Executive Summary of the Leases Project - Feb 2016

Timeline:

- IASB issued their version 1/13/16
- FASB version to be issued in Feb 2016
-Transition year for public companies is 2019 with comparative statements required – BS 2018 & 2019, P&L 2017, 2018, 2019
-Transition year for private companies is 2020

Lessee Accounting:

-Capitalize all leases @ the PV of lease payments.
-FASB – maintain 2 lease model for Operating Leases and Finance Leases. Classification tests virtually the same as current GAAP with 90% & 75% bright lines still used to aid in judgement. The lease liability is a non-debt operating liability. The P&L cost is the straight line rent expense. IASB – all leases are Finance Leases
- Lease term = substantially the same as current GAAP definition, include renewals/POs only if reasonably certain of exercise.
- Gross/bundled billed leases – both lessees and lessor separate lease and non-lease components – non-lease components accounted for on cash basis.
-Variable rents based on a rate (i.e., Libor) or an index (i.e., CPI) are booked based on spot rates with adjustments booked when the rate changes contractual lease payments (FASB requires adjustments only when the lease is modified or other lessee actions cause the lease to be rebooked like incurring significant leasehold improvement costs making a renewal compelling).
-Variable rents based on usage or lessee performance (e.g., sales) not booked unless a tool to avoid capitalization (disguised minimum lease payment).
- Estimated payments under residual guarantees are booked with review and adjustment at each reporting date.
- Short-term leases (12 months or less) - can elect to use operating lease method. . For IASB only there is a small item exemption ($5,000 cost or less)
- IDC only allows incremental costs of a lease that would not have been incurred if the lease had not been obtained.
- Sale leaseback with a PO not a sale unless PO is @FMV & asset is not specialized. For fixed POs, the transaction is accounted for as a loan for both lessee & lessor.
- Transition – FASB – book all operating lease going forward with reliefs available like not having to apply new definitions/changes to existing leases. IASB more complex.

Lessor Accounting:

- Current Operating and direct finance lease models are virtually the same.
- IDC includes only costs directly attributable to negotiating and arranging a lease that would not have been incurred if the lease had not been obtained. Excludes overhead allocations but can include sales staff commissions. It excludes things like legal expenses and appraisal fees as they would have been incurred if the deal was lost.
- Sales type lease gross profit recognition allowed only if not third party RVI used to get DFL treatment. Those leases using third party RVI amortize the gross profit as apart of lease revenue using the implicit rate.
- Lev lease accounting eliminated the transition date but existing deals grandfathered.
- ITC/tax credit accounting TBD