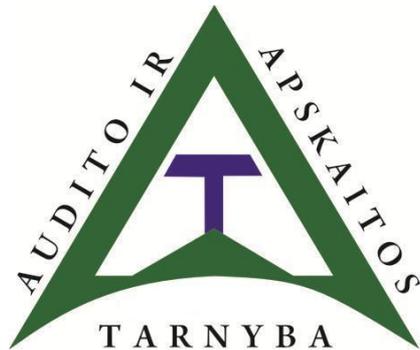




European Financial Reporting Advisory Group ■



Joint Outreach Event

Revised Exposure Draft - Leases

Vilnius - 22 July 2013

Introduction and participants

EFRAG Outreach events

EFRAG holds outreach events in partnership with National Standard Setters and user groups across Europe on a regular basis on topics of general interest to constituents. Furthermore EFRAG and the IASB in their due processes jointly organise or participate in European outreach events with users and prepares of financial statements on the proposed by the IASB new accounting guidance.

Joint Outreach Event, Vilnius, 22 July 2013

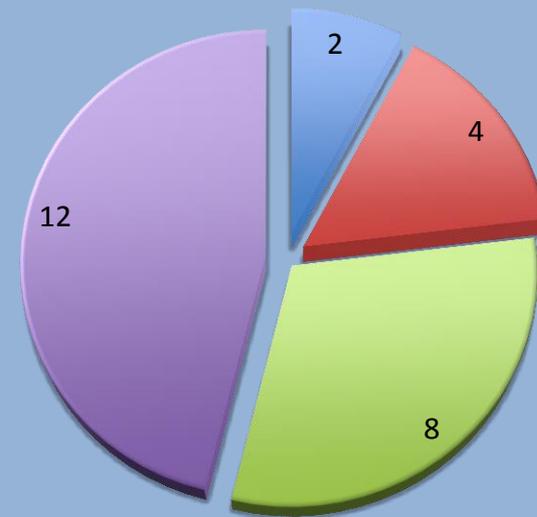
The Lithuanian Audit and Accounting Authority (AAT), held a joint outreach event in Vilnius on 22 July 2013 together with the IASB and EFRAG representatives to obtain feedback from constituents on the IASB's revised Exposure Draft *Leases*.

Purpose and use of this feedback statement

This feedback statement has been prepared to summarise the messages received from constituents at the outreach event and will be considered by EFRAG/AAT when deciding future steps for the project.

This feedback statement has been prepared by the EFRAG secretariat and the AAT for the convenience of constituents. The content of the report has not been subject to review or discussion by the EFRAG Technical Expert Group or by the AAT Accounting Standards Committee.

Participants by background



- Academics
- Auditors and accounting bodies
- Preparers and business associations
- Regulators and standard setters

Revised Exposure Draft Leases

Background

The IASB and the FASB are jointly developing proposals that would address the drawbacks of the IAS 17 *Leases*. The original Exposure Draft *Leases* was published by the Boards in August 2010 and was widely criticised. In May 2013, after a series of re-deliberations, the Boards published the revised Exposure Draft *Leases*. (ED).

The main purpose of the proposed ED is to recognise assets and liabilities resulting from leases on the face of balance sheet of lessors and lessees as well.

The main features of the revised ED are as follows:

- (a) Lessees will apply right-of-use model for all agreements that are or contain a lease, and measure the resulting assets and liabilities using a dual measurement approach – amortised cost for the liabilities and amortisation for right-of-use assets or a Single Lease Expense approach resulting in straight line lease cost recognition;
- (b) Lessors will apply a mixed model: a receivable-and-residual model or a model similar to current model used for operating leases;
- (c) Entities will be required to assess whether a lease is of Type-A (deemed to consume more than insignificant part of the economic benefits embodied in the underlying asset) or Type-B (otherwise);
- (d) Entities will be required to account for extensions of the lease period only if lessees hold significant economic incentive to extend the lease term.

Content of the Exposure Draft Leases

Following an introduction from AAT Director Audrius Linartas, Sarah Geisman - technical manager of the IASB - explained the IASB's key principles and requirements of the proposals on leases, and Robert Stojek - EFRAG technical manager - set out the initial position of EFRAG on the revised Exposure Draft.

Open debate

An open debate including questions took place. The following page summarises the key themes of the discussion and comments from constituents.

Information to be considered together with this document

To view information that is related to the project on leases please access EFRAG's [project webpage](#). Further information may be gained on the IASB's [project webpage](#).

The comment period closes on 13 September 2013.

Please send comments to commentletters@efrag.org.

Summary of feedback received from constituents

Area	Constituent	Comment
Two types of leases	Auditor	If EFRAG disagrees with the proposed criteria to distinguish two types of leases, it should suggest other criteria instead.
Recognition	Auditor	Lease arrangements give rise to assets and liabilities.
Costs vs. benefits	Auditor	The benefits of presenting assets and liabilities arising from all lease agreements by lessees and of application a mixed model for lessors, should be higher than the expected cost for preparers; tax treatment and tax consequences should also be taken into consideration.
	Lessor industry	Most of the leases are finance leases; however for many of their clients the resulting cost and disadvantages of the proposals relating to operating leases may become too burdensome or costly and operating leases should be rather kept off balance sheets of lessees.
	Auditor	The main premise that some important information is not reported or disclosed under IAS 17 should be better explained and justified; some reluctance may be expected as many companies use operating leases not for financing but rather for simplification of the business and accounting process.

Summary of feedback received from constituents

Area	Constituent	Comment
Enforcement	Lithuanian regulator / authority	The longer and more complex standards tend to be increasingly difficult to enforce.
Short-term exemption	Lessor industry	Short term exemption may create structuring opportunities; entities should be also required to assess the history of their lessee-lessor relationship.
Impact on other regulations	Lithuanian regulator / authority	The IASB should consider the impact of the proposals on bank's capital requirements and solvency requirements when considering requirements to recognise new liabilities and/or different type of assets.