FASB Recent Meetings Results – Timeline, Disclosures and Transition
The New Rules Should be Issued by Year End
By Bill Bosco, Leasing 101

The FASB held two recent meetings to cover disclosures, transition rules and an update of the project timeline. The most important headline is that they plan to finish the standard and issue it by year end 2015. Although they have not announced the transition date it is expected to be 2018 for December 31 year end companies. They are in drafting the standard now expecting only "minor" housekeeping issues needing further Board decisions. The focus of this article in on the FASB version of the leases project as opposed to the IASB version.

FASB Lessee Disclosures:

A lessee must disclose the following qualitative items:

1. Information about the nature of its leases (and subleases), including:
   a. A general description of those leases;
   b. The terms regarding variable lease payments, options to extend or terminate the lease (narrative disclosure about the options that are recognized as part of the ROU assets and lease liabilities and those that are not), residual value guarantees provided by the lessee, and restrictions or covenants imposed by leases.
2. Information about significant leases committed but not yet commenced.
3. Information about significant assumptions and judgments made in applying the requirements of the leases standards, which may include the following:
   a. The determination of whether a contract contains a lease;
   b. The allocation of lease and nonlease components in "bundled billed" lease payments; and
   c. The determination of the discount rate.
4. The main terms and conditions of any sale and leaseback transactions.
5. Whether an accounting policy election was made for the short-term lease exemption.

My Commentary: *This is all useful information* ***but*** *for a large company there will be little real detail because of the high volume and broad spectrum of lease types and types of leased assets.*

A lessee must disclose the following quantitative items:

1. Type A lease expense, segregated between amortization of ROU assets and interest on lease liabilities.
2. Type B lease expense.
3. Short-term lease expense, excluding expenses relating to leases with a lease term of one month or less.
4. Variable lease expense.
5. Sublease income.
6. Cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows and between Type A and Type B leases.
7. Supplemental noncash information on lease liabilities arising from obtaining ROU assets, segregated between Type A and Type B leases.
8. Weighted-average remaining lease term, disclosed separately for Type A and Type B leases.
9. Weighted-average discount rate for Type A and Type B leases as of the reporting date.
10. Gains and losses arising from sale and leaseback transactions.
11. Provide a maturity analysis showing the undiscounted lease cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years, and reconciling the undiscounted cash flows to the discounted lease liabilities recognized in the statement of financial position.

My Commentary: *This is an improvement over current disclosures and the Board made sure the information could be provided by lessees with minimal extra compliance cost.*

FASB Lessor Disclosures:

A lessor should disclose:

1. Information about the nature of its leases, as well as information about significant assumptions and judgments made in applying the leases requirements;
2. A table of lease income during the reporting period; and
3. Information about how a lessor manages its risk associated with the residual value of its leased assets.

A lessor should treat assets subject to Type B leases as a major class of depreciable assets, further distinguished by significant class of underlying asset for presentation and disclosures.

A lessor should be required to disclose:

1. For Type A leases, a maturity analysis of the undiscounted cash flows that comprise the lessor's lease receivables for each of the first five years following the reporting date and a total of the amount for the remaining years thereafter. A lessor should reconcile the maturity analysis to the balance of lease receivables presented separately in the balance sheet or disclosed separately in the notes; and
2. For Type B leases, a maturity analysis of the undiscounted future lease payments to be received for each of the first five years following the reporting date and a total of the amount for the remaining years thereafter.

A lessor should be required to provide an explanation of the significant changes in the components of the net investment in Type A leases other than the lease receivable during the reporting period.

My Commentary: *This is all useful information **but** for a large company there will be little real detail because of the high volume and broad spectrum of lease types.*

FASB Lessee Transition:

Capital Leases:

1. Grandfathered as a lessee should initially recognize a Type A ROU asset and lease liability at the current carrying value.
2. Re: unamortized initial direct costs The lessee can grandfather the treatment or adjust the balances to reflect the new rules
3. Beginning on the effective date, a lessee should subsequently measure the Type A ROU asset and lease liability in accordance with the subsequent measurement guidance in the new leases standard, except that a lessee should not remeasure the Type A ROU asset or lease liability for changes in the amount the lessee expects to pay under residual value guarantees unless it remeasures the asset or liability for other reasons (for example, because of a change in the lease term resulting from a reassessment).
4. Beginning on the effective date, if a lessee modifies the lease (and that modification is not a separate lease) or is required to remeasure the lease liability for any reason, it should follow the new leases standard.

Operating Leases:

1. Treated as though it is a new lease, recognizing a Type B ROU asset and lease liability at the later of (a) the date of initial application and (b) lease commencement.
2. Unless the lease is modified (and that modification is not a separate lease), or the lease liability is required to be remeasured, on or after the effective date, a lessee should initially and subsequently measure the lease liability at the present value of the sum of:

a. The remaining *minimum rental payments* (as defined under current GAAP) plus

b. Any amounts the lessee expects to pay to satisfy a residual value guarantee, using a discount rate established in accordance with the new leases standard.
3. A lessee should measure the Type B ROU asset throughout the lease at an amount equal to the lease liability, adjusted for any prepaid or accrued rent, lease incentives, or unamortized initial direct costs that would have qualified for capitalization under the new leases standard.
4. The lessee may apply either the new or existing rules re: IDC.
5. Beginning on the effective date, if a lessee modifies the lease (and that modification is not a separate lease) or is required to remeasure the lease liability for any reason, it should follow the new leases standard.

Also as compliance relief:

1. A lessee need not reassess whether any expired or existing contracts are or contain leases under the new definitions.
2. A lessee need not reassess the lease classification under the new rules for any expired or existing leases.
3. A lessee need not reassess initial direct costs under the new rules for any existing leases (that is, whether those costs would have qualified for capitalization under the new leases standard).

Lastly, the above specified relief may be elected separately or in conjunction with the above specified reliefs as an accounting policy election (that is, it cannot be elected on a lease-by-lease basis).

My Commentary: *The FASB eased the compliance burden throughout using grandfathering and allowing specified reliefs so a lease-by-lease detailed review to determine re-booking is not required.*

Lessor Transition:

Sales-Type/Direct Financing Leases

1. A lessor should not reassess whether a sales-type lease would have qualified for upfront selling profit recognition in accordance with the new leases standard.
2. A lessor should initially recognize a net investment in the lease at the later of (a) the date of initial application and (b) lease commencement, measured at the carrying amount of the net investment in the lease under Topic 840 immediately before that date. For a direct financing lease, the net investment in the lease should include any unamortized initial direct costs that were capitalized in accordance with Topic 840.
3. Before the effective date, a lessor should subsequently measure its net investment in the lease in accordance with the subsequent measurement guidance in Topic 840.
4. Beginning on the effective date, a lessor should subsequently measure the net investment in the lease in accordance with the subsequent measurement guidance in the new leases standard.
5. Beginning on the effective date, if a lessor modifies the lease (and that modification is not a separate lease), it should follow the new leases standard.

Operating Leases

1. The carrying amount of the underlying asset and any lease assets or liabilities (for example, prepaid or deferred rent) should be the same as that recognized under Topic 840 at the later of (a) the date of initial application and (b) lease commencement.
2. If a lessor had previously securitized receivables arising from leases that were classified as operating leases in accordance with Topic 840, the lessor should account for those transactions as secured borrowings in accordance with other Topics.
3. A lessor should recognize any initial direct costs that would have qualified for capitalization under the new leases standard as an expense over the lease term on the same basis as lease income; otherwise, those

costs that would not have qualified for capitalization should be written off as an adjustment to equity as of the applicable “later of” date.

A lessor may apply the same specified reliefs as permitted for a lessee subject to the same restrictions. The specified relief elections must be consistently applied by an entity for all lessee and lessor leases (that is, an entity that is a lessee and a lessor must make the same specified relief elections).

Bill Bosco Commentary: *These are all reasonable decisions.*

Sale and Leaseback Transition:

Accounting for Previous Sale and Leaseback Transactions

An entity should not reassess whether a transaction previously accounted for as a sale and leaseback transaction under Topic 840 would have qualified as a sale (or purchase) in accordance with Topic 606, Revenue from Contracts with Customers.

Deferred Gain or Loss Treatment for Sale and Capital Leaseback

For any transaction previously accounted for as a sale and *capital* leaseback transaction under Topic 840, the seller-lessee should continue to amortize any deferred gain or loss.

Deferred Gain or Loss Treatment for Sale and Operating Leaseback

For any transaction previously accounted for as a sale and *operating* leaseback transaction under Topic 840:

1. The seller-lessee should recognize any deferred gain or loss not resulting from off-market terms as a cumulative-effect adjustment to equity at the later of the date of initial application and the date of sale.
2. Any seller-lessee deferred gains or losses that resulted from off-market sales and leaseback terms should be recognized as an adjustment to the leaseback ROU asset (if a deferred loss) or accounted for as a remaining financial liability (if a deferred gain) at the date of initial application.

About the Author:

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