

IASB and FASB propose changes to lease accounting

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) today published for public comment a revised Exposure Draft outlining proposed changes to the accounting for leases. The proposal aims to improve the quality and comparability of financial reporting by providing greater transparency about leverage, the assets an organisation uses in its operations and the risks to which it is exposed from entering into leasing transactions.

Leasing is an important activity for many organizations. Under existing accounting standards, a majority of leases are not reported on a lessee's balance sheet. The amounts involved can be substantial. Additionally, the existing accounting models for leases require lessees and lessors to classify their leases as either finance leases (for example, a lease of equipment for nearly all of its economic life) or operating leases (for example, a lease of office space for 10 years) and to account for those leases differently.

For finance leases, a lessee recognises lease assets and liabilities on the balance sheet. For operating leases, a lessee does not recognise lease assets or liabilities on the balance sheet. The existing standards have been criticized for failing to meet the needs of users of financial statements because they do not always provide a faithful representation of leasing transactions.

In response to this criticism, in 2006 the IASB and the FASB initiated a joint project to improve the financial reporting of leasing activities under International Financial Reporting Standards (IFRSs) and US Generally Accepted Accounting Principles (U.S. GAAP).

The Boards have developed an approach to lease accounting that would require a lessee to recognise assets and liabilities for the rights and obligations created by leases. A lessee would recognize assets and liabilities for leases of more than 12 months.

Stakeholders have informed the Boards that there are a wide variety of lease transactions with different economics. To better reflect those differing economics, the revised Exposure Draft proposes a dual approach to the recognition, measurement and presentation of expenses and cash flows arising from a lease. For most real estate leases, a lessee would report a straight-line lease expense in its income statement. For most other leases, such as equipment or vehicles, a lessee would report amortisation of the asset separately from interest on the lease liability. The Boards are also proposing disclosures that should enable investors and other users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases.

The leases project is a converged effort between the FASB and the IASB. The revised Exposure Drafts for both organizations are nearly identical. The differences between the two proposals are primarily related to existing differences between U.S. GAAP and IFRS and decisions the FASB made related to nonpublic entities.

The Boards are also proposing changes to how equipment and vehicle lessors would account for leases that are off-balance-sheet. Those changes would provide greater transparency about such lessors' exposure to credit risk and asset risk.

Stakeholders are encouraged to review and provide feedback on the revised Exposure Draft by September 13, 2013.

On Monday, May 20, the IASB will hold a live webcast taking place from 08.30 BST. The webcast will feature IASB member Darrel Scott, and IASB staff members who will discuss the proposal and answer questions submitted by viewers. More information, including details on how to register, can be found [here](#).

A second webcast, hosted jointly by the FASB and the IASB will take place on Monday, May 20, from 15:30 BST. The webcast will feature FASB member Russell Golden, IASB member Darrel Scott, and FASB and IASB staff members. More information, including details on how to register, can be found [here](#).

Further information, including the revised Exposure Draft, is available on the IASB website at www.ifrs.org and FASB website at www.fasb.org.

Hans Hoogervorst, Chairman of the IASB commented *“The development of an improved standard for leasing is vital. At present, investors must take an educated guess to determine the hidden leverage from leasing by using basic disclosures in financial statements and applying arbitrary multiples. It is clearly not in the best interests of investors to expect analysts and others to guess the liabilities associated with leases. The proposals outlined in this revised Exposure Draft will go a great distance towards improving the quality and comparability of financial reporting in this area.”*

Leslie Seidman, Chairman of the FASB commented *“The FASB and the IASB have worked together to develop a revised, converged proposal to address the inadequacies of current lease accounting and disclosures. The proposal is responsive to the widespread view of investors that leases are liabilities that belong on the balance sheet. The Boards revised the original proposal to distinguish between different types of leases for income statement and cash flow purposes, in response to feedback received from stakeholders.”*

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About the International Accounting Standards Board

The IASB was established in 2001 and is the standard-setting body of the IFRS Foundation, an independent, private sector, not-for-profit organisation. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting Standards that provide high quality, transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. The IASB has 16 full-time members drawn from 11 countries and a variety of professional backgrounds. Board members are appointed by, and accountable to, the Trustees of the IFRS Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience. In their work the Trustees are accountable to a Monitoring Board of public authorities.

About the Financial Accounting Standards Board

Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors, and others rely on credible, transparent, and comparable financial information. For more information about the FASB, visit our website at www.fasb.org.