Boards decide to require different lessee disclosures

What you need to know
- The Boards reaffirmed the objective they proposed in 2013 that lessee disclosures should enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases.
- The Boards reached different decisions on the information that lessees would be required to disclose in the notes to the financial statements.
- Standards on accounting for leases are expected in the second half of 2015.

Highlights
The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (collectively, the Boards) continued redeliberating their 2013 proposal to put most leases on lessees’ balance sheets.

At their January 2015 meeting, the Boards jointly reaffirmed the objective for lessee disclosures in their 2013 proposal, but made different decisions about the information that lessees would be required to provide. Like all decisions to date, these decisions are tentative. The Boards may clarify their decisions in their respective standards.

Before issuing their standards, the Boards will redeliberate remaining issues, including transition and an effective date. They are expected to issue standards in the second half of 2015.

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1 See the Exposure Draft: Leases on the IASB’s website.
**Key decisions**

**Disclosure objective**
The Boards jointly reaffirmed that the objective of lessee disclosures is to enable financial statement users to understand the amount, timing and uncertainty of cash flows arising from leases. They also reaffirmed that lessees would exercise judgement to determine the appropriate level at which to aggregate, or disaggregate, disclosures so that meaningful information will not be obscured by insignificant details or by groupings of items with different characteristics.

**Qualitative disclosures**
The Boards reached different decisions about the qualitative disclosure requirements for lessees.

The IASB decided not to include the list of qualitative disclosure requirements from its 2013 proposal. Instead, an IASB standard would require lessees to disclose other information, in addition to the quantitative disclosures described below, in sufficient detail to satisfy the lessee disclosure objective. The IASB decided that its standard should include illustrative examples to demonstrate how these disclosures might be made.

The FASB decided to retain the requirements the Boards proposed in 2013. Lessees would disclose the following qualitative information:

- The nature of their leases (and subleases, as applicable), including:
  - A general description of those leases
  - The basis, and terms and conditions, on which variable lease payments are determined
  - The existence, and terms and conditions, of options to extend or terminate the lease (including descriptions of the options that are recognised as part of the right-of-use assets and lease liabilities and those that are not)
  - The existence, and terms and conditions, of lessee residual value guarantees
  - The restrictions or covenants imposed by leases (e.g., those related to dividends or incurring additional financial obligations)
- Information about leases that have not yet commenced, but that create significant rights and obligations for the lessee
- Information about the significant judgements and assumptions made in accounting for leases, which might include:
  - The determination of whether a contract contains a lease
  - The allocation of contract consideration between lease and non-lease components
  - The determination of the discount rate
- The main terms and conditions of any sale and leaseback transactions
- Whether an accounting policy election was made for the short-term lease exemption

The FASB also reaffirmed that lessees would be required to provide these qualitative disclosures in sufficient detail such that the lessee disclosure objective is met.
**Quantitative disclosures**

The Boards also reached different decisions about the quantitative disclosure requirements for lessees.

The IASB decided that lessees would be required to disclose the following quantitative information:

- Amortisation of right-of-use assets
- Interest on lease liabilities
- Amortisation expense, split by class of underlying asset
- Short-term lease expense for such leases with a lease term greater than 30 days
- Small-asset lease expense
- Variable lease expense
- Sublease income
- Total cash outflows for leases
- Additions to right-of-use assets
- Gains and losses arising from sale and leaseback transactions

The IASB decided that lessees would be required to present these quantitative disclosures in a tabular format unless another format is more appropriate. Lessees would also be required to disclose the carrying amount of right-of-use assets by class of underlying asset.

The FASB decided that lessees would be required to disclose the following quantitative information:

- Type A lease expense (with amortisation of right-of-use assets disclosed separately from interest on lease liabilities)
- Type B lease expense
- Short-term lease expense for such leases with a lease term greater than 30 days
- Variable lease expense
- Sublease income
- Cash paid for amounts included in the measurement of lease liabilities separately by lease type (i.e., Type A, Type B) and segregated between operating and financing cash flows
- Supplemental non-cash information on lease liabilities exchanged for right-of-use assets (e.g., for new leases) separately by lease type (i.e., Type A, Type B)
- Weighted average remaining lease term, presented separately for Type A and Type B leases
- Weighted average discount rate for Type B leases as of the reporting date
- Gains and losses arising from sale and leaseback transactions

The FASB decided not to require a specific format for lessees’ quantitative disclosures, but agreed its standard should include an example presenting quantitative disclosures in a tabular format.

Consistent with its 2013 proposal, the FASB also decided to retain the requirement for lessees to disclose a maturity analysis of lease liabilities. The maturity analysis would include undiscounted cash flows, on an annual basis, for a minimum of each of the five years after the balance sheet date and a total of the amounts for the remaining years (i.e., the total undiscounted cash flows beyond the fifth year). The analysis would also include a reconciliation of the undiscounted cash flows to the lease liabilities recognised in the balance sheet.
Other decisions

Based on constituents’ feedback on the 2013 proposal, the IASB decided not to require a reconciliation of the opening and closing balances of lease liabilities. However, the IASB decided to require disclosure of a maturity analysis of lease liabilities in accordance with IFRS 7\(^1\) rather than the lease liability maturity analysis disclosure it proposed in 2013. Lessees would disclose this maturity analysis separately from analyses for other financial liabilities. The IASB also decided not to require a reconciliation of the opening and closing balances of right-of-use assets.

For similar reasons, the FASB decided not to require a reconciliation of the opening and closing balances of lease liabilities or a maturity analysis of commitments for the non-lease components of contracts that contain a lease.

The FASB also decided that the qualitative and quantitative lessee disclosure requirements would apply to both public and nonpublic business entities. That is, no special disclosure requirements or relief would be provided for nonpublic business entities.

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\(^1\) See IFRS 7 Financial Instruments: Disclosures, paragraphs 39 and B11.