul style="list-style-type: none"> For lessors, the lease accounting model and the lease classification test will continue follow the principles of lease accounting in IAS 17 (i.e. many of the proposals in the ED for lessors have now been eliminated). 	
	<ul style="list-style-type: none"> No restriction on recognising selling profit on 	<ul style="list-style-type: none"> Selling profit not recognised on commencement of



[IFRS Newsletter: Leases - Issue 14](#)



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Lessor accounting model	commencement of Type A lease	Type A lease unless control of the leased asset is transferred to the lessee
Lease term and purchase options	<ul style="list-style-type: none"> • Threshold to determine whether to include renewal and purchase options in lease accounting to be consistent with high threshold in current GAAP • Lessees to reassess renewal and purchase options if there is a significant event or change in circumstances that is within the control of the lessee, e.g. construction of significant leasehold improvements • No reassessment of renewal and purchase options by lessors 	
Short-term leases	<ul style="list-style-type: none"> • Lessee exemption for short-term leases expanded to cover leases for which the lease term – as determined under the revised proposals for the lease term – is 12 months or less 	
Small-ticket leases	<ul style="list-style-type: none"> • Lessee exemption for small-ticket leases, even if material in aggregate 	<ul style="list-style-type: none"> • No exemption for small-ticket leases
	<ul style="list-style-type: none"> • Portfolio-level accounting permitted in some cases 	

Deliberations are expected to continue in the coming months. Given the extent and complexity of the discussions, it is possible that the Boards will return to certain topics. Some decisions could also be reversed before the final standard is published. However, the Board members appear entrenched in their opposing views and a fully converged standard seems unlikely.

Further details of the Board's decisions of the leases project in March 2014 can be found in our [IFRS Newsletter: Leases](#) publication (Issue 14) and [Defining Issues 14-17](#). For more information on the leases project, please talk with your usual KPMG contact or visit the [IFRS – leases](#) hot topics page of the KPMG International site, which includes lines of business insights.

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