

# STAFF PAPER

April 2014

## FASB | IASB Meeting

Project	Leases
Paper topic	Cover Memo
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### Introduction and Objective of the Meeting

1. The purpose of this paper is to provide an overview of the agenda papers prepared for the April 2014 joint Board meeting and to update the Boards on the next steps in the leases project redeliberations.
2. The objective of the April 2014 meeting is to reach converged decisions on lease modifications and contract combinations, variable lease payments, in-substance fixed payments, and discount rate.

### Overview of Agenda Papers

3. The staff have prepared the following papers for discussion:
  - (a) **Lease Modifications and Contract Combinations** (Agenda Paper 3A/FASB Memo 277), which discusses the following two topics:
    - (i) Lease Modifications: accounting for changes to the contractual terms and conditions of a lease that were not part of the original terms and conditions of the lease; and
    - (ii) Contract Combinations: when it is appropriate to combine two or more contracts when applying the leases guidance.

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- (b) **Variable Lease Payments** (Agenda Paper 3B/FASB Memo 278), which discusses:
- (i) Which variable lease payments should be included in the initial measurement of lease assets and lease liabilities; and
  - (ii) When, if ever, an entity should reassess variable lease payments that depend on an index or a rate.
- (c) **In-Substance Fixed Payments** (Agenda Paper 3C/FASB Memo 279), which discusses:
- (i) When, if ever, variable lease payments that are in-substance fixed payments should be included within the definition of *lease payments*; and
  - (ii) Whether and how to further clarify what constitutes variable lease payments that are in-substance fixed payments.
- (d) **Discount Rate** (Agenda Paper 3D/FASB Memo 280), which discusses the following three topics associated with the discount rate used to measure, at present value, the lessee's lease liability and the lessor's lease receivable and residual asset (for lessor Type A leases):
- (i) Determination of the Discount Rate;
  - (ii) Reassessment of the Discount Rate; and
  - (iii) FASB Only: Risk-Free Rate Accounting Policy Election for Nonpublic Entities.

## Next Steps

4. As redeliberations of the leases project continues, the following provides the Boards with an update of the topics that the staff plan to bring for redeliberations. The staff have outlined, in detail below, the papers that we plan to discuss at the April, May, and June 2014 joint Board meetings.

### April 2014

- Lease modifications and contract combinations
- Variable lease payments
- In-substance fixed payments
- Discount rate

### May 2014

- Definition of a lease
- Separating lease and nonlease components
- Initial direct costs and lease incentives

### June 2014

- Residual value guarantees
- Subleases
- Sale and leaseback transactions

5. The staff also intend to bring the following topics for discussion before issuing a final leases standard:
- (a) Presentation
  - (b) Disclosures
  - (c) Transition
  - (d) Leveraged leases (FASB-only)
  - (e) Private company and not-for-profit issues (FASB-only)

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- (f) Effective date
  - (g) Cost benefit
  - (h) Other (related party leases, consequential amendments, etc.).
6. As discussed at the March 2014 meeting, the staff plan to provide the Boards with additional analysis about the recognition and measurement exemption of leases of small assets for lessees. The redeliberations will continue on a joint basis, with the intention of minimizing any differences between U.S. GAAP and IFRS.