IASB staff to begin drafting the new leases standard

What you need to know

- The IASB directed the staff to begin drafting the new leases standard.
- The IASB also decided to require additional disclosures for lessees in the period that the new standard is first applied.
- The new standard on accounting for leases is expected in the second half of 2015.

Highlights

The International Accounting Standards Board (IASB or Board) met in March 2015 to finalise its redeliberations of its 2013 proposal\(^1\) to put most leases on lessees’ balance sheets.

The IASB confirmed that the due process requirements necessary to issue a new standard have been met and directed the staff to proceed with preparing the new leases standard for balloting. It also confirmed that re-exposure of the proposed standard is not required.

The IASB decided how a lessee would explain the effect on its financial statements of adopting the new standard. Like all decisions to date, these decisions are tentative. The IASB may clarify its decisions in the standard.

The IASB plans to discuss the effective date of the new standard at a future meeting. The IASB and the Financial Accounting Standards Board (FASB) (collectively, the Boards) have held joint deliberations for most of the project. In February 2015, the FASB directed its staff to begin drafting its new standard. The Boards are expected to issue separate standards in the second half of 2015.

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\(^1\) See the Exposure Draft: *Leases* on the IASB’s website.
Due process considerations

The IASB concluded that all the due process requirements\(^2\) have been met in order to proceed with the drafting of the new standard.

The leases project is a joint project with the FASB that was added to the Boards’ agendas in 2006. A joint discussion paper\(^3\) was issued for comment in 2009, followed by a joint exposure draft (ED) in 2010\(^4\). Following redeliberations of that ED, the Boards published a joint revised exposure draft in 2013\(^5\) (2013 ED), which has been discussed during 2014 and 2015.

The IASB decided that no further re-exposure is required as there are no substantive changes to the 2013 ED on which respondents have not already had the opportunity to comment through the steps summarised above. The IASB believes it is unlikely that re-exposure would reveal any new concerns or information.

How we see it

The leases project has been subject to extensive deliberation and public comment and is now reaching its conclusion. The IASB has made some simplifications to the 2013 ED, while retaining the objective of putting most lessees’ leases on the balance sheet. However, the new standard will significantly change the accounting for many leases (e.g., today’s operating leases for lessees).

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\(^2\) As listed in the Due Process Handbook on the IASB’s website.
\(^3\) Discussion paper Leases: Preliminary Views March 2009.
\(^4\) Exposure Draft Leases August 2010.
\(^5\) Exposure Draft Leases May 2013.
Disclosures for lessees on transition

The IASB discussed the disclosure requirements of the new standard at its meeting in February 20156. However, some Board members were concerned about proposed disclosures to explain the effect of adopting the new standard in the annual reporting period in which it is first applied by a lessee. Therefore, the Board instructed the staff to consider an alternative approach.

At its March 2015 meeting, the IASB decided to replace the requirements of paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which relates to the disclosure of adjustments on initial application of an IFRS, with the following:

- The weighted average incremental borrowing rate at the date of initial application
- Explanation of any differences between:
  - the result of discounting the operating lease commitments reported under IAS 17 Leases at the end of the annual reporting period preceding the date of initial application; and
  - lease liabilities recognised on the balance sheet immediately after posting the cumulative catch up adjustment on the date of initial application.

Next steps

The staff will start drafting the new standard for balloting. The effective date will be discussed at a future meeting, along with any sweep issues that arise during the drafting process. The IASB expects to issue the new standard before the end of 2015.

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6 See our IFRS Developments 101: IASB substantially completes redeliberations on leases (AU2910).