

February 12, 2009

Financial Services



On-Call Accounting Alert

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FASB/IASB - To Issue a Discussion Paper on Lease Accounting

In a recent meeting, the FASB announced that it will jointly issue, with the IASB, a Discussion Paper in March 2009 regarding their preliminary views on accounting for leases. The primary purpose of the Discussion Paper is to seek comments on the tentative conclusions reached to date and to solicit input from constituents regarding other issues to be addressed (e.g., accounting for subleases). The Discussion Paper is the product of an on-going joint project between the FASB and IASB on lease accounting that is expected to primarily focus only on a proposed accounting model for lessees. However, a high-level discussion of lessor accounting issues will also be included.

The scope of the proposed accounting model is expected to be consistent with the scope of existing lease accounting literature. The most significant preliminary conclusion reached by the Boards is to apply the existing finance lease model, adapted where necessary, to all leases. This approach would result in lessees recording assets and liabilities on the statement of financial position for **all** lease arrangements. Although the project has thus far focused on lessee accounting, the Boards'

tentative decision to utilize the finance lease model for both lessee and lessor accounting may imply that there will not be a separate model for leveraged leases.

Other significant tentative conclusions to date include:

- A lessee would initially measure both its right-of-use asset and its lease obligation at the present value of the expected lease payments. The lessee would discount the lease payments using the lessee's incremental borrowing rate for secured borrowings.
- The term of a lease should be the most likely lease term based on an assessment of all contractual, noncontractual, and business factors. The assessment of the lease term should consider renewal, termination, and/or purchase options and such options would not be accounted for as separate assets.
- A lessee would be required to reassess the lease term and its lease obligation using its current assumptions at each reporting date. This is notable as it represents a significant change from current practice.
- A new approach for contingent lease payments is expected to be developed; however, the FASB and IASB did not agree on the methods to be used to measure contingent rentals and any residual guarantees. The Discussion Paper will likely explain the methods preferred by each of the Boards and seek constituent feedback.
- Lease related assets should be presented separately from, but adjacent to, owned assets on the lessee's statement of financial position. The FASB and the IASB have not reached agreement on other presentation matters, such as whether different presentation is appropriate for lease arrangements that are deemed to be in-substance purchases versus rights to use and whether the obligation to pay rentals should be presented separately from other financial liabilities on the statement of financial position. The Discussion Paper will likely discuss different presentations and seek constituent feedback.

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