

A Proposed New Accounting Standard on Leases

Reporting entities need to focus on the implications

A revised exposure draft on Leases has been published by the International Accounting Standards Boards (IASB). The proposals, if implemented, will result in reporting entities recognising almost all leased assets and liabilities on their balance sheet, with some exceptions, and thereby eliminating the distinction between operating and finance leases that we currently have.

Deloitte welcomes the decision of the IASB to expose its revised proposals on lease accounting, affording interested parties the opportunity to consider and to comment on the proposals.

Ireland has long been one of the world's major centres for cross-border leasing, in particular aircraft leasing. This is demonstrated by the number of international leasing companies from virtually every major trading nation which have established operations in Ireland.

The drive to move operating leases on-balance sheet is based on a rationale that leases are a form of off-balance sheet financing which creates hidden leverage, many hold the view that it is important that regulators and investors are able to understand the true leverage of a business which includes leasing and similar arrangements. The proposals, if implemented, may also have a significant impact on reportable earnings and financial ratios.

Although the proposed rules may simplify lease accounting, there may be significant challenges in terms of system modifications and other possible implementation issues.

If the IASB is to win 'hearts and minds' on this, the proposed solution needs to be seen as both robust and operational providing information to investors in a manner that can be practically applied by companies.

Our Deloitte Global newsletter, IFRS in Focus summarises the main features of the proposals and offers some observations on their proposed application.

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If you would like further, more detailed information or advice, and to discuss how this may affect you, please contact your engagement partner, or

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