



# Welcome

## Please stand by to learn about opportunities for research - Topic 842 Leases

12:00 PM E.S.T. (90 minutes)

Download slides from [www.fasb.org/academics](http://www.fasb.org/academics)

This session will be recorded

The views expressed in this presentation are those of the presenter.  
Official positions of the FASB are reached only after extensive due process and deliberations



# Topic 842 Leases Opportunities for Research

March 5, 2021

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# Agenda

- Objective of the session and overview of post-implementation review
- Overview of the standard and research opportunities
  - Problem and solution
  - Topical issues
  - Disclosures
- Future educational opportunities



# Housekeeping Items

- CPE – is not available for today’s webcast
- Q&A - To ask a question during the session, use the “Q&A” feature (not the chat feature)
- Slides – will be available for downloading on our website at [www.fasb.org/academics](http://www.fasb.org/academics)



# Archived Webinar

- A recording of the webcast will be available online at:
  - The academic landing page
    - <https://fasb.org/academics>
  - The Accounting for an Ever-Changing World website
    - <https://aaahq.org/Meetings/2022/Accounting-for-an-Ever-Changing-World>. [www.fasb.org](http://www.fasb.org)
- If you have any questions about this webcast, or any of our other educational webcasts, please contact the post-doctoral fellow at [academics@fasb.org](mailto:academics@fasb.org)

# Objective and PIR

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# Objective of the Session

- Provide an overview of the post-implementation review process and connection to academic research
- Review certain aspects of the lease standard
- Highlight areas of opportunity for academic research relevant to the PIR of Leases



# Post-Implementation Review (PIR) Objectives

Determine whether a standard is accomplishing its stated purpose:

- Resolved the issues underlying its need
- Provides decision-useful information
- Standard is operational
- Any significant unexpected changes to financial reporting or operating practices
- Any significant unanticipated consequences

Evaluate implementation and continuing compliance costs

Provide feedback to improve the standard setting process



# Active PIR Projects

- [Leases](#)
- [Revenue recognition](#)
  - Registration open for academic webinar on March 19<sup>th</sup>
- [Credit losses](#)
  - Registration open for academic webinar on March 26<sup>th</sup>



# Accounting for an Ever-Changing World Conference

- Joint conference of the FASB, IASB, *TAR*, and AAA, November 2-4, 2022, New York City
- <https://aaahq.org/Meetings/2022/Accounting-for-an-Ever-Changing-World>
- Focus on research related to FASB/IASB PIR projects:
  - Leases (Topic 842 and IFRS 16, *Leases*)
  - Revenue recognition (Topic 606 and IFRS 15, *Revenue from Contracts with Customers*)
  - Financial instruments (Topic 326, Financial Instruments—Credit Losses, and IFRS 9, *Financial Instruments*)

# Leases – Problem and Solution

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# Purpose

**1.25 trillion** of off-balance sheet operating lease commitments for SEC registrants\*

## Lessee

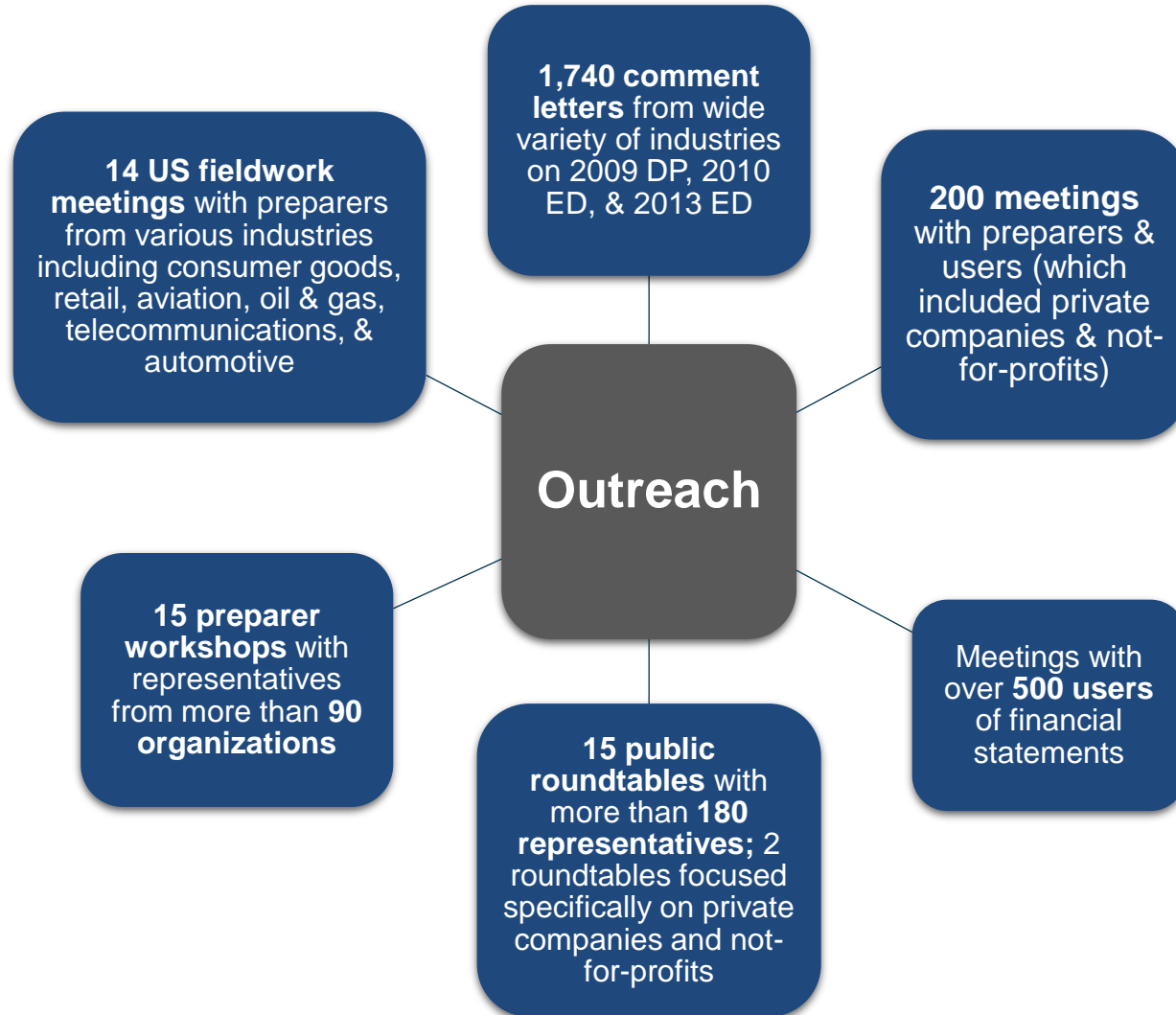
- Most lease assets and liabilities are off-balance sheet
- Limited information about operating leases

## Lessor

- Lack of transparency about residual values
- Consistency with leases and revenue recognition guidance

\* Estimate according to the 2005 SEC report on off-balance sheet activities

# Feedback and Outreach



**View was that most users consider leases a liability and adjust for them in the financial statements**

# Lessee Model

Finance lease if any of the following are met  
(otherwise it's an operating lease):

Lease transfers ownership of the underlying asset to the lessee by the end of the lease term

Lease grants the lessee an option to purchase the asset that the lessee is reasonably certain to exercise

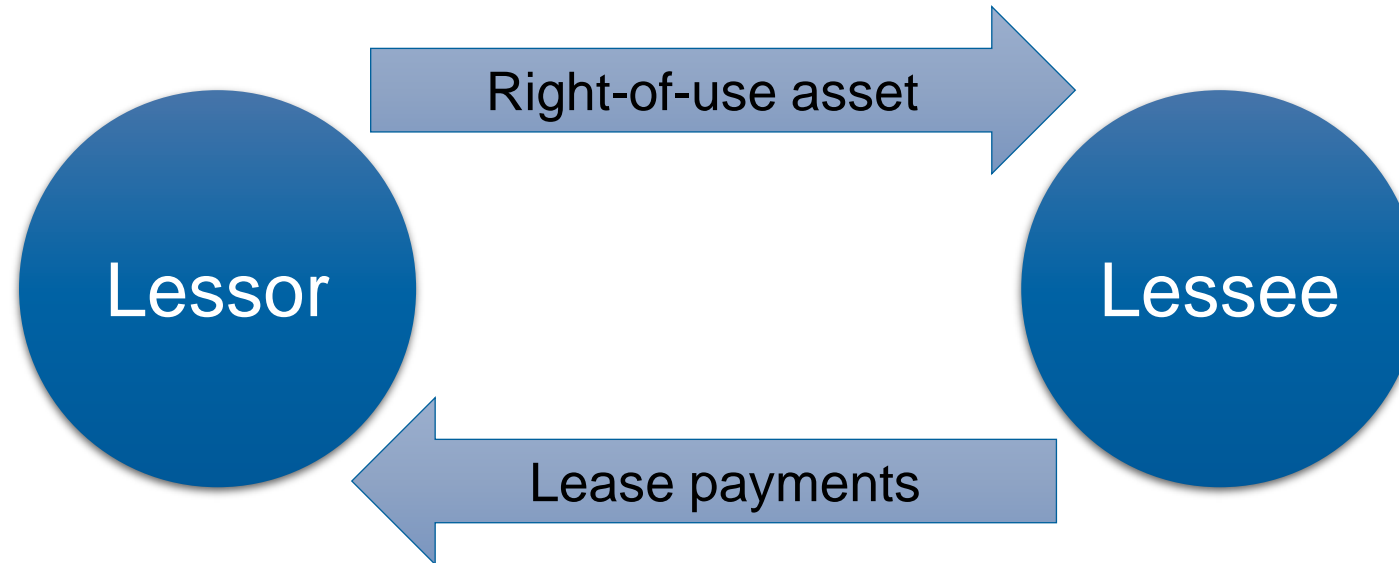
Lease term is for a major part of the remaining economic life of the underlying asset

PV of the lease payments and any lease residual value guarantee not reflected in the lease payments, equal or exceed substantially all of the asset's FV

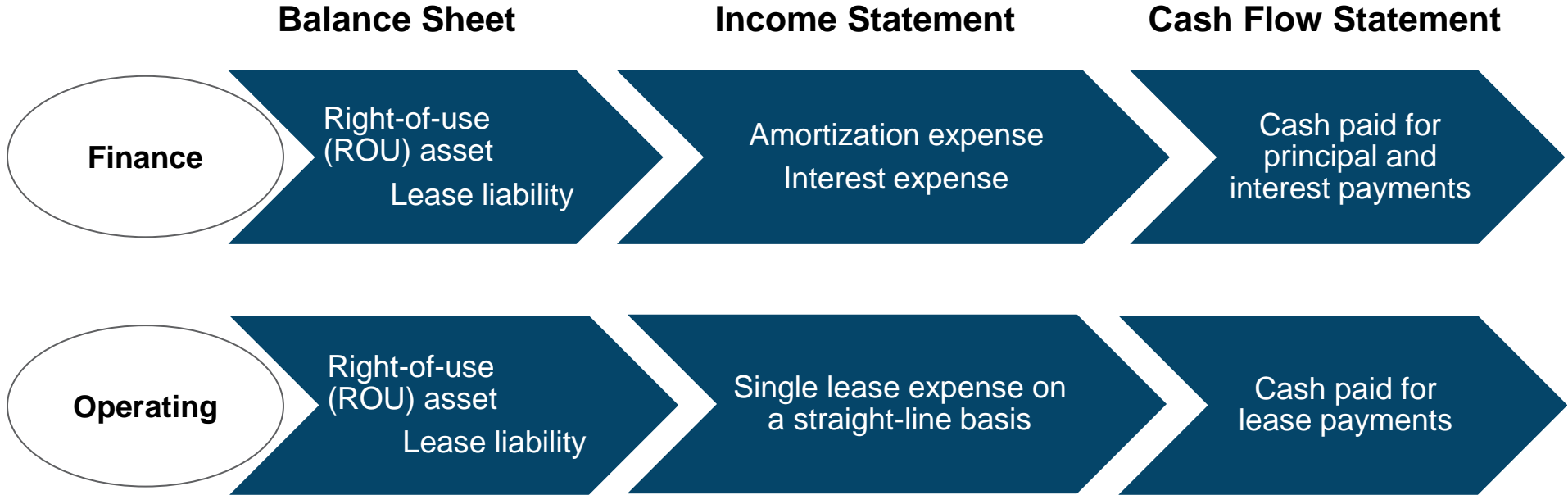
Underlying asset is of such specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term

# Right-of-Use Model

A lease is a contract, **or part of a contract**, that conveys the right to control the use of identified property, plant or equipment (an identified asset) for a period of time in exchange for consideration



# Lessee Accounting Overview



IFRS 16 has a single classification model consistent with finance lease

Recognition and measurement exemption for short-term leases (12 months)

Other than public business entities may use risk-free rates for measurement of all lease liabilities



# Is the standard accomplishing its stated purpose?

*Is decision-useful information being reported to, and used by, investors, creditors, and other users of financial statements?*

- Has the decision usefulness of information about lease assets and lease liabilities improved?
  - Does the decision usefulness of the information differ by type of user (E.g., international versus domestic investors, equity versus credit investors or analysts, buy-side versus sell-side analysts, etc.)
- Has the comparability of information improved regardless of how entities choose to finance their assets?
- How do the amounts recognized on balance sheet in the year of transition compare with amounts disclosed prior to adoption and users' estimates of lease assets and liabilities based on those disclosures?

# Is the standard accomplishing its stated purpose?

*Is the standard operational?*

- What is the nature (E.g., audit cost), magnitude, and drivers of the implementation and ongoing costs of Topic 842?
  - What operational challenges have auditors faced related to Topic 842?
- What is the impact of the Topic 842 dual classification model versus single model under IFRS 16?
  - Does the decision usefulness of the information differ between the two models?
  - Does the decision usefulness of the models vary by type of user?
  - What is the impact on the comparability of information?
  - Do implementation or ongoing costs differ for entities?

# Is the standard accomplishing its stated purpose?

*Have significant unexpected changes to financial reporting or operating practices resulting from the standard?*

- Are there implications for debt contracting?
  - How did the transition to Topic 842 impact existing debt arrangements?
  - Have there been changes to debt contracting post-Topic 842? (E.g., are operating lease liabilities and finance lease liabilities assessed differently?)
- Has there been an impact on lease versus buy decisions?
- Has there been a change in the efficiency of lease management practices or lease contracting?
- Has there been a change in the efficiency of asset utilization?

# Is the standard accomplishing its stated purpose?

*Have significant unanticipated consequences resulted from applying the standard?*

- Have lease transactions evolved to achieve a particular accounting outcome on the statement of financial position?
  - E.g., greater variable payments, shorter lease terms, increased use of service arrangements, change in the mix of operating and finance leases, etc.

# Leases – Topical Areas

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# Lessee Discount Rate

- The rate implicit in the lease, if readily determinable; otherwise the incremental borrowing rate (IBR)
- IBR = Collateralized borrowing rate over similar term

Initial Determination

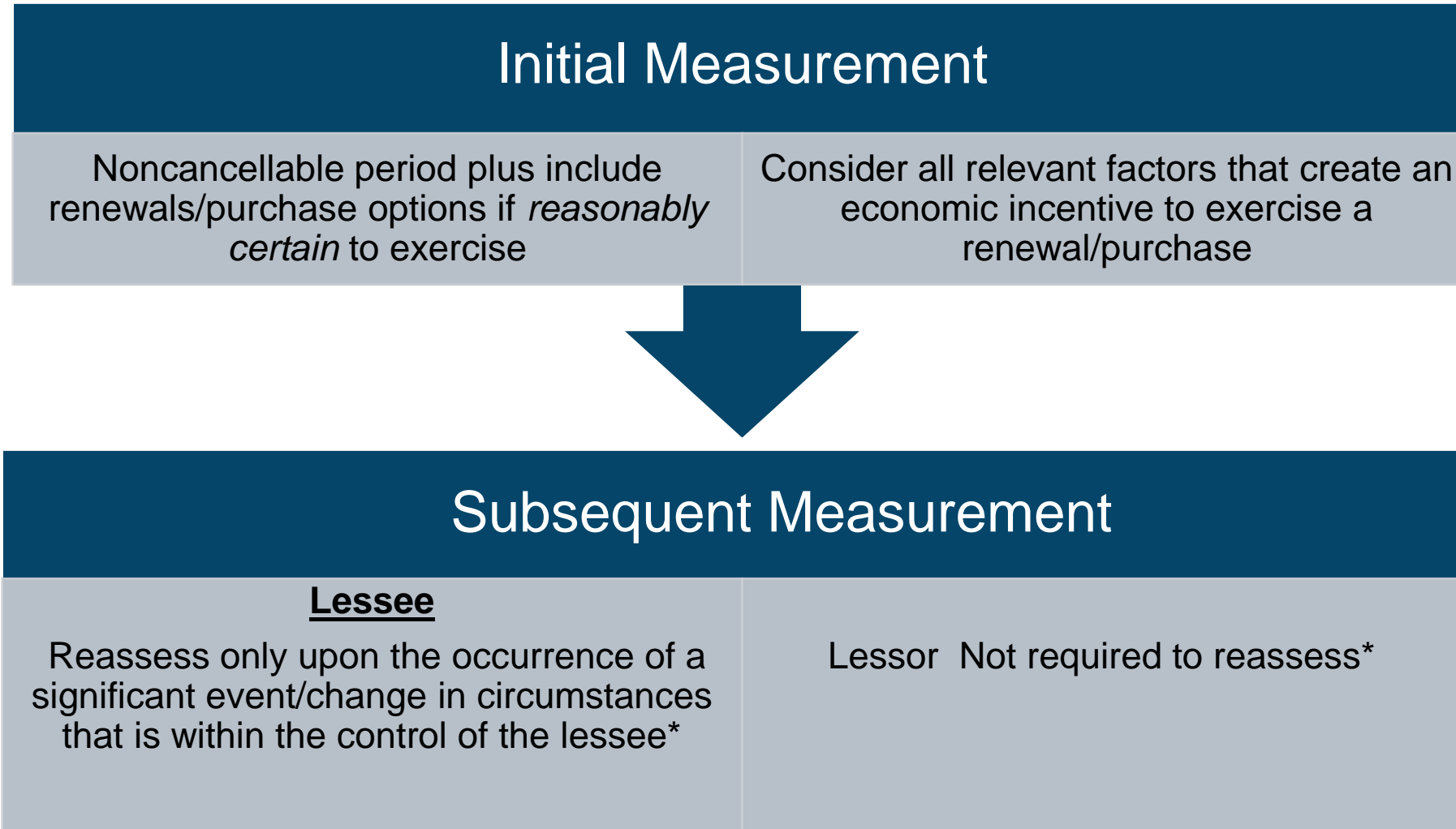
Reassessment

- Lessee: Reassess only when lease liability is remeasured for other reasons (e.g., change in the lease term)\*

Private Companies and NFPs

- Discount Rate Accounting Policy Election: May use risk-free rates for measurement of all lease liabilities

# Lease Term and Purchase Options



\* Absent a modification

# Sale and Leaseback Transactions

<p>Determine if a sale occurred</p>	<ul style="list-style-type: none"><li>▪ Apply Topic 606 (new revenue guidance)</li><li>▪ If there is a sale, apply Topic 842 to account for leaseback</li><li>▪ Finance leasebacks preclude a sale</li><li>▪ Repurchase options do not preclude a sale if exercisable at the then-prevailing <u>fair value</u>, provided there are alternative assets (that are substantially the same as the transferred asset) readily available in the marketplace</li><li>▪ Significantly changed from Topic 840<ul style="list-style-type: none"><li>❖ Separate Real Estate guidance preceding 606</li><li>❖ No guidance for non-real-estate transaction</li><li>❖ More deferred gains</li></ul></li></ul>
<p>Accounting for the sale / purchase</p>	<ul style="list-style-type: none"><li>▪ Gain or loss on sale is recognized same as for the sale of any other nonfinancial asset</li><li>▪ Buyer-lessor accounts for purchase consistent with that of other nonfinancial assets</li><li>▪ Buyer-lessor and seller-lessee account for failed sale and leaseback as a financing transaction</li></ul>



# Is the standard accomplishing its stated purpose?

*Is decision-useful information being reported to, and used by, investors, creditors, and other users of financial statements?*

- How does the application of judgment in the initial measurement of the lease asset and liability impact the decision usefulness of the information?
- How does the application of judgment in the initial measurement of the lease asset and liability impact the comparability of information?
- Is the financial reporting for a sale leaseback transaction under Topic 842 decision useful?
- Has the comparability of financial reporting increased between sales entered into as part of sale and leaseback transactions and all other sales?
- How does the judgment involved in determining whether a sale has occurred in a sale leaseback transaction impact the comparability of the information?

# Is the standard accomplishing its stated purpose?

*Is the standard operational?*

- How do preparers' judgments applied in initial measurement (E.g., discount rate, lease term) differ across entities?
- How does the application of judgment in the initial measurement of lease assets and liabilities impact the implementation and ongoing cost for entities?
- How do preparers' judgments involved in determining whether a sale has occurred in a sale leaseback transaction differ across entities?

# Is the standard accomplishing its stated purpose?

*Have significant unexpected changes to financial reporting or operating practices resulting from the standard?*

- To what extent are significant judgments a faithful representation of the underlying economics?
  - E.g., Does the discount rate reflect entities' cost of debt for similar secured financing?



# Is the standard accomplishing its stated purpose?

*Have significant unanticipated consequences resulted from applying the standard?*

- Have sale-leaseback transactions evolved to achieve a desired accounting outcome under Topic 842?



# Lease Disclosures

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# Disclosure objective

The objective of the disclosure requirements is to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.



# Lessee Disclosures

## Qualitative Disclosure Requirements

- Information about:
  - The nature of leases
  - Leases that have not yet commenced but that create significant rights and obligations for the lessee
  - Significant assumptions and judgments made in applying the requirements of the leases standard
- The main terms and conditions of any sale and leaseback transactions.
- Whether an accounting policy election was made for the short-term lease exemption.

# Lessee Disclosures

## Quantitative Disclosure Requirements

- Finance lease expense, segregated between amortization of ROU assets and interest on lease liabilities
  - Operating lease cost
  - Short-term lease cost, excluding expenses relating to leases with a lease term of one month or less
  - Variable lease cost
  - Sublease income
  - Gains and losses arising from sale and leaseback transactions
- Separately for Finance and Operating leases:
    - Cash paid for amounts included in lease liabilities, segregated between operating and financing cash flows
    - Lease liabilities arising from obtaining ROU assets
    - Weighted-average remaining lease term as of the reporting date
    - Weighted-average discount rate for leases as of the reporting date
  - Lease payments maturity analysis (similar to that in Topic 840 disclosures)



# Lessee Disclosures

## Quantitative Disclosure Requirements

- A maturity analysis of lease liabilities:
  - showing the undiscounted 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
  - reconciling the undiscounted cash flows to the discounted lease liabilities recognized in the statement of financial position

# Is the standard accomplishing its stated purpose?

*Is decision-useful information being reported to, and used by, investors, creditors, and other users of financial statements?*

- Do the required disclosures achieve the disclosure objective?
- Do entities' qualitative disclosures convey decision useful information? Are they informative or boilerplate?
- Do entities' quantitative disclosures convey decision useful information?
- Is there incremental information in disclosures of certain significant judgments (E.g., the weighted-average lease term or discount rate)?
- Are there disclosures that could be removed or are there disclosures that should be added?
- Are the disclosures used to improve the comparability of the lease asset and liability information across entities?

# Is the standard accomplishing its stated purpose?

*Have significant unexpected changes to financial reporting or operating practices resulting from the standard?*

- What is the level of compliance with the disclosure requirements?
- Does compliance vary across entities in a systematic manner?



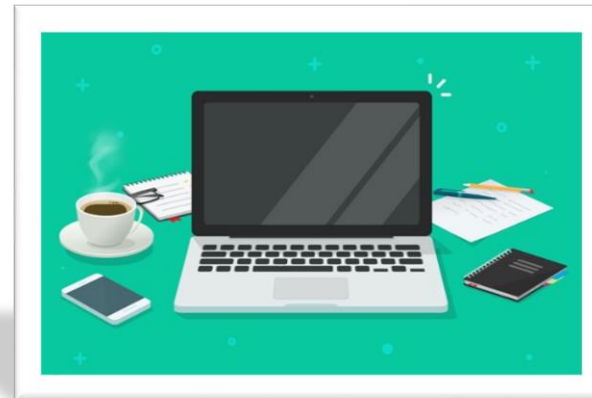
# Educational Opportunities and Materials

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# Upcoming Webinars

- Topic 606: Revenue on March 19
- Topic 326: Financial Instruments – Credit Losses on March 26
- XBRL in Academic Research: A Workshop on How to Pull XBRL Data on July 13
- Register on the [FASB's academic landing page](#) now for March webinars, more information to come for XBRL



# XBRL in Academic Research: A Workshop on How to Pull XBRL Data

- Webinar on **July 13, 2021**
- XBRL data allows real-time access to most recent corporate filings
- Webinar will focus on pulling data related to revenue, and will provide skills that should easily transfer to other settings
- [Academic landing page](#) has training video from 2021 AAA FARS Midyear Meeting

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## XBRL in Academic Research: Hands-On Experience with XBRL Data

### XBRL

Machine-readable language to communicate financial information.

How can XBRL data help me with research?

(in thousands)	Estimated Useful Lives	December 31, 2019	December 31, 2018
Trade names and trademarks	15-25 years	\$ 47,202	\$ 23,911
Customer and dealer relationships	8-16 years	121,566	32,244
Patents and developed technologies	3-12 years	25,489	2,081
Favorable leasehold interests	7 years	2,266	—
Total		196,523	58,236
Less accumulated amortization		(30,543)	(14,832)
Total net		165,980	43,404

The Company's net carrying value at December 31, 2019 of intangible assets with definite useful lives consists of trade names and trademarks at \$47,202,000, customer and dealer relationships at \$121,566,000, patents and developed technologies at \$25,489,000 and favorable leasehold interests at \$2,266,000 as of December 31, 2019.

- Get all the numbers from financial statements and footnotes, for all US public issuers.
- Extract the whole footnote for textual analysis.
- Compare across firms and over time using common terms.
- Can focus on exactly what I need, using assumptions I define.

Explains where and how firms present information. In a statement, in a footnote, in text, with a certain label.

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# Relevant materials (links)

- Conference Webpage: <https://aaahq.org/Meetings/2022/Accounting-for-an-Ever-Changing-World>
- Topic 842 Implementation Webpage: <https://www.fasb.org/leases>
- FASB PIR Webpage: <https://www.fasb.org/PIR>
- FASB Academic Webpage (for PowerPoint slides, XBRL training video, webinar registration, etc.): <https://www.fasb.org/academics>
- FASB Academic fellow email: [academics@fasb.org](mailto:academics@fasb.org)





# Q&A







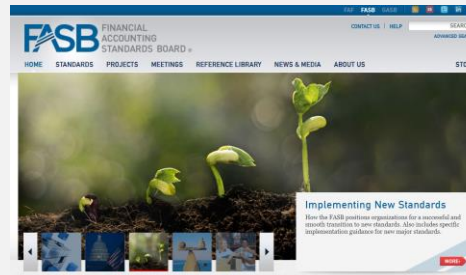
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(FASB Outlook, ActionAlert)

## Technical inquiries

-  [techinq@fasb.org](mailto:techinq@fasb.org)
-  [fasb.org/implementation](https://fasb.org/implementation)



## Join the organization, and help shape the future of financial reporting

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