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FASB, IASB Issue Revamped Lease Accounting Proposal.

U.S. and international standard setters on May 16 issued a revised proposal intended to improve transparency in public and private entities' accounting for leases by requiring them to recognize assets and liabilities arising from leasing transactions on their balance sheet.

The exposure draft, "Leases (Topic 842): a revision of the 2010 proposed Accounting Standards Update, Leases (Topic 840)," modifies the proposed guidance issued by the Financial Accounting Standards Board and the International Accounting Standards Board in August 2010. (Prior coverage .)

Under the latest proposal, a lessee would be required to recognize assets and liabilities for the rights and obligations created by leases. The proposal also directs lessees and lessors to classify their leases according to whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the leased asset.

During a webcast introducing the proposal, FASB member Russell Golden said leasing is an important activity for many organizations because it represents a "means of gathering access to assets, obtaining finance, and reducing an organization's exposure to the risk of asset ownership."

Golden, whose term as FASB chair begins July 1, said the existing accounting models, which require lessees and lessors to classify their leases as either capital leases or operating leases, often don't accurately represent leasing transactions. Several users have to adjust reported financial information to reflect the assets and liabilities arising from leases, he added.

According to FASB, the proposed dual-model approach for the recognition, measurement, and presentation of expenses and cash flows from leases will better reflect the differing economics of leasing transactions. Under the proposed approach, a lessee would report a straight-line lease expense in its income statement for most property leases, but for most leases of assets other than property, the lessee would present the interest on the lease liability separately from the amortization of the right-of-use asset.

Golden said it's important for statements' users to have a "complete and understandable picture of an organization's leasing activity," which can include leases of real estate, vehicles, and construction equipment. He added that the proposed guidance would require lessees to provide disclosures that enable investors and users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from the leases.

Despite its perceived benefits, the revised approach for lease accounting was opposed by some constituents and FASB members, whose alternative views are presented in the exposure draft.

Current FASB Chair Leslie Seidman said in a release that the decision to revise the original proposal to distinguish among types of leases for income statement and cash flow purposes was made in response to feedback received from stakeholders. The revised, converged proposal is responsive to the "widespread view of investors that leases are liabilities that belong on the balance sheet," she added.

FASB and the IASB also made changes to the accounting model for lessors to ensure consistency with both the lessee accounting proposal and the revenue recognition standard.

FASB and the IASB decided that the existing separate accounting model for leveraged leases would not be retained for the proposed guidance. The exposure draft proposes to amend guidance in Accounting Standards Codification Topic 740, "Income Taxes," regarding leveraged leases.

According to the proposal, respondents are encouraged to submit one comment letter to either FASB or the IASB. An effective date for the proposed requirements will be determined after the public feedback has been jointly considered by the boards.

Warren Kitchens of Dixon Hughes Goodman LLP told Tax Analysts the new framework will make companies' assessments of leasing transactions more complex. Some companies implementing the new requirements will have to contend with significant timing differences that could result in additional deferred tax assets and liabilities, he said.

FASB and the IASB will accept written comment on the revised exposure draft until September 13.

The full proposal is available at:

http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175826935767&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs.)

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