IASB and US FASB publish proposals to improve the financial reporting of leases

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) today published for public comment joint proposals to improve the financial reporting of lease contracts. The proposals are one of the main projects included in the boards’ Memorandum of Understanding. The proposals, if adopted, will greatly improve the financial reporting information available to investors about the financial effects of lease contracts.

The accounting under existing requirements depends on the classification of a lease. Classification as an operating lease results in the lessee not recording any assets or liabilities in the statement of financial position (balance sheet) under either International Financial Reporting Standards or US standards (generally accepted accounting principles). This results in many investors having to adjust the financial statements (using disclosures and other available information) to estimate the effects of lessees’ operating leases for the purpose of investment analysis.

The proposals would result in a consistent approach to lease accounting for both lessees and lessors—a ‘right-of-use’ approach. Among other changes, this approach would result in the liability for payments arising under the lease contract and the right to use the underlying asset being included in the lessee’s statement of financial position, thus providing more complete and useful information to investors and other users of financial statements.

The boards developed the proposals after considering responses to their discussion paper, *Leases: Preliminary Views*, published in March 2009. In developing the proposals, the boards also considered extensive input from constituents, including more than 300 comment letters. The proposals are set out in the exposure draft *Leases*, which is open for comment until 15 December 2010 and can be accessed via the ‘Comment on a Proposal’ section of www.ifrs.org or on www.fasb.org. During the exposure draft’s comment period the boards will undertake further outreach activities, including public round-table meetings, to ensure that the views of all interested parties are taken into consideration before the new standard is completed.
Commenting on the exposure draft, Sir David Tweedie, chairman of the IASB, said:

The leasing industry plays an important role in many economies by helping companies manage cash flow and working capital. However, much of the estimated annual $640 billion of lease commitments fails to appear on the balance sheet of lessees, thereby giving a false impression of companies’ liabilities and gearing.

Our proposals would result in better and more complete financial reporting information about lease contracts being available to investors and others.

Bob Herz, chairman of the FASB, said:

This proposal continues the progress both boards are making to improve and converge our standards in significant areas of accounting. The proposal is intended to improve the transparency of lease accounting and also decrease its current complexity.

I encourage all constituents that engage in leasing transactions to provide us with your views on this important proposal.

As part of their additional outreach, the boards are seeking entities that would be willing to take part, on a confidential basis, in field work to discuss and test the provisions of their proposals for lease accounting. The purpose of the field work is to assess the operationality and the costs and benefits of the proposed new standard. This exercise will be conducted during the exposure draft’s comment period. Entities interested in volunteering should contact Aida Vatrenjak at avatrenjak@ifrs.org or Danielle Helmus at dehelmus@fasb.org by 15 September 2010.

To find out more, visit the Leases section of the IASB website via http://go.ifrs.org/leases, and the FASB website via www.fasb.org. Materials available on the website include a podcast introduction to the proposals as well as a high level summary of the proposals.

The IASB will hold an interactive webcast introducing the proposed standard at 10:30am London time on 18 August, and repeated at 3:30pm London time on the same day for the benefit of interested parties in different time zones.

To register, please click here.

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Notes for editors

About the IASB

The IASB was established in 2001 and is the standard-setting body of the IFRS Foundation, an independent private sector, not-for-profit organisation. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that provide high quality transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. The IASB currently has 14 full-time members drawn from ten countries and with a variety of professional backgrounds. By 2012 the IASB will be expanded to 16 members. IASB members are appointed by and accountable to the Trustees of the IFRS Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience. In their work the Trustees are accountable to a Monitoring Board of public authorities.

About the FASB

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