

Leases — FASB Agrees on Effective Date

November 12, 2015 — At its meeting yesterday, the FASB finished redeliberations related to its upcoming leases standard. The Board made tentative decisions on (1) the standard's effective date and whether to allow early adoption and (2) the lease classification criteria. In addition, the Board discussed the cost-benefit analysis of the new standard and directed the staff to finish drafting a final Accounting Standards Update (ASU) for a vote by written ballot.

Effective Date and Early Adoption

The FASB tentatively decided that the new leases standard would be effective for public business entities for annual periods beginning after December 15, 2018 (i.e., calendar periods beginning on January 1, 2019), and interim periods therein. For all other entities, the standard would be effective for annual periods beginning after December 15, 2019 (i.e., calendar periods beginning on January 1, 2020), and interim periods thereafter. Early adoption would be permitted for all entities. Further, an entity's ability to early adopt the leases standard would not be linked to its adoption of any of the FASB's other standards.¹

Lease Classification Criteria

Under current U.S. GAAP, if the beginning of the lease term occurs within the last 25 percent of the leased property's total estimated economic life, an entity is not required to evaluate the lease classification criteria related to (1) the lease term in relation to the property's estimated economic life (the 75 percent test) and (2) the present value of the minimum lease payments in relation to the fair value of the leased property (the 90 percent test). In a previous decision, the FASB had tentatively agreed that under the new leasing guidance, lease classification would be evaluated in accordance with criteria similar to those in IAS 17,² which does not include a similar exception.

The FASB has received feedback indicating that the consequence of not retaining this exception is that leases that begin near the end of an asset's useful life that otherwise should be classified as operating leases may be classified as finance leases. In response to this concern, the FASB tentatively decided that the final standard will include an exemption from the "lease term is for the major part of the remaining economic life of the underlying asset" classification criterion for leases that begin near the end of the underlying asset's economic life.

Cost-Benefit Analysis and Ballot Draft Approval

The FASB staff presented the Board with its cost-benefit analysis of the new leasing standard. In its analysis, the staff indicated that the cost of implementing the new standard would not outweigh the expected benefits. In response, the Board affirmed that it has

¹ The IASB previously agreed on an adoption date similar to the FASB's date for public business entities, but an entity would only be allowed to early adopt the IASB's leases guidance if it has also adopted the guidance in its new revenue standard, IFRS 15, *Revenue From Contracts With Customers*.

² IAS 17, *Leases*.

received sufficient information and analysis to support the staff's conclusion that the perceived benefits justify the costs of issuing a new leases standard.

Next Steps

The Board directed the staff to proceed with drafting a final ASU for a vote by written ballot. The final standard is expected to be issued at the end of 2015 or in early 2016.

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