



Press release



19 March 2009

IASB and FASB launch public consultation on a future standard on lease accounting

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) today launched a public discussion on lease accounting by publishing their preliminary views in a joint discussion paper.

The discussion paper *Leases: Preliminary Views* is a response to concerns raised by investors and other users of financial statements regarding the treatment of lease contracts under International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP).

According to the World Leasing Yearbook 2009, total annual leasing volume in 2007 amounted to US\$760 billion; yet many of those lease contracts do not appear in an entity's statement of financial position (balance sheet). This is because IFRSs and US GAAP split leases into two categories—finance leases (capital leases under US GAAP) and operating leases—and only the assets and liabilities arising from finance leases are recognised in the statement of financial position. For an operating lease the lessee simply recognises lease payments as an expense over the lease term.

The different accounting treatment of finance and operating leases has given rise to various problems, in particular:

- Many users of financial statements believe that all lease contracts give rise to assets and liabilities that should be recognised in the financial statements of lessees. Therefore these users routinely adjust the recognised amounts in the statement of financial position in an attempt to assess the effect of the assets and liabilities resulting from operating lease contracts.
- The split between finance leases and operating leases can result in similar transactions being accounted for very differently, reducing comparability for users of financial statements.
- The difference in the accounting treatment of finance leases and operating leases also provides opportunities to structure transactions so as to achieve a particular lease classification.

In the discussion paper the IASB and the FASB discuss a possible new approach to lease accounting. The boards propose that lease accounting should be based on the principle that all leases give rise to liabilities for future rental payments and assets (the right to use the leased asset) that should be recognised in an entity's statement of financial position. This approach is aimed at ensuring that leases are accounted for consistently across sectors and industries.

The boards have not yet discussed the method of transition or the effective date. Those issues will be discussed after comments are received on this discussion paper, and included in the provisions of a subsequent exposure draft of the proposed standard.

The boards decided in July 2008 to defer consideration of lessor accounting in order to resolve the problems associated with lessee accounting as quickly as possible. Consequently, the discussion paper deals mainly with lessee accounting. However, it also describes some of the issues that will need to be addressed in a future proposed standard on lessor accounting.

Introducing the discussion paper, Sir David Tweedie, Chairman of the IASB, said:

While much of public attention rightly focuses on accounting issues relating to the financial crisis, this is a project of great importance and deserves public interest. Leasing is a significant source of financing for many companies. It is therefore important that interested parties should take the time to familiarise themselves with our proposals and give their views through the comment letter process. I would also like to thank members of the Leasing Working Group who have helped the two boards shape these proposals.

Robert Herz, chairman of the US FASB, said:

The proposals contained in this discussion paper are intended to improve the transparency, credibility and usefulness of lease accounting. We encourage our constituents to review the discussion paper, and to let us know whether or not they agree that these proposals would better reflect the rights and obligations arising from leasing contracts on the balance sheets of lessees.

The discussion paper is open for comment until 17 July 2009.

The discussion paper *Leases: Preliminary Views* is available on the 'Open for Comment' section on www.iasb.org from today. Subscribers may also view the document in the *eIFRSs* website. Printed copies (ISBN 978-1-907026-02-7) will be available shortly, at £12.00 plus shipping, from:

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Leases: Preliminary Views is also available on <http://www.fasb.org/draft/index.shtml>. In addition, any individual or organisation may obtain one copy of the discussion paper from the FASB without charge until 17 July 2009 on written request. *Please ask for FASB Product Code No DP03*. For information on applicable prices for additional copies and copies requested after 17 July 2009, contact:

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The IASB and the FASB will each be holding a live web presentation introducing the discussion paper in May 2009. Details on how to register to listen to the web presentation will be announced in due course on the IASB and FASB websites.

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Notes for editors

About the IASB

The IASB was established in 2001 and is the standard-setting body of the International Accounting Standards Committee (IASC) 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. Its 14 members (13 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. They are appointed by and accountable to the Trustees of the IASC Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience.

About the Financial Accounting Standards Board

Since 1973, the US 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 its website at www.fasb.org.