STAFF PAPER

March 2015

IASB Meeting

Project	**Leases**
Paper topic	Due process, re-exposure and permission to draft

CONTACT(S)	Sarah Geisman	sgeisman@ifrs.org	+44 (0)20 7246 6464
	Patrina Buchanan	pbuchanan@ifrs.org	+44 (0)20 7246 6468

Introduction

1. This paper:
   (a) summarises the due process steps the IASB has taken in developing the new *Leases* Standard;
   (b) analyses whether the IASB has complied with the due process requirements necessary to proceed to the Ballot Draft of the new *Leases* Standard; and
   (c) provides a summary of the decisions made in redeliberations by the IASB and the FASB ('the boards') in Appendix B.

2. The IASB's due process requirements are set out in the *Due Process Handbook* issued in February 2013. Those requirements describe the mandatory and optional steps to be taken before the publication of an IASB document. In considering the finalisation of an IFRS, the objective of due process is to ensure that the IASB is satisfied that it has undertaken sufficient consultation and analysis to justify its decisions.

Project history

Preliminary deliberations

3. The leases project has been a joint project with the FASB since its inception. The boards added a project on lease accounting to their respective agendas in July 2006.

The boards agreed to add the project to their agenda in the light of criticisms that the existing accounting model for leases fails to meet the needs of investors and analysts. In particular:

(a) many stakeholders (including regulators, academics, accountants and investor organisations) recommended that changes be made to the existing lease accounting requirements to ensure greater transparency in financial reporting and to better address the needs of investors and analysts. In particular, these comments were received in relation to the rights and obligations associated with a lessee's off balance sheet leases (ie existing operating leases). Many more sophisticated investors and analysts adjust financial statements to capitalise operating leases, while others do not. When adjustments are made, the information available in the notes to the financial statements is often insufficient to make reliable adjustments to a lessee's financial statements.

(b) many stakeholders also criticised the existence (in both IFRS and US GAAP) of two very different accounting models for leases. They noted that this results in transactions that are very similar being accounted for very differently, in particular with respect to balance sheet recognition. These stakeholders were concerned that those models reduce comparability for investors and analysts and provide opportunities to structure transactions to achieve a particular accounting outcome.

4. In July 2006 the boards also established a joint Leases Working Group to seek the views of individuals from a variety of backgrounds and to assist the boards in developing the lease accounting proposals. The Leases Working Group first met in February 2007, and continued meeting formally until 2012. Since then, the group has been used informally to help develop the new *Leases* Standard (see paragraphs 38 and 39 of this paper for further information).

5. In March 2009, after discussing the project in 38 staff papers at 12 public board meetings, the boards published a joint Discussion Paper *Leases: Preliminary Views* ('the DP'). The DP set out the boards' preliminary views on lessee accounting, proposing a 'right-of-use' accounting model, in which a lessee would recognise a

right-of-use asset ('ROU asset') and a lease liability at the commencement of a lease. The DP did not discuss lessor accounting in any detail.

6. The comment period for the DP ended in July 2009. The boards received 290 comment letters as of the time of the staff's September 2009 comment letter summary.[1] A total of 302 comment letters were ultimately received on the DP.

7. Feedback on the DP was generally supportive of the 'right-of-use' model for lessees, but most respondents expressed concerns about the complexity of the model. Nearly all respondents commenting on lessor accounting disagreed with the boards' proposal to defer consideration of lessor accounting and requested that the leases project consider both lessee and lessor accounting.

2010 Exposure Draft Leases

8. In August 2010, after discussing 80 further staff papers at 17 public board meetings, the boards published a joint Exposure Draft *Leases* (the '2010 ED'). The 2010 ED further developed the 'right-of-use' accounting model proposed for lessees in the DP. The 2010 ED also set out changes to lessor accounting by proposing that a lessor would recognise a lease receivable for all leases. However, the lessor model proposed was a dual model that proposed the derecognition of the underlying asset for some leases, and the recognition of the underlying asset for others.

9. The comment period for the 2010 ED ended in December 2010. The boards received 760 comment letters as of the time of the staff's January 2011 comment letter summary.[2] A total of 786 comment letters were ultimately received on the 2010 ED.

10. The boards also consulted extensively on the proposals in the 2010 ED, holding more than 200 meetings or events to discuss the proposals, including over 20 conferences and discussion forums. Round-table discussions and workshops were held in Australia, Brazil, Canada, Hong Kong, Japan, South Korea, the UK and the US. Board members and staff also participated in conferences, working group meetings, discussion forums, and one-to-one discussions that were held across all major geographical regions. During the comment period of the 2010 ED, the boards also

[1] September 2009 Agenda Paper 6A.

[2] January 2011 Agenda Paper 5A.

surveyed lessors and lessees on their use of, and accounting for, leases using public questionnaires. Additionally, while redeliberating the proposals in the 2010 ED the boards conducted targeted outreach, in 2011 and 2012, on specific issues with more than 100 organisations. Groups consulted included investors and analysts, working group members, auditors, regulators and preparers (particularly those from industries most affected by the lease accounting proposals).

11. The main feedback received on the proposals included in the 2010 ED was as follows:

(a) there was general support for the recognition of the assets and liabilities arising from a lease by a lessee.

(b) there were mixed views on the recognition and presentation of lease expenses. Some respondents supported the effects of the proposed right-of-use model on a lessee's profit or loss in which a lessee would recognise separately amortisation of the ROU asset and interest on the lease liability. They noted that leases are a source of financing for a lessee and should be accounted for accordingly. However, others disagreed because, in their view, the approach did not properly reflect the economics of all lease transactions.

(c) many disagreed with the lessor accounting proposals, for various reasons. Some were concerned that the proposals were not consistent with the lessee proposals. Many did not support the performance obligation approach, and some of those respondents supported applying a derecognition approach to all leases. Others supported retaining the existing lessor accounting requirements.

(d) almost all respondents were concerned about the costs and complexity of the proposals, in particular the proposals on measurement of the lessee's lease liability and the lessor's lease receivable (for example, the proposals would have required the inclusion of optional payments on a 'more likely than not' basis and an estimate of all variable lease payments).

(e) many were concerned about the breadth of the scope of the proposals, indicating that the proposed definition of a lease had the potential to capture some service contracts.

2013 Revised Exposure Draft Leases

12. In May 2013, after discussing 112 further staff papers at 28 public board meetings, the boards published a joint revised Exposure Draft *Leases* (the '2013 ED'). The 2013 ED:

    (a) retained the core 'right-of-use' accounting model for lessees in which a lessee would recognise assets and liabilities for leases.

    (b) introduced a dual lessee accounting model regarding the recognition and presentation of lease expenses and cash flows that was dependent on the consumption of benefits embedded in the underlying asset:

        (i) for most equipment leases, a lessee would separately recognise amortisation of the ROU asset and interest on the lease liability.

        (ii) for most property leases, a lessee would recognise a single lease expense on a straight-line basis combining amortisation of the ROU asset and interest on the lease liability.

    (c) introduced a dual lessor accounting model that was also dependent on the consumption of benefits embedded in the underlying asset:

        (i) for most equipment leases, a lessor would recognise a lease receivable and residual asset, and would recognise interest income on both of those assets over the lease term, as well as any profit relating to the lease at lease commencement.

        (ii) for most property leases, a lessor would continue to recognise the underlying asset and would recognise lease income over the lease term, typically on a straight-line basis.

    (d) made a number of other changes to the 2010 ED to address constituents' concerns about cost and complexity and the breadth of the scope of the proposals, such as:

        (i) simplifying the measurement of variable lease payments and optional payments;

        (ii) changing some aspects, and clarifying other aspects, of the application guidance supporting the definition of a lease; and

        (iii) expanding the recognition and measurement exemption for short-term leases.

13. The comment period for the 2013 ED ended in September 2013. The boards received 638 comment letters as of the time of the staff's November 2013 comment letter summary.[3] A total of 641 comment letters were ultimately received on the 2013 ED.

14. Again, the boards consulted extensively on the 2013 ED. They conducted roundtables and fieldwork with individual companies in Brazil, France, Germany, Japan, Singapore, Spain, the UK and the US. They met with over 260 investors and analysts to discuss the lessee accounting proposals, and approximately 25 investors and analysts to discuss the lessor accounting proposals. They also conducted other outreach meetings with preparers, standard setters, auditors and regulators across all major geographical regions.

15. Feedback on the 2013 ED was mixed:

    (a) many respondents, including the majority of investors and analysts, continued to support the recognition of assets and liabilities arising from a lease by a lessee, while others supported improving only the disclosure requirements, rather than changing the recognition and measurement requirements.

    (b) a majority of respondents expressed concern about the cost and complexity involved in the dual lessee accounting model, particularly with respect to the classification proposals and the complexity of the proposed 'Type B' accounting applied to most property leases.

    (c) many respondents also expressed concern about the cost and complexity involved in the dual lessor accounting model. Most respondents commenting on lessor accounting expressed the view that existing lessor accounting should not be changed. Some of those respondents noted that their views on lessor accounting had changed over the life of the project. That is, in response to the DP, they had suggested that the boards should address lessor accounting as part of the leases project, but in response to the 2013 ED, they were now recommending that existing lessor accounting remain unchanged.

[3] November 2013 Agenda Paper 3A.

(d) finally, there was support for a number of proposals in the 2013 ED for which changes had been made since the 2010 ED. These included the general lessor model, measurement of lease liabilities and the definition of a lease.

16. The IASB began redeliberations on the 2013 ED in January 2014. Throughout 2014 and 2015, the boards received some unsolicited comment letters outside of the comment period. These letters are available on the IASB's website, and have mainly focussed on the lessee accounting model.

17. Additionally, at the July 2014 Trustees meeting, a concern was raised by the UK Financial Reporting Council that stakeholder views were not always given due weight and that stakeholders need a better understanding of why their views are not taken up by the IASB. This issue was further discussed at the October 2014 Trustees meeting by the Due Process Oversight Committee[4], with staff providing an explanation of the due process followed in the project. Considering the importance of the project, the concerns raised in unsolicited comment letters and the points discussed at the Trustees meetings, the staff planned a series of Project Updates explaining the most important decisions taken in redeliberations, and the IASB's reasons for making those decisions (including its reasons for not adopting other suggestions made). Two Project Updates were published on the IASB's website in August 2014 and February 2015, and a third project update is planned for publication in March 2015.

Convergence

18. Convergence has always been a priority for both the IASB and the FASB throughout the leases project. The boards have deliberated the project jointly, all due process documents (the DP, the 2010 ED and the 2013 ED) have been joint documents with joint proposals, and outreach performed on the project has been largely joint and communicated to both boards.

19. During the joint redeliberations on the 2013 ED, the boards have reached the same decisions on the majority of topics. Most importantly, the boards' respective final

[4] October 2014 Agenda Paper 3C.

standards will both require a lessee to recognise assets and liabilities for its leases, initially measured in the same way, and will contain a lessor accounting model that essentially retains existing lessor accounting requirements. The boards have also jointly agreed the definition of a lease and accompanying guidance. However, there are a few areas for which the boards have not reached the same decisions. Most notably, the boards have decided upon different lessee accounting approaches for existing operating leases. That results in differences in the measurement of the ROU asset, and the recognition and presentation of lease expenses and cash flows for those leases:

(a) the IASB has decided upon a single lessee accounting model presenting amortisation of ROU assets separately from interest on lease liabilities for all leases recognised on the balance sheet.

(b) the FASB has decided upon a dual lessee accounting model, applying the IASB model to existing finance/capital leases and recognising a single lease expense on a typically straight-line basis for existing operating leases.

20. In practice, the difference in the boards' decisions is expected to result in little difference in profit or loss for many lessees because of the effect of holding a portfolio of leases. However, there will be differences between the boards' respective lessee models in terms of the amounts presented in different line items of the income statement and cash flow statement. In addition, although lease liabilities will be measured similarly under the IASB and FASB's models, lease liabilities (and ROU assets) may be presented differently on the balance sheet.

21. The IASB has always considered convergence to be important for the leases project for a number of reasons. First, existing lease accounting is broadly similar between IFRS and US GAAP. The IASB is mindful that having different lease accounting requirements in IFRS and US GAAP could introduce costs for investors and analysts in understanding and interpreting those differences. In addition, the boards have received feedback from constituents noting the importance of convergence on the leases project. For example, BUSINESSEUROPE sent a comment letter to the boards in 2014 regarding the lessee accounting model stating:

> [W]hile there may not be a clear consensus about what the most desired solution is, there is a strong view that non-convergence on such an important topic between IFRS and US GAAP is deeply troublesome.

Similarly, the Japan Leasing Association sent a comment letter to the boards in 2014 stating:

> The Boards should avoid any situation where two lease accounting standards exist (ie either IASB or FASB publishes a new lease accounting standard that is different from the other). Publication of different accounting standards between IASB and FASB would not be acceptable at all.

In addition, in December 2014, some members of the Accounting Standards Advisory Forum stated that convergence is critical to the leases project.

22. However, other constituents have told the IASB that, although convergence is important, it should not be at all costs. Their preference for a fully converged leases model is subject to it being a high quality solution. For example, in December 2014, some Accounting Standards Advisory Forum members told the IASB that, although convergence is important, achieving a higher quality solution is more important than achieving convergence. The IASB also specifically discussed this issue with the Advisory Council in February 2014 and the feedback received was as follows:

> There was overwhelming support that leases create assets and liabilities which should be reflected on a lessee's balance sheet. Indeed, there would be enormous disappointment if the project did not achieve this development. There was strong endorsement that, while convergence with US GAAP is very important, quality should not suffer in order to achieve such harmonisation. Consistent with this perspective was the expressed desire to complete the project even if this results in non-convergence.[5]

Additionally, at a roundtable hosted by the European Financial Reporting Advisory Group to discuss the leases project in September 2014, one of the main messages of

[5] Extract from the official Report of the Advisory Council February 2014 meeting.

the roundtable was that 'the Boards were encouraged to find a converged solution, but quality of the final Standard was more important than convergence.'[6]

23. Given this feedback, the IASB reached different decisions from the FASB only after careful evaluation of the implications of reaching those different decisions and when, in its view, those decisions represent a higher-quality solution. The IASB decided upon a single lessee accounting model for a number of reasons, the most important of which can be summarised as follows:

(a) on the basis of feedback received from investors and analysts, the IASB concluded that a model that separately presents interest and amortisation for all leases recognised on the balance sheet would provide information that is the most useful to the broadest range of investors and analysts. Although investors and analysts expressed differing views on some aspects of the project, most consulted consider that leases create assets and 'debt-like' liabilities. Consequently, many investors and analysts noted the importance of obtaining interest information on those 'debt-like' liabilities. The model is also easy to understand—a lessee recognises non-financial assets and financial liabilities, and corresponding amounts of amortisation and interest.

(b) all leases result in a lessee obtaining the right to use an asset and (if payments are made over time) obtaining financing, regardless of the nature or remaining life of the underlying asset. Accordingly, the IASB concluded that all leases recognised on the balance sheet should be accounted for in the same way. Some feedback received on the 2013 ED indicated that it would be difficult to understand why for some leases there would be:

(i) no reported amortisation or depreciation of the ROU asset; and

(ii) no reported interest on the lease liability (a financial liability).

Many also questioned the accounting that results from a model that recognises leases on the balance sheet but would recognise a single

[6] Extract from the public summary of the EFRAG September 2014 public outreach event on leases.

lease expense on a straight-line basis. This is mainly because because a lessee would measure the ROU asset as a balancing figure under such a model.

(c) on the basis of feedback received, the IASB thinks that the cost of accounting for leases under the IASB and the FASB models is broadly similar. This is because the most significant costs for lessees arise from recognising leases on the balance sheet and measuring lease liabilities on a discounted basis. Importantly, the difference between the lessee models does not result in any difference in the information needed to apply the model, nor any difference in the measurement of lease liabilities. The IASB's single model reduces complexity by no longer requiring a lessee to classify its leases. In addition, it would result in a lessee amortising all ROU assets in the same way as other non-financial assets, such as property, plant and equipment. Consequently, a lessee could use existing fixed asset information systems to account for all ROU assets.

24. The IASB made its decision regarding the lessee accounting model only after careful and thorough deliberations. After initially considering the feedback received on the 2013 ED in November 2013, the boards discussed lessee accounting at length at both the January and March 2014 joint board meetings. In the intervening period between those meetings, the IASB met all of its advisory bodies—the Capital Markets Advisory Committee, the Global Preparers Forum, the Advisory Council and the Accounting Standards Advisory Forum—as well as other interested parties, to obtain their feedback on the possible ways forward regarding lessee accounting. Refer to Agenda Paper 3D from the January 2014 board meeting and Agenda Paper 3A from the March 2014 board meeting for a detailed description of the feedback received on the lessee accounting model, and the IASB's reasons for deciding upon a single lessee accounting model. Refer to Agenda Paper 3I from the March 2014 board meeting for a summary of the feedback received at the meetings with the IASB's advisory bodies in February and March 2014.

25. Although the decisions on the recognition and presentation of lease expenses and cash flows represent the most important area of difference between the boards, there are also a few other areas of difference, including:

(a) *the recognition and measurement exemption for leases of small assets*: the IASB has decided to provide this exemption in the new *Leases* Standard, while the FASB has not. Because small asset leases are expected to be not material for most lessees, the IASB does not expect a significant difference in the amounts recognised by IFRS and US GAAP lessees in this respect. Nonetheless, the IASB expects this exemption to reduce the complexity of application by removing a materiality assessment for small asset leases.

(b) *reassessment of variable lease payments based on an index or rate*: the IASB has decided that a lessee should reassess variable lease payments that depend on an index or rate when there is a change in the cash flows resulting from the index or rate (ie when an adjustment to the lease payments takes effect). The FASB has decided not to require reassessment in that scenario. The IASB thinks that it is important to require the reassessment of inflation-linked lease payments because those payments are unavoidable and, thus, economically indistinguishable from fixed lease payments, ie a lessee has a present obligation to make those lease payments. Accordingly, the IASB thinks that it is appropriate to include those payments in the subsequent measurement of lease liabilities, just as it is appropriate to include those payments in the initial measurement of lease liabilities. However, the IASB has simplified the reassessment requirements compared to the 2013 ED to respond to constituent concerns about the cost of reassessment.

The boards have also reached different decisions regarding some aspects of the transition and disclosure requirements, and also regarding subleases and the recognition of gains on sale and leaseback transactions. The majority of these decisions relate to the different decisions regarding the lessee accounting model. Please refer to Appendix B for a full summary of the decisions made by the boards during the redeliberations of the 2013 ED.

Analysis of compliance with due process steps

26. The following section presents the mandatory (minimum safeguards), non-mandatory (comply-or-explain), and other optional steps performed during the Leases project. These steps are listed in paragraphs 3.41-3.45 of the *Due Process Handbook*, issued in February 2013.

27. This section should be considered in conjunction with Appendix A of this document that provides an account of the due process steps performed in the course of finalising the new *Leases* Standard.

28. Because of the significance of the changes to lease accounting for some entities, the leases project has always been controversial, and it continues to be so with some stakeholders. However, the staff is confident that the due process followed in this project has provided the IASB with enough information to be able to make an informed decision about whether to proceed to issuing a new *Leases* Standard.

Mandatory steps

Debating any proposals in one or more public meetings

29. The IASB has held public meetings on the leases project from March 2006 to this meeting. Staff papers for these meetings were posted to, and are available on, the IASB website. All tentative decisions were made in those public meetings, and summaries of the tentative decisions reached were posted on the IASB website after each meeting.

Exposing for public comment a draft of any proposed new Standard—with minimum comment periods

30. The IASB issued two exposure drafts of the proposed new *Leases* Standard. Each exposure draft had a comment period of 120 days, which is the standard minimum comment period for the IASB. Each exposure draft included a Basis for Conclusions. The 2010 ED was approved for publication by eleven of the fourteen IASB members (two board members abstained because of their recent appointment to the IASB). The 2013 ED was approved for publication by twelve of the sixteen IASB members (two board members abstained because of their recent appointment to the IASB).

Considering in a timely manner those comment letters received on the proposals

31. The boards received a total of 786 comment letters on the 2010 ED. A comment letter summary was presented to the boards in January 2011, covering the 760 comment letters received as of 12 January 2011.

32. The boards received a total of 641 comment letters on the 2013 ED. A comment letter summary was presented to the boards in November 2013, covering the 638 comment letters received as of 7 November 2013.

33. Any additional points raised in comment letters after the comment letter deadlines were analysed and incorporated into later agenda papers.

34. The comment letters on the 2010 ED and the 2013 ED are posted on the FASB website and a link to the comment letters is clearly available on the leases project page of the IASB website.

Considering whether the proposals should be exposed again

35. The staff recommend that the IASB should not re-expose the proposed leases requirements for a further round of public comment. Given the feedback received from the two Exposure Drafts that have already been issued and the extensive outreach performed, the staff do not think that another re-exposure will provide the IASB with any new information. The staff will ask at this meeting whether the IASB agrees with the staff recommendation (see paragraphs 50-54).

Reporting to the Advisory Council on major projects

36. Progress on the leases project was reported to the Advisory Council at each meeting as part of the report on the technical work programme. In addition, the project was discussed at the June 2006, February 2012, October 2012, October 2013 and February 2014 meetings. During discussions, the Advisory Council has had the opportunity to ask questions and provide comments and advice to the IASB on the project.

Non-mandatory steps

Publishing a discussion document (eg a Discussion Paper) before an Exposure Draft is developed

37. In March 2009 the IASB published for comment the Discussion Paper *Leases: Preliminary Views.* The IASB received a total of 302 comment letters on the DP. A comment letter summary was presented to the boards in September 2009, covering the 290 letters received as of 11 August 2009.

Work with consultative and other specialist advisory groups

38. In July 2006 the boards established a joint Leases Working Group to seek the views of individuals from a variety of backgrounds and to assist the boards in the developing the lease accounting proposals. The Leases Working Group comprises of preparers, auditors, investors and analysts, and other leasing experts. The Leases Working Group met publicly in February 2007, October 2008, September 2009, January 2011, April 2011 and January 2012. The IASB has sought advice from the Leases Working Group in different ways during the project:

    (a) before the DP, to obtain advice in developing the lessee accounting proposals, including the recognition of assets and liabilities for all leases and the measurement of those assets and liabilities.

    (b) before redeliberations on the DP and the 2010 ED, to discuss the main comments received and obtain working group members' views on the proposals in those documents.

    (c) during redeliberations of the 2010 ED, to discuss major aspects of the proposals (eg the lessee and lessor accounting models and the definition of a lease).

    (d) since 2012, to seek advice and views of individual working group members:

        (i) as part of outreach activities in 2011, 2012 and 2013;

        (ii) during the drafting of the 2013 ED (the external review draft of the 2013 ED was circulated to working group members for comment); and

(iii) on specific topics (eg working group members with knowledge of the leasing industry have been contacted on several occasions to help the IASB better understand how particular lease contracts are written).

39. The staff also plan to send the external review draft of the new *Leases* Standard to individual working group members for comment.

40. Throughout the project, the staff and IASB have also consulted their advisory groups and other groups. These consultations are summarised here as follows:

(a) **Accounting Standards Advisory Forum ('ASAF')**: Staff and IASB members have provided updates and requested input from this group of national standard-setters at all of its meetings since the group was formed in 2013. Staff and IASB members have discussed all major aspects of the project with ASAF, including the lessee and lessor accounting models, the measurement of ROU assets and lease liabilities, the definition of a lease, the separation of lease and non-lease components of a contract, and possible simplifications regarding the scope of the proposals.

(b) **Capital Markets Advisory Group ('CMAC')**: Staff and IASB members regularly provided updates and requested input from this group of investors and analysts. In particular, the leases project was discussed at all CMAC meetings in 2012, 2013 and again in February and June 2014. Those discussions have focussed mainly on the lessee accounting proposals, including disclosures. The IASB also discussed the lessor accounting proposals with some members of CMAC.

(c) **Global Preparers' Forum ('GPF')**: In each year from 2009 to 2014 (including in March and June 2014), staff and IASB members regularly provided updates and requested input from this group of preparers of financial statements. Those discussions have focussed mainly on the lessee accounting proposals (including ways to simplify the proposals, including for example the disclosure requirements).

(d) **Regulators and other standard-setters**: Staff and IASB members also met regularly with regulators, such as IOSCO and ESMA, as well as prudential regulators, to update them on the proposals. In addition, views were exchanged frequently with other standard-setters, such as at meetings of the International Forum of Accounting Standards Setters, the World Standard Setters, and the Asian-Oceanian Standards-Setters Group. The IASB has also met regularly with some bodies responsible for endorsement of, or providing endorsement advice on, the new *Leases* Standard.

(e) **Investor groups**: In addition to meeting regularly with the CMAC, staff and IASB members have also discussed the proposed changes to lessee accounting with other investor groups including the CFA Institute, the Canadian User Advisory Council, the Corporate Reporting Users' Forum, The Securities Analysts Association of Japan and the French Society of Financial Analysts.

(f) **Other industry groups**: Staff and IASB members have met with industry groups, including groups representing the leasing industry, shipping industry, retail industry, oil and gas industry and airline industry. These meetings included discussions regarding the definition of a lease, the lessee accounting model, and other topics of particular interest to a particular industry.

(g) **Accounting firms**: The staff and IASB members met regularly with members of the audit and technical departments from accounting firms to discuss specific issues, including, for example, the application of materiality, the lessee accounting model, and the definition of a lease.

Public hearings

41. Public hearings are undertaken to raise awareness and exchange views on the proposals. Public hearings undertaken by the IASB in the course of the leases project are summarised below:

(a) Roundtable discussions—After the publication of the 2010 ED (in December 2010 and January 2011) and the 2013 ED (in September and October 2013), a total of 15 roundtable discussions were held in Brazil, Hong Kong, Singapore, the UK and the US.

(b) Presentations at events and conferences—IASB members and staff have presented updates on the project at a number of events and conferences, including IFRS conferences throughout the world, conferences hosted by The Institute of Chartered Accountants of England and Wales and the American Institute of Certified Public Accountants, leasing associations (such as Leaseurope), National Standard Setters and large accounting firms.

(c) Communication—The staff have made use of the IFRS Foundation website to regularly update interested parties on the status of the project, including:

(i) Project coverage—Posted public documents associated with the project, including:

1. agenda papers, webcasts, recordings and IASB *Updates* for the IASB and other public meetings;
2. comment letters received on each due process document and letters received outside comment periods;
3. accompanying communications materials with each due process document, including summary snapshots;
4. relevant investor resources, including articles targeted to investors and analysts and *Investor Spotlights* written by IASB members; and
5. Project Updates summarising key decisions made by the IASB in the redeliberations of the 2013 ED and the reasons for those decisions (regarding topics such as the lessee accounting model and definition of a lease).

(ii) Webcasts and podcasts—Throughout the project, staff and IASB members have recorded webcasts and podcasts communicating updates on the project and key messages after the publication of due process documents.

(iii) Email alerts—Interested parties have received updates on major project news through subscriber email alerts. Over 22,000 interested parties are registered for email alerts on the leases project.

Undertaking fieldwork

42. The staff and the IASB engaged with many stakeholders throughout the project:

    (a) to improve the IASB's understanding of the issues and any unintended consequences that could result from the application of various proposals, especially regarding the costs of implementation of the proposals; and

    (b) to identify whether the proposals could be applied in a way that effectively communicates useful information about leases to investors and analysts.

    Outreach activities were designed to collect information about the issues that would arise from applying the proposals, across a wide range of jurisdictions and industries, to sometimes very large numbers of lease contracts.

43. The boards undertook fieldwork following the publication of the 2010 ED, during the redeliberations on the 2010 ED, and following the publication of the 2013 ED. That fieldwork can be summarised as follows:

    (a) **post-publication of 2010 ED:** In October-December 2010, the boards performed fieldwork with a variety of preparers (both lessees and lessors) in which the preparers assessed the costs, and ease or difficulty, of applying the proposals in the 2010 ED to their lease arrangements. The fieldwork also involved a limited consideration of the effects of the proposals on reported information for some of the lease contracts of the participating preparers. The preparers presented their findings in workshops attended by staff, board members and other preparers who had completed the fieldwork. In particular, at these workshops, the boards received a considerable amount of feedback on the measurement proposals included in the 2010 ED, which were considered to be very complex and costly to implement by workshop participants. Workshops were organised in Australia, Brazil, Canada, Japan, South Korea, the UK and the US.

    (b) **redeliberations of 2010 ED proposals**: The boards performed targeted outreach with a variety of constituents on two of the most important topics of the project:

        (i) *definition of a lease:* Targeted outreach on the definition of a lease was conducted in March and April 2011. The purpose of the targeted outreach was to obtain a better understanding of the implications of any proposed changes to the definition of a lease guidance in the 2010 ED, and whether those proposed changes would provide a better basis on which to determine whether a contract is, or contains, a lease. The staff and boards met with a geographically diverse group of constituents, including preparers, accounting firms, working group members and others. A range of industries were represented, including retail, real estate, transportation, utilities, oil and gas, telecommunications, outsourcing, shipping, airlines and health care.

(ii) *lessee accounting model:* Targeted outreach on the lessee accounting model was conducted in March and April 2011 and April and May 2012. The primary objective of the outreach was to obtain constituents' views on the appropriate lessee accounting model and to assess the potential cost and benefits of different lessee accounting models and the usefulness of the resulting accounting information. The boards met with over 100 constituents, including approximately 30 investors and analysts, as well as preparers from various industries, accounting firms, standard-setters and the working group members.

(c) **post-publication of 2013 ED**:

(i) In June-October 2013, the boards conducted approximately 45 meetings with more than 260 investors and analysts to discuss the lessee accounting proposals, and nine meetings with approximately 25 investors and analysts to discuss the lessor accounting proposals. These meetings included equity and credit analysts from both the buy side and the sell side. Many of these investors and analysts focussed on particular industry sectors that engage in significant leasing activities, while others covered the markets more generally or were accounting analysts. Board members and staff spoke to investors and analysts located in Europe (Belgium, France, the Netherlands, Switzerland, Sweden and the UK), Australia, Canada, Hong Kong, Japan, New Zealand, South Africa and the US.

(ii) In August-October 2013, the boards conducted approximately 25 fieldwork meetings with preparers (both lessees and lessors) from various industries in various geographical locations. The objective of these fieldwork meetings were to discuss in detail the costs of implementation of the proposals in the 2013 ED. Almost all fieldwork meetings were held at the preparer's premises and lasted from half a day to a full day, and involved meeting with preparer personnel from various departments within the organisation, including the accounting, operations, legal, investor relations and IT departments.

Other steps

IASB sets an effective date for the standard

44. The IASB has not yet set the effective date of the new *Leases* Standard. The IASB will discuss and decide upon the effective date at a future board meeting when the drafting of the new *Leases* Standard is close to being ready for balloting.

Analysis of likely effects of the forthcoming IFRS

45. The IASB is committed to assessing, and sharing knowledge about, the likely costs of implementing the proposed new requirements and the likely ongoing associated costs and benefits of each new Standard—the costs and benefits are collectively referred to as 'effects'. The IASB gains insight on the likely effects of the proposals for new or revised Standards through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities.

46. An analysis of the effects of the 2013 ED was included in its Basis for Conclusions. After publication of the 2013 ED, the IASB and staff have met with a number of stakeholders, industry groups and advisory bodies to understand the effect of the proposals, including the cost of implementing the proposals, as well as the benefits from improved financial reporting. In Agenda Paper 3I from the March 2014 board meeting, as well as in material used in presentations and Project Updates, the IASB has discussed some of the likely effects of the proposed changes to lease accounting.

47. The effects analysis will be updated and enhanced in the new *Leases* Standard to reflect the feedback received after the publication of the 2013 ED, and to reflect additional information that the IASB has obtained on the likely effects of the new *Leases* Standard.

Sufficient compliance with required due process steps

48. The staff think that the IASB has undertaken sufficient steps for it to be in a position to finalise the new *Leases* Standard. The IASB has undertaken all of the activities identified as being 'required' and all of the additional optional activities set out in the *Due Process Handbook*.

Considerations for the Post-implementation Review

49. The new *Leases* Standard, if finalised, will be subject to a two-phase Post-implementation Review as required by the IFRS Foundation due process. This is generally performed after the new requirements have been applied internationally for two years—normally 30 to 36 months after the effective date. The first phase involves identifying and assessing the matters to be examined, which is then the subject of a public consultation. The second phase is an analysis of comments and feedback received through the public consultation and other outreach activities. This is followed by the IASB presenting its findings and plans for further steps, if any, to be taken.

Re-exposure, permission to ballot and dissents

50. The re-exposure criteria are set out in paragraphs 6.25 and 6.29 of the *Due Process Handbook* issued February 2013.

> 6.25 In considering whether there is a need for re-exposure, the IASB:
>
> (a) identifies substantial issues that emerged during the comment period on the Exposure Draft that and that it had not previously considered;
>
> (b) assesses the evidence that it has considered;
>
> (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

(d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

51. Throughout the project, the IASB has retained the central part of the proposed changes to lease accounting, ie the recognition of all leases on a lessee's balance sheet under a ROU model that measures lease liabilities on a discounted basis.

52. During redeliberations on the 2013 ED, the IASB has made some changes to the proposals in the 2013 ED. Most notably, the IASB has decided upon a single lessee accounting model and the retention of existing lessor accounting requirements. However, those changes:

(a) have already been exposed for comment (eg the single lessee accounting model was proposed in the 2010 ED);

(b) are changes to retain existing accounting (eg the lessor accounting model); or

(c) represent simplifications or clarifications to the guidance proposed in the 2013 ED in response to feedback received (eg simplifying the reassessment requirements on lease term and variable lease payments).

In addition, the questions in the 2013 ED specifically asked for respondent's views on both the lessee and lessor accounting models proposed as well as suggested alternative approaches. This facilitated receiving extensive feedback not only on the models proposed but also on other alternatives (including the single lessee accounting model that had previously been proposed in the 2010 ED and the existing lessor accounting model). The IASB also discussed all of the various possible ways forward for both lessee and lessor accounting with all of its advisory groups and at other meetings.

53. Accordingly, the staff do not think that there are any substantive changes on which respondents have not had the opportunity to comment and, thus, it is unlikely that re-exposure will reveal any new concerns or new information. On this basis, the staff recommend that the IASB should not re-expose the proposed leases standard for a fourth round of public comment.

54. As mentioned above, the IASB has not yet decided upon the effective date of the new *Leases* Standard. Except for the effective date and sweep issues which may arise

during the drafting stages of the balloting process, the IASB has now completed redeliberations of all technical issues. If the IASB agrees that all due process requirements have been met, the staff think that the IASB is ready to prepare the new *Leases* Standard for balloting.

55. The staff note that the decisions on all issues discussed by the IASB were tentatively approved by a majority of the IASB.

56. However, any IASB members who intend to dissent to the new *Leases* Standard are required to make that intention known at this time.

Questions to the IASB

(1) Due process: does the IASB agree with the staff conclusion that due process requirements have been met?

(2) Re-exposure: does the IASB agree with the staff recommendation not to re-expose the new *Leases* Standard?

(3) Permission to ballot: is the IASB satisfied that it has undertaken sufficient consultation and analysis to be able to begin the balloting process for the new *Leases* Standard?

(4) Dissents: do any members of the IASB propose to dissent from the publication of the new *Leases* Standard?

Appendix A: Finalisation of the *Leases* Standard

57. This appendix shows how the IASB has complied with the due process steps required to finalise the new *Leases* Standard.

Step	***Required/ Optional***	***Metrics or evidence***	***Evidence provided to DPOC***	***Actions***
Consideration of information gathered during consultation				
The IASB posts all of the comment letters that are received in relation to the ED on the project pages.	Required if request issued	Letters posted on the project pages.	The IASB has reported on progress as part of its quarterly report at Trustee meetings, including summary statistics of respondents.	During a 120 day comment period ending on 13 September 2013, the IASB received 641 comment letters. The letters are posted on the FASB website and a link to the comment letters is clearly available on the leases project page of the IASB website. A comment letter summary, available on the public website, was presented to the IASB in November 2013.
Round-table meetings between external participants and members of the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Round-table meetings were held after the publication of the 2013 ED. In September and October 2013, eight round-table discussions were held in Brazil, Singapore, the UK and the US.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion. Extent of meetings with consultative group held and confirmation that critical issues have been reviewed with them	The IASB and the DPOC have discussed progress on major projects, in relation to the due process being conducted. The IASB and the DPOC have reviewed the due process over the project life cycle, and how any issues about the due process have been/are being addressed. The DPOC has met with the Advisory Council to understand stakeholders' perspectives. The DPOC has reviewed and responded to comments on due process as appropriate.	**IASB meetings** Since the publication of the 2013 ED, the IASB has discussed 42 agenda papers at 10 joint Board meetings and 3 IASB meetings. **Project website** The project website contains a full description of the project objective and history. In addition to posting papers in advance of the board meeting and regular board meeting webcast of public discussions, the website also includes a monthly summary of tentative decisions of the IASB. The project website is current and features comprehensive project links and information. **Meeting papers** Agenda papers for meetings have been posted on the IASB website before meeting dates. **Consultative groups** Following the publication of the 2013 ED, the IASB has met multiple times with the CMAC, GPF, ASAF and the Advisory Council to discuss the project. The Leases Working Group has not met formally following the publication of the 2013 ED. However, individual working group members were consulted during the outreach performed after the publication of the 2013 ED.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	Publication of the Effect Analysis.	The IASB and the DPOC have reviewed the results of the Effect Analysis and how it has considered such findings in the proposed Standard. The IASB has provided a copy of the Effect Analysis to the DPOC at the point of the Standard's publication.	An analysis of the effects of the 2013 ED was included in its Basis for Conclusions. After publication of the 2013 ED, the IASB and staff have met with a number of stakeholders, industry groups and advisory bodies to understand the effect of the proposals, including the cost of implementing the proposals, as well as the benefits from improved financial reporting. In some board papers (eg Agenda paper 3I, March 2014), material used in presentations and the *Leases* Project Update (August 2014), the IASB has discussed some of the effects of the proposed changes to lease accounting. The IASB will publish the complete Effect Analysis when the new *Leases* Standard is issued. The IASB will review this Effect Analysis as part of the balloting process.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Email alerts are issued to registered recipients.	Optional	Evidence that alerts have occurred.	The DPOC has received a report of outreach activities.	Interested parties have been notified when updates to the leases project website have been made using the News section of the project page and subscriber email alerts. As of March 2015 there were over 22,000 participants registered for leases email alerts.
Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Extent of meetings held, including efforts aimed at investors.	The DPOC has received a report of outreach activities.	Following the publication of the 2013 ED, the IASB performed targeted outreach on the proposals in the 2013 ED as follows: • The IASB discussed the lessee accounting proposals in the 2013 ED with approximately 260 investors and analysts, and the lessor accounting proposals in the 2013 ED with approximately 25 investors and analysts. The meetings included credit and equity analysts from the buy side and sell side. • The IASB conducted approximately 25 fieldwork meetings with preparers from various industries in Germany, France, Spain, the UK, the US, Japan and Brazil. The meetings were held with individual lessee and lessors to discuss, in detail, the costs of implementation for those companies. Members of the IASB also participated in conferences, discussion forums, and one-to-one discussions that were held across all major geographical regions. These meetings have been with individuals and groups of preparers, investors and analysts, auditors, regulators, standard-setters, industry representative groups, and others.
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Following the publication of the 2013 ED, the IASB has participated in discussion forums and meetings organised by national standard-setters in the UK, Lithuania, the US, Germany, Belgium, Brazil, Japan, Hong Kong, Malaysia, Singapore, Australia, South Africa and China.
Finalisation				
Due process steps are reviewed by the IASB.	Required	Summary of all due process steps have been discussed by the IASB before a Standard is issued.	The DPOC has received a summary report of the due process steps that were followed before the Standard is issued.	This document presents the project’s compliance with due process, and is to be reviewed during the March 2015 IASB meeting. This paper will be presented to the DPOC in April 2015.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Need for re-exposure of a Standard is considered.	Required	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria.	The IASB has shared its thinking on the issue of re-exposure with the DPOC.	Paragraphs 50-54 of this paper consider the need for re-exposure. The staff think that the revisions to the 2013 ED respond to the feedback received and that it is unlikely that re-exposure would reveal any new concerns. The staff recommend that the IASB does not re-expose the proposed leases standard for a fourth round of public comment.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.	Required	Effective date set, with full consideration of the implementation challenges.	The IASB has discussed any proposed shortening of the period for effective application with the DPOC.	The IASB will discuss and decide upon the effective date at a future board meeting when the drafting of the new *Leases* Standard is close to being ready for balloting.
Drafting				
Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The Translations team will be consulted as part of the balloting process to take into account the need for language in the final standard that is translatable into other languages.
	Required	The XBRL team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The XBRL team will be consulted as part of the balloting process to take into account the need for language in the final standard that is translatable into the IFRS XBRL Taxonomy.
	Optional	The Editorial team has been included in the review process. In addition, external reviewers used to review drafts for editorial review and the comments collected have been considered by the IASB.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued, including the extent to which external reviewers have been used in the drafting process.	The staff will liaise with the editorial team and provide drafts for them to review when finalising the standard. The staff intend to send a draft of the standard to external parties for review before finalisation. This process allows external parties to review and report back to the staff on the clarity and understandability of the draft, mainly with editorial comments. The external review process does not grant external parties the opportunity to question the IASB's technical decisions.
	Optional	Draft for editorial	The DPOC has received a	The staff will make a draft of the standard available on an internal site accessible

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
		review has been made available to members of the IFASS and the comments have been collected and considered by the IASB.	summary report of the due process steps that have been followed before a Standard is issued.	by national standard-setters.
	Optional	Draft for editorial review has been posted on the project website.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The staff does not intend to publish a draft of the standard on the project website.
Publication				
Press release to announce final Standard.	Required	Press release has been announced in a timely fashion. Media coverage of the release.	The DPOC has received a copy of the press release and a summary of the media coverage.	To be completed in due course.
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	Publication of the Feedback Statement.	The IASB has provided a copy of the Feedback Statement to the DPOC at the point of the Standard's publication.	To be completed in due course.
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Number of podcasts held.	The DPOC has received a report of outreach activities.	To be completed in due course.
Standard is published.	Required	Official release.	The DPOC has been informed of the release.	To be completed in due course.

Appendix B: Decisions made in redeliberations

58. This appendix shows the decisions the IASB has made in redeliberations on the 2013 ED, how those decisions have responded to the feedback received on the 2013 ED, and the decisions the FASB has made in those redeliberations.

Topic	***IASB decisions in redeliberations on 2013 ED***	***How the IASB has addressed feedback on the 2013 ED***	***FASB decisions in redeliberations on 2013 ED***
Lessee accounting model	**Initial recognition:** A lessee should recognise ROU assets and lease liabilities for its leases, initially measured at the present value of lease payments. **Subsequent measurement:** The IASB decided on a single model in which a lessee would amortise the ROU asset similarly to other non-financial assets, and would measure the lease liability similarly to other financial liabilities. A lessee should recognise amortisation of the ROU asset separately from interest on the lease liability.	The single lessee model addresses feedback by: • enhancing the transparency of a lessee's leverage and assets used in operations, thus providing information that is useful to the broadest range of investors and analysts; • responding to concerns about the conceptual merits of the 'Type B' accounting proposed in the 2013 ED by requiring that the ROU asset is amortised similarly to other non-financial assets, and that amortisation and interest be recognised separately for all leases recognised on the balance sheet; and • responding to concerns about the cost of the dual accounting model proposed in the 2013 ED by removing the need for lease classification and requiring that ROU assets be amortised consistently with other non-financial assets.	**Initial recognition:** The IASB and FASB have reached the same decisions in this area. **Subsequent measurement:** The FASB decided on a dual lessee accounting model, with lease classification being determined in accordance with the principle in existing lease requirements (ie, determining whether a lease is effectively an instalment purchase of the underlying asset by the lessee). Under this approach, a lessee would account for most existing capital/finance leases as Type A leases (ie, recognising amortisation of the ROU asset separately from interest on the lease liability), and accounting for most existing operating leases as Type B leases (ie, recognising a single total lease expense).

Topic	*IASB decisions in redeliberations on 2013 ED*	*How the IASB has addressed feedback on the 2013 ED*	*FASB decisions in redeliberations on 2013 ED*
Lessor accounting model	The IASB decided to, in essence, retain existing lessor accounting requirements.	This decision directly addresses the feedback from most of the respondents commenting on the lessor accounting proposals in the 2013 ED who requested that existing lessor accounting not be changed.	The IASB and the FASB have reached the same decisions in this area, with one exception. The FASB decided that, at lease commencement, a lessor should be precluded from recognising selling profit and revenue for any Type A lease that does not transfer control of the underlying asset to the lessee.
Lessee accounting model exemptions	The IASB decided to provide two recognition and measurement exemptions to the lessee accounting model: • an exemption for short-term leases (ie leases with a lease term of 12 months or less) • an exemption for leases of small assets (ie underlying assets whose individual value is small) The guidance in the new *Leases* Standard will also clarify that the leases guidance can be applied at a portfolio level, similarly to the guidance in IFRS 15 *Revenue from Contracts with Customers*.	The IASB has responded to concerns raised by constituents about the costs involved in applying the proposals in the 2013 ED to large volumes of individually small contracts by: • expanding the short-term lease exemption from what was proposed in the 2013 ED; • introducing a small asset lease exemption; and • specifically permitting the leases guidance to be applied at a portfolio level.	The IASB and the FASB have reached the same decisions in this area, with one exception. The FASB decided not to provide a recognition and measurement exemption for leases of small assets.
Definition of a lease	The IASB decided to confirm the general approach to defining a lease that was proposed in the 2013 ED (ie a definition based on control of the use of an identified asset). However, the IASB has also made a number of clarifications to the accompanying guidance to make their intentions clear and to reduce the risk of inconsistent application.	The IASB's decisions are responsive to the feedback received, which was generally positive. However, some respondents thought that parts of the proposed guidance were unclear and could lead to different conclusions about whether similar contracts contain leases. The clarifications made by the IASB should address these concerns.	The IASB and FASB have reached the same decisions in this area.

Topic	*IASB decisions in redeliberations on 2013 ED*	*How the IASB has addressed feedback on the 2013 ED*	*FASB decisions in redeliberations on 2013 ED*
Separating lease and non-lease components	A lessee should allocate payments to separate lease and non-lease components on a relative standalone price basis. In doing so, a lessee should maximise the use of observable information available to it, and otherwise use estimates of the standalone prices. However, a lessee may choose, by class of leased asset, to account for the entire contract as a lease. A lessor would apply the guidance in IFRS 15 on allocating the transaction price to separate performance obligations.	The IASB's decisions are responsive to two main areas of feedback received: • some respondents requested that lessees be allowed to use estimates to separate lease and non-lease components. • other respondents requested that lessees be allowed to combine lease and non-lease components and treat them as a single lease component.	The IASB and FASB have reached the same decisions in this area.

Topic	*IASB decisions in redeliberations on 2013 ED*	*How the IASB has addressed feedback on the 2013 ED*	*FASB decisions in redeliberations on 2013 ED*
Measurement	**Lease term:** When determining the lease term, an entity should consider all relevant factors that create an economic incentive to exercise an option to extend, or not to terminate, a lease. An entity should include such an option in the lease term only if it is *reasonably certain* that the lessee will exercise the option. A lessee should reassess the lease term only upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee. **Variable lease payments:** Only variable lease payments that depend on an index or a rate should be included in the initial measurement of lease assets and lease liabilities. A lessee should reassess those variable lease payments when there is a change in the cash flows resulting from a change in the reference index or rate. The IASB also decided that in-substance fixed payments should be included in the definition of lease payments and to provide additional clarifying guidance as compared to the 2013 ED. **Discount rate:** A lessee should use the rate implicit in the lease. However, if that rate cannot be readily determined, the lessee should use its incremental borrowing rate. A lessee should reassess the discount rate only when the lease term, or the assessment of exercise of purchase options, changes. **Initial direct costs:** A lessee should include initial direct costs in the initial measurement of the right-of-use asset. Only incremental costs qualify as initial direct costs.	The IASB's decisions are responsive to the feedback received, which was generally positive. In particular, many respondents supported the simplifications in measurement regarding options and variable lease payments that had been made to the proposals in the 2010 ED. However, many respondents expressed concern about the costs and complexity of the measurement proposals in the 2013 ED, particularly the reassessment proposals. The IASB has responded to these concerns by: • simplifying the reassessment requirements as compared to the 2013 ED. • including language used in IAS 17 to ease implementation (for example, using the term 'reasonably certain' in the lease term guidance rather than 'significant economic incentive' as proposed in the 2013 ED). • including other clarifying guidance (for example, clarifying guidance regarding in-substance fixed payments).	The IASB and the FASB have reached the same decisions in this area, with one exception. The FASB decided to not require reassessment of variable lease payments when there is a change in the cash flows resulting from a change in the reference index or rate.

Topic	*IASB decisions in redeliberations on 2013 ED*	*How the IASB has addressed feedback on the 2013 ED*	*FASB decisions in redeliberations on 2013 ED*
Subleases	An intermediate lessor should account for a head lease and a sublease as two separate contracts. An intermediate lessor should determine the classification of a sublease with reference to the ROU asset arising from the head lease.	The IASB's decision is responsive to feedback requesting that the accounting for a head lease and a sublease be consistent.	The FASB decided that, when classifying a sublease, an intermediate lessor should determine the classification of the sublease with reference to the underlying asset.
Sale and leaseback transactions	In order for a sale to occur within the context of a sale and leaseback transaction, the sale must meet the requirements for a sale in IFRS 15. The gain recognised by a seller-lessee on a completed sale in a sale and leaseback transaction should be restricted to the amount of the gain that relates to the residual interest in the underlying asset at the end of the leaseback.	Most respondents supported aligning the guidance on determining whether a sale has occurred with IFRS 15. The IASB's decision regarding recognition of a gain on sale is responsive to feedback criticising the proposal in the 2013 ED to recognise all of the profit associated with the sale of the underlying asset at contract inception. Some respondents thought this would not be reflective of the economics of most sale and leaseback transactions.	The FASB and the IASB reached the same decision regarding using the revenue recognition guidance to determine when a sale has occurred. The FASB decided that a seller-lessee should account for any gain on a completed sale in a sale and leaseback transaction consistently with the guidance that would apply to any other similar sale.
Contract modifications and combinations	The IASB decided to include: • a definition of a lease modification; • conditions that would govern whether lease modifications should be treated as separate new leases; • guidance for the treatment of lease modifications not accounted for as separate new leases; and • guidance on contract combinations that would indicate when two or more contracts should be considered a single transaction.	The IASB's decisions are responsive to feedback requesting clarifications in this area.	The IASB and FASB have reached the same decisions in this area.

Topic	*IASB decisions in redeliberations on 2013 ED*	*How the IASB has addressed feedback on the 2013 ED*	*FASB decisions in redeliberations on 2013 ED*
Presentation	**Balance Sheet:** The IASB decided that lease liabilities meet the definition of financial liabilities in IFRS. A lessee should present lease liabilities in accordance with the requirements in IAS 1 *Presentation of Financial Statements.* A lessee should present ROU assets arising from leases of property, plant and equipment: • together with owned property, plant and equipment (if not presented as a separate line item); or • as their own line item(s). **Cash Flow Statement:** A lessee should classify: • cash payments for the principal portion of the lease liability within financing activities; and • cash payments for the interest portion of the lease liability in accordance with the requirements relating to interest paid in IAS 7 *Statement of Cash Flows*.	The IASB's decisions on presentation essentially retain the presentation requirements for Type A leases proposed in the 2013 ED. These proposals were generally supported. However, some investors were concerned that the cash flow statement presentation does not provide a figure for total cash flow for leases. The IASB has addressed this feedback through its decisions on disclosure.	**Balance Sheet:** Consistent with the IASB, the FASB decided that lease liabilities meet the definition of financial liabilities in US GAAP. The FASB has decided that a lessee is required to present Type A lease liabilities and ROU assets separately from Type B lease liabilities and ROU assets. **Cash Flow Statement:** The FASB decided to require a lessee to classify: • cash payments for the principal portion of the lease liability arising from Type A leases within financing activities; • cash payments for the interest portion of the lease liability arising from Type A leases within operating activities; and • cash payments arising from Type B leases within operating activities.

Topic	*IASB decisions in redeliberations on 2013 ED*	*How the IASB has addressed feedback on the 2013 ED*	*FASB decisions in redeliberations on 2013 ED*
Disclosure	**Lessee:** The IASB decided that the final leases standard should retain a disclosure objective, which is to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. A lessee is not required to disclose reconciliations of the opening and closing balance of lease liabilities and ROU assets. Those reconciliations were replaced with requirements to disclose: • components of lease expense; • total cash outflow for leases; • additions to ROU assets; and • closing carrying amounts of ROU assets, split by class of underlying asset. A lessee should disclose a maturity analysis of its lease liabilities in accordance with IFRS 7 *Financial Instruments: Disclosures*, separately from the maturity analysis of other financial liabilities. A lessee should disclose sufficient additional information, if required, to satisfy the overall disclosure objective. The new *Leases* Standard will provide a list of specific disclosure objectives in this respect. A lessee should present all lessee disclosures in a single note or separate section in its financial statements, and to present the qualitative disclosures in a tabular format, unless another format is more appropriate. **Lessor:** A lessor should disclose: • a table of lease income during the reporting period; • information about how a lessor manages its risk associated with the residual value of its leased assets; • a maturity analysis for all leases; and	**Lessee:** The IASB's decisions are responsive to the two main areas of feedback: • concerns raised by investors and analysts around the usefulness of disclosures are addressed by (i) requiring disclosures to be provided in a single note or separate section, and (ii) focussing on those disclosures identified in feedback as being most useful. • concerns raised about cost and complexity, in particular the concern that the 2013 ED proposed more disclosures than would be required for other similar assets and liabilities. **Lessor:** The decisions were responsive to specific requests made in feedback, mainly related to the lessor's exposure to residual asset risk.	**Lessee:** The FASB's decisions on lessee disclosures are broadly similar to those of the IASB. The majority of the differences in quantitative disclosure requirements between the FASB and IASB relate to the differences in the lessee accounting model. The FASB decided to retain the qualitative disclosure requirements in the 2013 ED. **Lessor:** The IASB and FASB have reached the same decisions in this area.

Topic	*IASB decisions in redeliberations on 2013 ED*	*How the IASB has addressed feedback on the 2013 ED*	*FASB decisions in redeliberations on 2013 ED*
	• an explanation of significant changes in finance lease receivables. The IASB decided that a lessor should treat assets subject to operating leases as a class of property, plant, and equipment, further distinguished by significant class of underlying asset.		
Transition	**Lessee:** A lessee may choose either a fully retrospective or modified retrospective approach on transition, to be applied consistently across its entire portfolio of former operating leases. With respect to the modified retrospective approach, the IASB decided: • not to require the restatement of comparative information. • to require a lessee to measure the lease liability on a discounted basis, using the lessee's incremental borrowing rate at the date of initial application. • to allow a lessee to choose, on a lease-by-lease basis, between two measurement approaches for the ROU asset. • to permit a lessee to adjust the ROU asset on transition by the amount of any previously recognised onerous lease provision, as an alternative to performing an impairment review. • to permit a lessee to apply a recognition and measurement exemption for leases for which the term ends within 12 months or less of the date of initial application. **Lessor:** A lessor should continue to apply its existing accounting for any leases that are ongoing at the date of initial application. Intermediate lessors are required to reassess the classification of their subleases and account for any newly classified finance leases as new leases entered into on the date of initial application.	The IASB's decisions address the concerns raised that the transition proposals in the 2013 ED were too costly and complex. The IASB is offering a number of further reliefs on transition as compared to the 2013 ED.	**Lessee:** The FASB decided to not permit a full retrospective approach and instead require a modified retrospective approach for all leases. Under the modified retrospective approach, the date of initial application under the FASB model is the beginning of the earliest comparative period presented. Between the date of initial application and the effective date, the FASB decided that a lessee should recognize and measure the ROU asset and lease liability using the existing minimum rental payments and subsequent measurement guidance of Topic 840. Any modifications after the effective date are measured under the new leases standard. The FASB also decided that a lessee need not reassess lease classification. **Lessor:** The FASB decided to not permit a full retrospective approach and instead require a modified retrospective approach for all leases. Similar to the decisions made on lessee transition, under the modified retrospective approach a lessor should use the measurement guidance of Topic 840 until the effective date, and the new leases standard thereafter.

Topic	*IASB decisions in redeliberations on 2013 ED*	*How the IASB has addressed feedback on the 2013 ED*	*FASB decisions in redeliberations on 2013 ED*
	Definition of a lease: An entity may grandfather the definition of a lease for all contracts that are ongoing at the date of initial application of the new *Leases* Standard. **Sale and leaseback transactions:** An entity should not reassess previous sale and leaseback transactions.		**Definition of a lease:** The IASB and FASB have reached the same decisions in this area. **Sale and leaseback transactions:** Consistent with the IASB, the FASB decided that an entity should not reassess previous sale and leaseback transactions. Some other differences in transition arise related to the lessee accounting model.
Consequential amendments to IAS 40	The IASB decided that ROU assets arising from property leases should be within the scope of IAS 40 *Investment Property* if the property would otherwise meet the definition of investment property.	The IASB's decision confirmed the proposals in the 2013 ED and so was responsive to the majority of respondents who supported those proposals.	N/A