
FASB, IASB Consider Changes and Cost Relief for Leasing Model.

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At a joint videoconference, the Financial Accounting Standards Board and the International Accounting Standards Board were presented with alternatives for a proposed model on lessee accounting that were developed in response to constituent feedback received on the 2013 exposure draft, "Leases (Topic 842): A Revision of the 2010 Proposed Accounting Standards Update, Leases (Topic 840)."

FASB and the IASB were not asked to reach any substantive decisions on the lessee accounting model at the meeting, but rather the views expressed would be used by the staff to develop the accounting approaches that would be considered at a joint meeting in March.

Scott Muir, a practice fellow at FASB, said all three approaches to lessee accounting recognize a lease liability and a right-of-use (ROU) asset for all leases other than short-term leases, and measure the ROU asset in the same manner at lease commencement. All three approaches would also measure the lease liability in the same manner throughout the lease term, he added.

According to Muir, the lessee approaches vary regarding the subsequent measurement of the ROU asset as well as the timing and presentation of lease expense.

Muir said Approach 1 would account for all leases as the purchase of an ROU asset on a financed basis. A lessee would recognize amortization of the ROU asset on a generally straight-line basis separately from interest on the lease liability, which is determined using the effective interest method, he said, adding that the lessee would account for all leases as Type A leases by recognizing amortization of the ROU asset.

Approach 2, according to Muir, would classify leases as Type A or Type B in a manner similar to the proposals in the 2013 exposure draft. He said that under Approach 2, a lessee would account for all leases of assets other than property as Type A leases, and most property leases — which would be defined as land, buildings, and integral equipment — as Type B leases for which the lessee would recognize a single lease expense.

Muir said Approach 3 would classify leases as Type A or Type B based on the lease classification principle consistent with Accounting Standards Codification (ASC) Topic 840, "Leases," and International Accounting Standard (IAS) No. 17, "Leases." Under that approach, a lessee would account for the vast majority of existing capital or finance leases as Type A leases, and the vast majority of existing operating leases as Type B leases, he said.

Board members expressed differing opinions on their preferred approach for lessee lease classification.

IASB Chair Hans Hoogervorst said Approach 1 is the most conceptually sound and would receive the most support from financial statement users, but he also suggested the option of permitting some companies with large property portfolios to use Approach 2. “I don’t know if that can be done, but I would like that to be explored,” he said.

FASB Chair Russell Golden said Approach 3 is the simplest to apply and would solve the primary objective of reporting assets and liabilities associated with leases on the balance sheet. He added that this approach would also address concerns about the cost and complexity of having to implement multiple accounting systems because there wouldn’t be a need to rethink how a leasing transaction should be classified.

IASB Vice Chair Ian Mackintosh said, however, that if FASB and the IASB are going to further consider Approach 3, the boards should be upfront and admit that this lessee accounting model is being developed on the basis of requiring less work from financial statement preparers.

Regarding lessor accounting, the staff recommended that FASB and the IASB pursue a model that would not change lessor accounting for most lessors.

Muir said the cost of a fundamental change to lessor accounting may not be justifiable in light of user feedback on existing lessor accounting, and the consideration of the appropriate lessor accounting model can occur independent of the boards’ decisions on how to change lessee accounting.

Muir said the staff rejected a proposal to eliminate consideration of lessor accounting from the leases project because doing so would negate the converged nature of the proposed standard and ignore the existing differences between U.S. generally accepted accounting principles and international financial reporting standards.

According to Muir, the staff thinks the inclusion of lessor guidance within a final standard would ensure needed consistency with any final lessee guidance regarding scope, definitions, and identifying leases. “We believe retaining existing [ASC] Topic 840 and IAS 17 for lessors while issuing a new lessee accounting standard carries the risk of unintended consequences,” he said.

After some discussion, Hoogervorst concluded that the boards seemed to favor abandoning the prior attempt to prescribe symmetrical accounting for lessees and lessors and to instead begin working on targeted improvements of the current lessor accounting models in U.S. GAAP and IFRS.

FASB and the IASB also reviewed various methods to provide cost relief related to the accounting for “small ticket leases” held by a lessee.

Sarah Geisman, a technical manager at the IASB, said small ticket leases represent transactions that are large in number but small in dollar value, are secondary to a lessee’s overall business, and involve underlying assets such as information technology equipment, office equipment, and automobiles.

Geisman said several constituents argued that it would be costly to apply the proposals in the 2013 exposure draft to those small ticket leases. As a result, the staff suggested introducing guidance into the leases standard that explicitly allows the guidance to be applied to portfolios of leases, she said, adding that the amendment should provide cost relief to preparers while maintaining information that may be relevant for users.

According to Geisman, the staff also supported changing the definition of short term to align with the definition of lease term. The change would increase consistency and simplicity within the guidance and address concerns related to daily rentals or month-to-month leases that do not meet the definition of a short-term lease, she said.

IASB member Takatsugu Ochi responded to the staff proposal, saying that the boards should consider making the leases standard applicable only to those transactions with a lease commitment that exceeds 5 percent of the lessee's noncurrent assets. That threshold should significantly reduce the amount of entities within the scope of the project, he added.

by Thomas Jaworski