

**UNCTAD-Intergovernmental Working Group of Experts on
International Standards of Accounting and Reporting
Workshop on Accounting and Financial Reporting Standards**

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Afternoon Session

IFRS 16 – Leases

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UNCTAD-ISAR Technical Workshop on Accounting and Financial Reporting

Leases

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This presentation has been prepared to help stakeholders understand the new leases standard of the FASB. The views expressed in this presentation are those of the presenters. Official positions of the FASB are reached only after extensive due process and deliberations.



Objective

SEC Staff Report on Off-Balance Sheet Arrangements

Issued in 2005

Recommendations

- Reconsider the accounting guidance for leases
- Current model results in structuring leases to avoid recognition of liabilities on the balance sheet
- Study suggested there may be approximately \$1.25 trillion in noncancellable future cash obligations committed under operating leases that are not on issuer balance sheets at that time (2005)

Response

- All leases with a lease term of more than 12 months result in lease assets and lease liabilities recognized on the balance sheet increasing transparency and comparability among organizations

Model

Lessee

- Recognize lease assets and lease liabilities on the balance sheet
- Provide additional information about operating leases

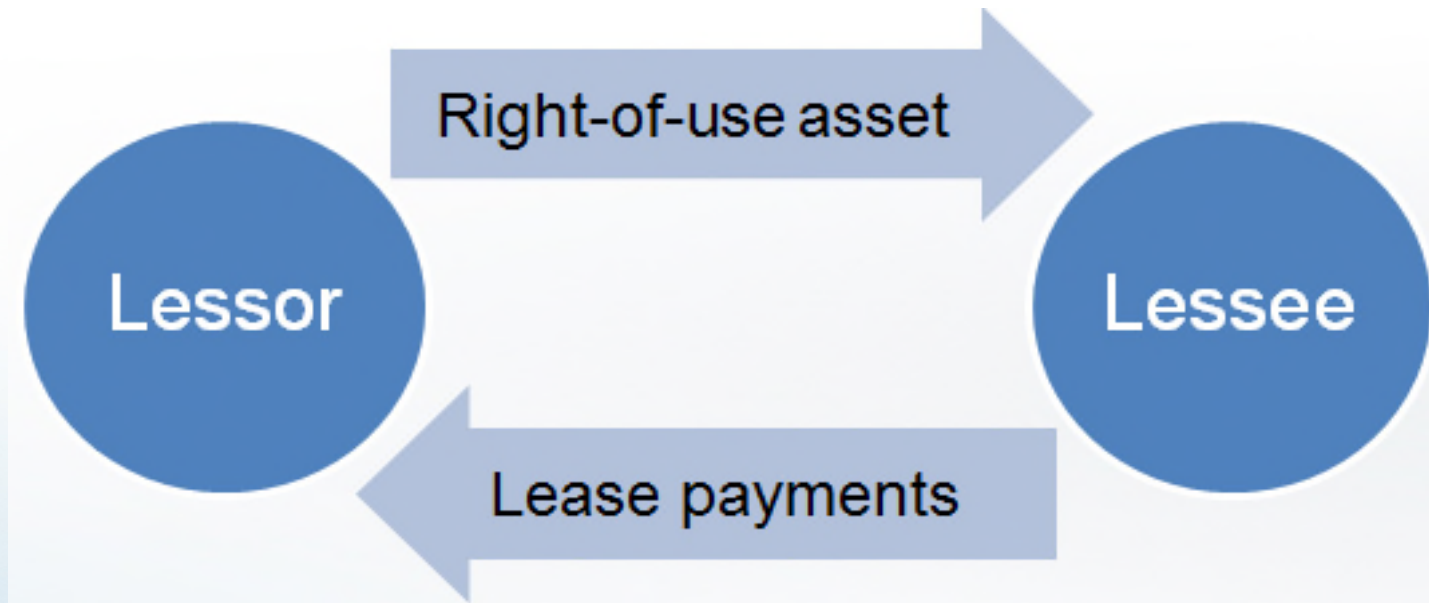
Lessor

- Disclose additional information about residual values and residual asset risk
- Align guidance consistent with aspects of revenue recognition guidance (as it is under Topic 840)

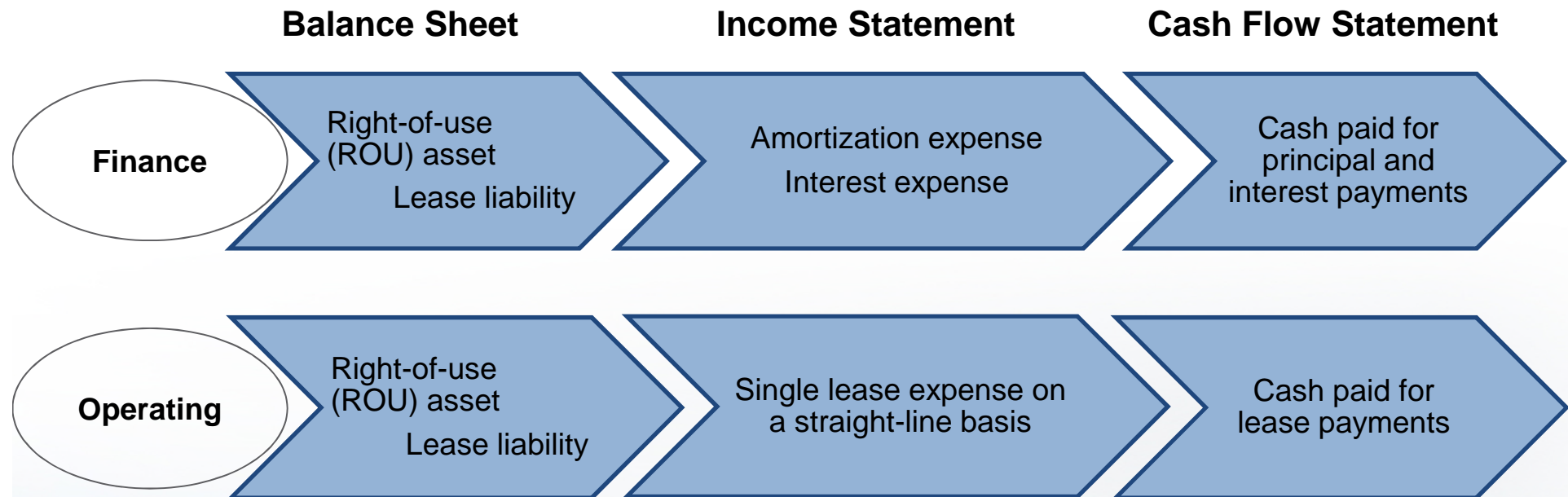
Enhanced Disclosures to improve transparency

Right-of-Use Model

A lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (an identified asset) for a period of time in exchange for consideration



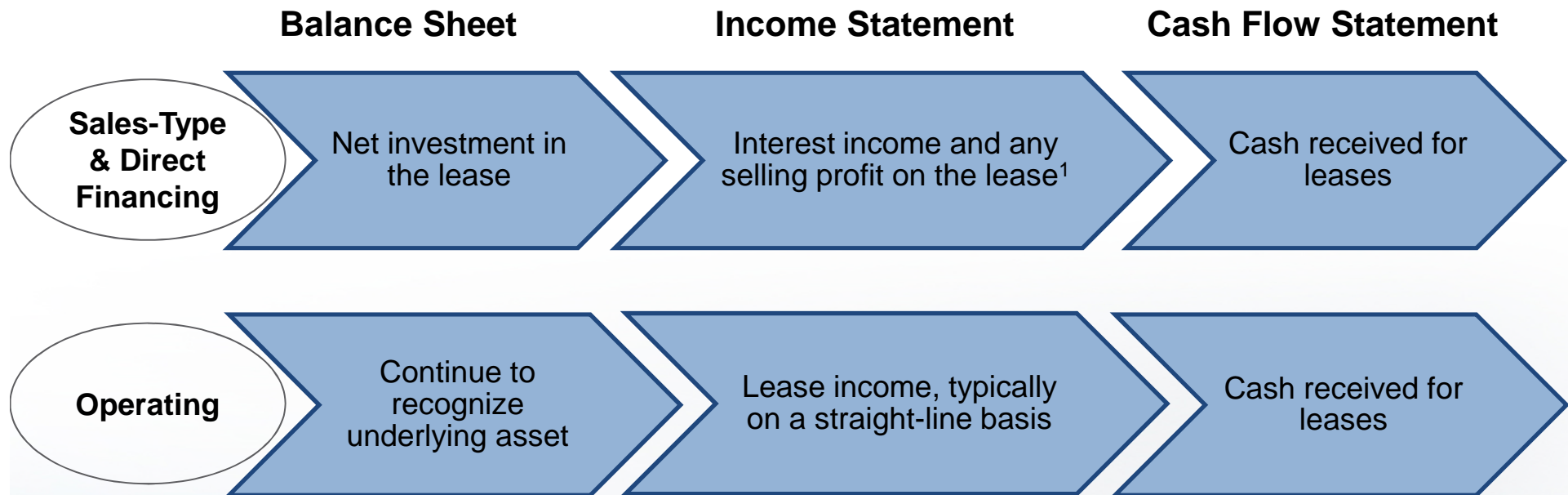
Lessee Accounting Overview



Classification is similar to the classification in Topic 840

Recognition and measurement exemption for short-term leases

Lessor Accounting Overview



Classification is similar to the classification in Topic 840

¹ Selling profit is recognized at lease commencement for sales-type leases and over the lease term for direct financing leases (note: selling profit is rare for direct financing leases)

US GAAP versus IFRS - Differences

Topic 842	IFRS 16
Scope	
No exemption for low-value assets	Recognition and measurement exemption for low-value assets
Lessee Accounting Model	
Dual-lease accounting model Operating and finance leases are classified based on test similar to current GAAP (Topic 840)	Single-lease accounting model Finance leases only
Accounting policy election for nonpublic entities to use risk-free rates to discount lease liability	No specific guidance on nonpublic entities
Lessor Accounting Model	
Profit recognized based on control principle in Topic 606	Profit recognized based on risks and rewards principle in IAS 17
Contains explicit collectibility guidance	No specific guidance on collectibility
Grandfathered existing leverage leases	No leveraged lease accounting

US GAAP versus IFRS - Differences (Contd.)

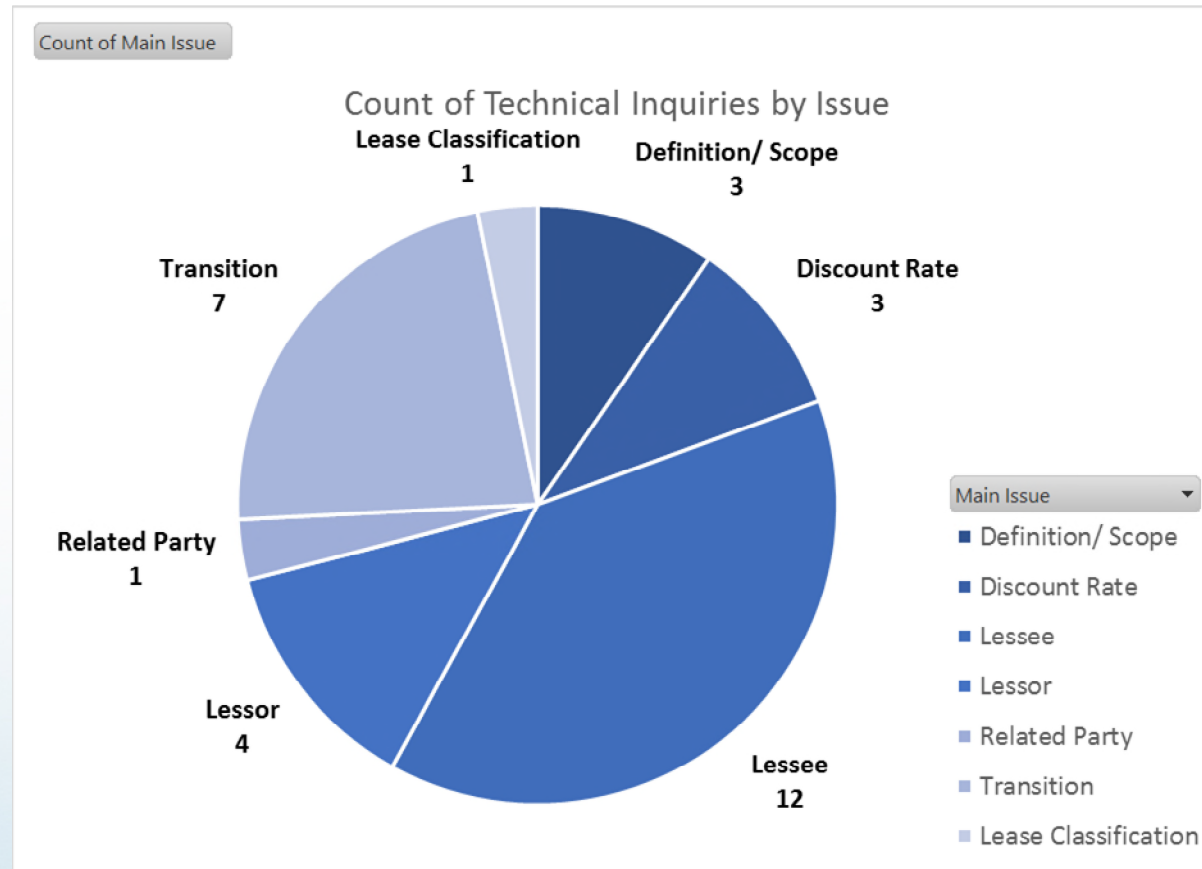
Topic 842	IFRS 16
Statement of Cash Flows	
Interest is classified within operating activities	Interest can be classified within operating, investing, or financing activities, according to IAS 7
Subsequent Measurement	
Reassessment of VLPs occurs when lease payments are remeasured for other reason (e.g., a change in the lease term)	Reassessment of VLPs is more frequent and includes when there is a change in the cash flows (such as, a change in LIBOR)
Subleases	
Lease classification is determined based on underlying asset	Lease classification is determined based on the ROU asset from the head lease
Sale-Leaseback Transactions	
Total gain on sale is recognized upfront - consistent with guidance in Topic 606	Partial gain recognition (that is, the gain is restricted)
Transition	
Modified retrospective approach is required for lessees and lessors	Allows for a full or modified retrospective approach for lessees

Leases – Our Response to Feedback

Most Significant Concerns on Lease Proposal	How FASB Addressed Each Concern and Improved the Model
<ul style="list-style-type: none"> Retain the existing lease classification requirements. 	<ul style="list-style-type: none"> ✓ Aligns lease classification with existing lease classification criteria under current GAAP.
<ul style="list-style-type: none"> Lessees should use a simplified method to account for operating leases. 	<ul style="list-style-type: none"> ✓ Lessee model simplifies the method of accounting for operating leases (a “display approach”).
<ul style="list-style-type: none"> Retain existing lease accounting’s income statement and cash flow statement measurement and presentation for lessees. 	<ul style="list-style-type: none"> ✓ Retains existing income statement and cash flow statement measurement and presentation.
<ul style="list-style-type: none"> Allow entities to account for leases using a portfolio approach. 	<ul style="list-style-type: none"> ✓ Lessees allowed to apply the leases guidance using a portfolio approach.
<ul style="list-style-type: none"> Clarify/simplify determination of the lease term and what constitutes a short-term lease. 	<ul style="list-style-type: none"> ✓ Aligns the determination of the lease term with existing GAAP and broadens and clarifies the short-term lease exemption to be consistent with the definition of lease term.
<ul style="list-style-type: none"> Simplify the reassessment requirements with respect to lease term and variable lease payments that depend on an index or a rate. 	<ul style="list-style-type: none"> ✓ Significantly reduces instances of a reassessment of the lease term, purchase options, and variable lease payments that depend on an index or rate.
<ul style="list-style-type: none"> Existing lessor accounting serves users’ needs and is well understood. No changes are needed. 	<ul style="list-style-type: none"> ✓ Retains substantially the same lessor model as current GAAP but aligns certain aspects with changes to the lessee guidance (e.g., definition of a lease) and with the new revenue standard

Overview of Inquiries – to date

- We have responded to 31 Technical Inquiries as of 9/26/2016:



Transition Approach and Practical Expedients

Modified Retrospective Approach *required*

Package of practical expedients:

Definition

Classification

Initial Direct
Costs

Also, may elect to use *hindsight* with respect to lease renewals and purchase options

Existing leveraged leases were grandfathered

Effective Date

Public Companies*

- Fiscal years beginning after December 15, 2018, including interim periods within those fiscal years

All Other Organizations

- Fiscal years beginning after December 15, 2019 and interim periods beginning after December 15, 2020

Early Application

- Permitted for all organizations

* “Public Companies” refers to the following: (1) public business entities, (2) a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an-over-the-counter market, and (3) an employee benefit plan that files or furnishes statements with or to the SEC

Questions or Comments?

