Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: ASU 2016-02: Leases (ASC Topic 842)**

**Check (applicable entity):**

 P/C Life Health

Modification of existing SSAP [x]  [x]  [x]

New Issue or SSAP [x]  [x]  [x]

Interpretation [ ]  [ ]  [ ]

Description of Issue:

In February 2016, the FASB issued *ASU 2016-02: Leases*, which increases transparency and comparability among organizations by recognizing all leases (both operating and financing and the lease assets and lease liabilities) on the balance sheet and disclosing key information about leasing arrangements. This ASU created ASC Topic 842 (supersedes ASC Topic 840) and along with *IFRS 16 – Leases* is the result of FASB’s and IASB’s efforts to improve financial reporting on lease accounting.

The main difference between previous GAAP (Topic 840) and Topic 842 (new GAAP) is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP (*staff note: lessor accounting for leases did not fundamentally change as a result of this ASU*). For all leases (operating and financing), a company will now recognize in the statement of financial position a liability to make leases payments (lease liability) and a right-of-use asset (lease asset) representing its right to use the underlying asset for the lease term. There is an exception to this guidance for short term leases (12 months or less), in which a lessee is permitted to make an accounting policy election to not recognize the lease asset or liability and just recognize the lease expense similarly to operating leases under previous GAAP. The following information summarizes the key information on the accounting and reporting of leases for lessees under Topic 842:

1. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases.
2. For financing leases, a lessee is required to do the following:
3. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
4. Recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income
5. Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.
6. For operating leases, a lessee is required to do the following:
7. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
8. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis
9. Classify all cash payments within operating activities in the statement of cash flows
10. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including periods within those fiscal years for any of the following: 1) a public business entity; 2) a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market and 3) an employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission (SEC). For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019 and interim periods with fiscal years beginning after December 15, 2020. Early application of the amendments in this Update is permitted for all entities.

Currently, *SSAP No. 22—Leases,* paragraph 12 prescribes that all leases shall be considered operating leases with rent being expensed in accordance with paragraphs 12-14. The Working Group previously elected to account for all leases as operating leases, using the accounting method for leases that qualified as “operating” under FAS 13 (adopted in SSAP No. 22), which was incorporated into ASC Topic 840-20 (previous GAAP, superseded by ASC Topic 842 as detailed in ASU 2016-02).

Additionally, several ASUs have been issued after ASU 2016-02 to provided clarification and improvements to the guidance in ASC Topic 842. For the exposure at the 2019 Spring National Meeting, NAIC staff will include to following ASUs:

* *ASU 2018-10, Codification Improvements to Topic 842, Leases* provides updates to Topic 842 based on sixteen issues that had been identified since the release of ASU 2016-02. These updates are wide-ranging and primarily address items that were left unclear in the original ASU as well as mistakes or inconsistencies that were included in the original drafting of Topic 842. NAIC staff reviewed ASU 2018-10 and noted that none of the issues addressed needed to be included in the proposed draft of SSAP No. 22R.
* *ASU 2018-11, Leases (Topic 842), Targeted Improvements* provides guidance for reporting requirements during the transition from operating lease treatment in Topic 840 to the financing lease treatment in Topic 842 and provides additional guidance for lessors related to separating components of the lease. Since statutory accounting is rejecting the financing lease treatment, we recommend rejecting that part of the guidance in the lease. Note that some of the guidance in this ASU was superseded or clarified further by guidance in ASU 2018-20, with some language that NAIC staff have included in SSAP No. 22R, in paragraph 29.
* *ASU 2018-20, Leases (Topic 842), Narrow-Scope Improvements for Lessors* provides updated guidance, specifically for lessors, including treatment of sales taxes, lessors’ costs such as property taxes and insurance, and recognition of variable payments for contracts with lease and nonlease components. NAIC staff have incorporated, with modification for statutory accounting, language from this ASU that affects paragraph 842-10-15-40 in Topic 842, which is the basis for paragraph 29 in the *SSAP No. 22R—Leases*.
* *ASU 2019-01, Leases (Topic 842), Codification Improvements* addressed three issues that were not included in the original ASU 2016-02. ASU 2019-01 provides updated guidance: 1) for determining the fair value of the underlying asset by lessors that are not manufacturers or dealers, 2) for presentation on the statement of cash flows—sales-type and direct financing leases, and 3) includes transition disclosures related to Topic 250, Accounting Changes and Error Corrections. None of the changes from this ASU impact statutory accounting.

Existing Authoritative Literature:

The chart in Appendix A shows the prior statutory accounting consideration of lease GAAP pronouncements.

Activity to Date (issues previously addressed by the SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda items 2015-15: ASU 2015-05: Fees Paid in a Cloud Computing Arrangement and Agenda Item 2015-03: Sales-Leasebacks with Nonadmitted Assets were deferred until consideration of the new FASB lease standard.

**Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:** None

**Convergence with International Financial Reporting Standards (IFRS):**

The leases project began as a joint project with the IASB and many of the requirements in Topic 842 are the same as the requirements in IFRS 16. The main differences relate to the accounting by lessees for operating leases (as financing leases are accounted for similarly between ASC 842 and IFRS 16). Refer to Appendix B of this agenda item for further information on ASC 842 and IFRS 16 differences.

Staff Recommendation:

Staff recommends that the Working Group move this item to the active listing, categorized as substantive, and expose the agenda item with a specific request for comments from industry and regulators on three proposed staff options for accounting of operating and financing leases under SAP:

1. Maintain existing statutory accounting guidance in SSAP No. 22 for the treatment of operating and financing leases, with potential new disclosures to capture information on the lease asset and lease liability that would be required under GAAP.
2. Adopt ASU 2016-02, with modification, to recognize the lease asset and lease liability, but requiring nonadmittance of the lease asset as an asset not available for policyholder obligations pursuant to SSAP No. 4.

Staff Comments:

As described in ASU 2016-02, a right-of-use asset (lease asset) represents the lessee’s right to use the underlying asset over the lease term. As such, the lease asset would not meet the definition of an admitted asset as prescribed in *SSAP No. 4—Assets and Nonadmitted Assets*. Paragraph 3 of SSAP No. 4 states:

As stated in the Statement of Concepts, "The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet," and are, therefore, considered nonadmitted.

Nonadmitting lease assets is consistent with other nonadmitted assets that are not available to meet current or future policyholder obligations, including deferred acquisition costs and furniture, fixtures and equipment

1. Adopt ASU 2016-02, with modification, to recognize lease assets and lease liabilities for a lessee’s operating and financing leases. Although some modifications from GAAP would be anticipated, this option would allow the lease asset to be an admitted asset under SAP.

Staff Comments: As detailed in the previous staff comments, recognition of the lease asset as an admitted asset would be inconsistent with current statutory accounting principles and previous discussion/actions of the Working Group

Additionally, staff envisions the various components of ASU 2016-02 being addressed in multiple steps/agenda items. This agenda item intends to address the initial determination of whether the Working Group elects to retain the current “operating lease” statutory accounting treatment in SSAP No. 22, or whether revisions should be made to incorporate elements from ASU 2016-02 into statutory accounting. If the Working Group elects to change the current statutory accounting for leases, staff recommends that the Working Group direct staff to begin drafting an issue paper and a new SSAP.

Subsequent to the Working Group’s determination, **staff recommends that Working Group direct staff to further evaluate ASU 2016-02, including an analysis of the specific amendments from ASC Topic 840 (previous GAAP), and present additional agenda items to the Working Group for consideration of potential revisions to for statutory accounting**, including: 1) Lessor Accounting; 2) Leveraged Leases; 3) Nonlease Components; 4) Sale and Leaseback Transactions; 5) Definition of a Lease; 6) Effective Date and Disclosures; 7) Review of ASU’s impact on previously adopted GAAP guidance and 8) Review of ASU’s impact on previously deferred agenda items.

Staff Review Completed by:

Jake Stultz, NAIC Staff

April 2019

**Status:**

On April 3, 2016, the Working Group moved the agenda item to the active listing, categorized as substantive, and exposed three proposed options for the statutory accounting of operating and financing leases, as detailed above.

On August 26, 2016, the Working Group elected to retain the current statutory accounting treatment for operating and financing leases by lessees, as prescribed in SSAP No. 22 (all leases are considered operating leases). Additionally, the Working Group directed NAIC staff to further evaluate ASU 2016-02 and prepare a draft issue paper to document the Working Group’s actions and discussions on ASU 2016-02.

**Summer 2017 Updated Staff Recommendation – Jake Stultz (NAIC Staff)**

Pursuant to the direction received August 26, 2016, NAIC staff has drafted substantive revisions to SSAP No. 22. The current version is shown as tracked-changes to SSAP No. 22 to initially show the proposed revisions, but it is anticipated that an issue paper will be developed to discuss and detail the changes. The revisions shown to SSAP No. 22R are significant, but are not intended to result in significant change to statutory accounting:

* Revisions reflect GAAP guidance from ASU 2016-02, with modifications to continue following the “operating lease” approach for statutory accounting for lessees. (From ASU 2016-02, this modification rejects ASC 842-10-25 guidance on treatment of leases as financing leases.) The intent is that all guidance in SSAP No. 22R will agree to that of ASC Topic 842, with the exception of the treatment of operating leases for statutory accounting. Statutory accounting treatment for lessors will remain largely unchanged.
* Revisions intend to clarify the language and flow of the document while maintaining the treatment of leases from a statutory accounting standpoint. SSAP No. 22 has had several changes since the original implementation, and because of this a user would have to look in multiple areas of the SSAP for guidance. The updated version groups information together more clearly.
* Guidance for sale leaseback transactions have been updated in the newer version of the SSAP to bring in language from Subtopic 842-40. This guidance only contains language updates and is not intended to change statutory accounting for sale leaseback transactions. Specific guidance for statutory accounting from the prior SSAP was retained in the current version.
* Guidance for leveraged leases has been updated to bring in language from Subtopic 842-50, while the intent is for leveraged lease treatment to remain the same as the prior SSAP.

**During the 2017 Summer National Meeting, NAIC staff recommends that the Working Group expose the substantive revisions to SSAP No. 22R with a request for comment on whether the proposed changes are anticipated to impact the accounting and reporting of leases for statutory accounting.**

On August 6, 2017, the Statutory Accounting Principles (E) Working Group exposed substantive revisions to SSAP No. 22 to incorporate revised U.S. GAAP guidance from ASU 2016-02, modified to retain the operating lease concept for statutory accounting. This exposure also requests comments on unanticipated changes to lease accounting and reporting. Although these revisions are considered substantive, the proposed edits to SSAP No. 22 (resulting in a SSAP No. 22R) have been initially exposed to get comments on the U.S. GAAP concepts proposed to be included. Once comments are received, an issue paper will be drafted to detail the revisions for historical reference.

On November 6, 2017, the Statutory Accounting Principles (E) Working Group received comments from the Summer National Meeting exposure, directed staff to work with interested parties and review the proposed guidance for leases in *SSAP No. 22R—Leases* to determine whether further revisions should be considered. Key elements identified in response to interested party comments are listed below.

* Guidance in SSAP No. 22 already adopts the GAAP definition for a sale from FAS 66 and NAIC staff cautions against statutory accounting deviation from the U.S. GAAP definition of a sale. Although NAIC staff notes the intent is to not to significantly change existing lease concepts, revisions may be necessary to clarify the previous guidance and to ensure appropriate application.
* NAIC staff will further review the guidance for sale leasebacks and update language as necessary.
* NAIC staff will remove the “in this section” references and replace with specific paragraph references.
* Under U.S. GAAP from ASC 842, companies will be required to disclose the right to use asset created by the lease guidance. Although this information allows further understanding of the lease impact, this will add some effort on the part of smaller, non-U.S. GAAP reporting entities. Consideration will occur on only requiring details on the obligation for future payments under the lease and not the right to use asset.
* Interested parties recommended that NAIC staff retain guidance from the prior SSAP that requires straight-line recognition of the lease expenses by the lessee. In the changes to paragraph 19 they recommended removal of a sentence that clearly states that straight-line recognition is required for expense recognition. NAIC staff will verify with interested parties the intent of this recommendation.
* For comments related to the effective date, because minor changes do exist to statutory accounting, NAIC staff recommends an effective date for the updated guidance.

On August 4, 2018, the Statutory Accounting Principles (E) Working Group exposed a proposed issue paper and substantively revised *SSAP No. 22R—Leases* in response to *Accounting Standards Update* *(ASU) 2016-02, Leases*. Although the proposed statutory accounting revisions reject the U.S. generally accepted accounting principles (GAAP) guidance for operating leases, the revisions incorporate various aspects from the ASU and clarify provisions for lease accounting.

On November 30, 2018, the Statutory Accounting Principles (E) Working Group received comments from the Summer National Meeting exposure, directed staff to work with interested parties and review the proposed guidance for leases in *SSAP No. 22R—Leases* to determine whether further revisions should be considered. Key elements identified in response to interested party comments are listed below.

* Reorganization for purposes of flow and clarity to alleviate the current interpretational issues.
* Clarification surrounding scope of sale lease back transactions deemed inappropriate by regulators (i.e., non-depreciable assets, including investments, and premium receivable are not within scope).
* Clarification surrounding scope and appropriateness of computer software and equipment under sale leaseback transactions.
* Elimination of or reworking of old/superseded real estate guidance that currently creates an unworkable standard due to confusion as to which transactions such guidance applies (i.e., non-real estate transactions).
* Removal of language from Topic 606 (US GAAP Revenue Recognition Guidance) that has been rejected under statutory accounting.

On April 6, 2019, the Statutory Accounting Principles (E) Working Group exposed a substantively revised *SSAP No. 22R—Leases* and corresponding *Issue Paper No. 16X—Leases* to incorporate guidance from *ASU 2016-02, Leases*, but maintain the operating lease concept for statutory accounting.

**Appendix A – GAAP Pronouncements Previously Considered for Statutory Accounting**

**SSAP No. 22—Leases**

**Relevant Literature**

1. This statement rejects FAS 13*,* as amended and interpreted, except for certain of the guidance on operating leases, sale-leaseback transactions and leveraged leases (i.e., paragraphs 15, 16.(b., c., d.), 19.(a., b.), 23.(b., c.), 36, 37, 39.c. and, 42-47). A complete list of all FASB Statements, Interpretations and Technical Bulletins adopted and rejected in this statement is as follows:
2. Accounting Standards Codification (ASC) 420-10-25 paragraphs 11-13 and ASC 420-10-30 paragraph 8 regarding the recognition of costs to terminate an operating lease before the end of the term and costs that will continue to be incurred under the contract for its remaining term without economic benefit are adopted. Other provisions of ASC 420 are rejected in SSAP No. 24.
3. *ASU 2014-05, Service Concession Arrangements* (Adopted with modification to only exclude service concession arrangements from the lease definition.)
4. *FASB Statement No. 13, Accounting for Leases*, [paragraphs 15, 16.(b., c., d.), 19.(a., b.), 23.(b., c.), 36, 37, 39.c., 42-47 adopted; all other paragraphs rejected];
5. *FASB Statement No. 22,* *Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt (an amendment of FASB Statement No. 13)* [rejected in its entirety];
6. *FASB Statement No. 23,* *Inception of the Lease (an amendment of FASB Statement No. 13)* [paragraph 10 adopted; all other paragraphs rejected];
7. *FASB Statement No. 27,* *Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases (an amendment of FASB Statement No. 13)* [rejected in its entirety];
8. *FASB Statement No. 28,* *Accounting for Sales with Leasebacks (an amendment of FASB Statement No. 13)* [adopted in its entirety, except guidance on capital leases is not applicable other than those leases that qualify as leveraged leases and modifications for sale-leaseback transactions involving real estate settled entirely in cash];
9. *FASB Statement No. 29,* *Determining Contingent Rentals (an amendment of FASB Statement No. 13)* [paragraphs 8 and 11 adopted; all other paragraphs rejected];
10. *FASB Statement No. 98,* *Accounting for Leases*:
11. *Sale-Leaseback Transactions Involving Real Estate*
12. *Sales-Type Leases of Real Estate*
13. *Definition of the Lease Term*
14. *Initial Direct Costs of Direct Financing Leases*

*(an amendment of FASB Statements No. 13, 66 and 91 and a rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11)* (paragraphs 1-13, 17-22.a., b., d., and e. adopted, paragraph j. adopted with modification to exclude references to sales-type lease classification criterion, paragraphs 27, 30, 31, adopted with modification to reference applicable statements of statutory accounting principles and reject guidance associated with capital leases; all other paragraphs rejected);

1. *FASB Statement No. 109,* *Accounting for Income Taxes* [paragraphs 256-258 adopted; all other paragraphs addressed in *SSAP No. 101—Income Taxes* (SSAP No. 101)];
2. *FASB Statement No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of* FASB *Statement No. 13 and Technical Corrections* [paragraph 9.c.c. adopted; all other paragraphs rejected];
3. *FASB Interpretation No. 19,* *Lessee Guarantee of the Residual Value of Leased Property (an* interpretation *of FASB Statement No. 13)* [rejected in its entirety];
4. *FASB Interpretation No. 21, Accounting for Leases in a Business Combination (an interpretation of FASB Statement No. 13)* [rejected in its entirety];
5. FASB Interpretation No. 23, Leases of Certain Property Owned by a Governmental Unit or A*uthority (an interpretation of FASB Statement No. 13)* [rejected in its entirety];
6. *FASB Interpretation No. 24, Leases Involving Only Part of a Building (an interpretation of FASB Statement No. 13)* [rejected in its entirety];
7. *FASB Interpretation No. 26, Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease* *(an interpretation of FASB Statement No. 13)* [rejected in its entirety];
8. *FASB Interpretation 27, Accounting for a Loss on a Sublease* *(an interpretation of FASB* Statement *No. 13 and APB Opinion No. 30)* [adopted in its entirety];
9. *FASB Technical Bulletin 79-10, Fiscal Funding Clauses in Lease Agreements* [rejected in its entirety];
10. *FASB Technical Bulletin 79-12, Interest Rate Used in Calculating the Present Value of Minimum Lease Payments* [rejected in its entirety];
11. *FASB Technical Bulletin 79-13, Applicability of FASB Statement No. 13 to Current Value Financial Statements* [rejected in its entirety];
12. *FASB Technical Bulletin 79-14, Upward Adjustment of Guaranteed Residual Values* [rejected in its entirety];
13. *FASB Technical Bulletin 79-15, Accounting for Loss on a Sublease Not Involving the Disposal of a Segment* [adopted in its entirety];
14. *FASB Technical Bulletin 79-16(R), Effect of a Change in Income Tax Rate on the Accounting for Leveraged Leases* [adopted in its entirety];
15. *FASB Technical Bulletin 79-17, Reporting Cumulative Effect Adjustment from Retroactive Application of FASB Statement No. 13* [rejected in its entirety];
16. FASB *Technical Bulletin 79-18, Transition Requirement of Certain FASB Amendments and Interpretations of FASB Statement No. 13* [rejected in its entirety];
17. *FASB Technical Bulletin 85-3, Accounting for Operating Leases with Scheduled Rent Increases* [adopted in its entirety];
18. *FASB Technical Bulletin 86-2, Accounting for an Interest in the Residual Value of a Leased Asset*:

*Acquired by a Third Party or*

*Retained by a Lessor That Sells the Related Minimum Rental Payments*

[adopted in its entirety];

1. *FASB Technical Bulletin 88-1, Issues Related to Accounting for Leases*:

*Time Pattern of the Physical Use of the Property in an Operating Lease*

*Lease Incentives in an Operating Lease*

*Applicability of Leveraged Lease Accounting to Existing Assets of the Lessor*

*Money-Over-Money Lease Transactions*

*Wrap Lease Transactions*

[paragraphs 1-12 adopted; all other paragraphs rejected];

1. *FASB Staff Position 13-2: Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* [adopted in its entirety];
2. *FASB* Emerging *Issues Task Force No. 85-16, Leveraged Leases* [adopted in its entirety];
3. *FASB Emerging Issues Task Force No. 86-17, Deferred Profit on Sale-Leaseback* Transaction *with Lessee Guarantee of Residual Value* [rejected in its entirety];
4. *FASB Emerging Issues Task Force No. 86-33, Tax Indemnifications in Lease Agreements* [adopted in its entirety];
5. *FASB Emerging Issues Task Force No. 86-43, Effect of a Change in Tax Law or Rates on Leveraged Leases* [adopted in its entirety];
6. *FASB Emerging Issues Task Force No. 87-7, Sale of an Asset Subject to a Lease and Nonrecourse Financing: “Wrap Lease Transactions”* [rejected in its entirety];
7. *FASB Emerging Issues Task Force No. 87-8, Tax Reform Act of 1986:Issues Related to the Alternative Minimum Tax [Issue No. 10 adopted];*
8. *FASB Emerging Issues Task Force No. 88-10, Costs Associated with Lease Modification or Termination*, previously adopted in its entirety in SSAP No. 22, has been nullified with the adoption of ASC 420-10-25 paragraphs 11-13 and ASC 420-10-30 paragraph 8;
9. *FASB Emerging Issues Task Force No. 88-21, Accounting for the Sale of Property Subject to* the *Seller's Preexisting Lease* [rejected in its entirety];
10. *FASB Emerging Issues Task Force No. 89-16, Consideration of Executory Costs in Sale-Leaseback Transactions* [adopted in its entirety];
11. *FASB Emerging Issues Task Force No. 90-14, Unsecured Guarantee by Parent of Subsidiary's Lease Payments in a Sale-Leaseback Transaction* [adopted in its entirety];
12. *FASB Emerging Issues Task Force No. 90-15, Impact of Nonsubstantive Lessors,* Residual *Value Guarantees, and Other Provisions in Leasing Transactions* [rejected in its entirety];
13. *FASB Emerging Issues Task Force No. 90-20, Impact of an Uncollateralized Irrevocable Letter of Credit on a Real Estate Sale-Leaseback Transaction* [adopted in its entirety];
14. *FASB Emerging Issues Task Force No. 92-1, Allocation of Residual Value or First-Loss Guarantee to Minimum Lease Payments in Leases Involving Land and Building(s)* [rejected in its entirety];
15. *FASB Emerging Issues Task Force No. 93-8, Accounting for the Sale and Leaseback of an* Asset *That Is Leased to Another Party* [adopted in its entirety];
16. *FASB Emerging Issues Task Force No. 95-17, Accounting for Modifications to an Operating Lease That Do Not Change the Lease Classification* [adopted in its entirety];
17. *FASB Emerging Issues Task Force No. 96-21, Implementation Issues in Accounting for Leasing Transactions involving Special-Purpose Entities* [rejected in its entirety];
18. *FASB Emerging Issues Task Force No. 98-9, Accounting for Contingent Rent* (adopted with modification);
19. *FASB Emerging Issues Task Force No. 00-11, Lessors' Evaluation of Whether Leases of Certain Integral Equipment Meet the Ownership Transfer Requirements of FASB Statement 13* [adopted with modifications to GAAP references];
20. *FASB Emerging Issues Task Force No. 08-3: Accounting by Lessees for Maintenance Deposits* (adopted with modification) to require reimbursable deposits to be reflected as nonadmitted assets.

**Appendix B – ASC 842 Comparisons to IFRS 16**

The following information is detailed within ASU 2016-02: Leases.

The leases project began as a joint project with the IASB, and many of the requirements in Topic 842 are the same as the requirements in IFRS 16. The main differences between Topic 842 and IFRS 16 are in relation to certain aspects of the lessee accounting model. In contrast to the lessee accounting model in Topic 842, which distinguishes between finance leases and operating leases in the financial statements, the lessee accounting model in IFRS 16 requires all leases to be accounted for consistent with the Topic 842 approach for finance leases.

Consequently, leases classified as operating leases under Topic 842 will be accounted for differently under GAAP than under IFRS and will have a different effect on the statement of comprehensive income and the statement of cash flows under IFRS 16 than under previous IFRSs. The following are the other notable requirements of IFRS 16 that are not consistent with the requirements in Topic 842

1. Lessee accounting model
	1. IFRS 16 has a lessee recognition and measurement exemption for leases of assets with values of less than $5,000.
2. Lessor accounting model
	1. IFRS 16 does not distinguish between sales-type and direct financing leases; therefore, IFRS16 permits recognition of selling profit on direct financing leases at lease commencement.
	2. IFRS 16 does not include any explicit guidance on collectibility of the lease payments and amounts necessary to satisfy a residual value guarantee.
	3. IFRS 16 applies a model to modifications of sales-type and direct financing leases that is predicated on IFRS financial instruments guidance.
3. Measurement of the right-of-use asset
	1. IFRS 16 allows alternative measurement bases for the right-of-use asset (for example, the fair value model under IAS 40, Investment Property, or at a revalued amount in accordance with IAS 16, Property, Plant and Equipment).
4. Variable lease payments
	1. IFRS 16 requires reassessment of variable lease payments that depend on an index or a rate when there is a change in the cash flows resulting from a change in the reference index or rate (that is, when an adjustment to the lease payments takes effect).
5. Subleases
	1. When classifying a sublease, IFRS 16 requires an intermediate lessor to determine the classification of the sublease with reference to the right-of-use asset arising from the head lease.
6. Sale and leaseback transactions
	1. IFRS 16 does not include application guidance on whether the transfer of an asset in a sale and leaseback transaction is a sale, other than to state that if the seller-lessee has a substantive repurchase option regarding the underlying asset, then no sale has occurred.
	2. IFRS 16 restricts the gain recognized by a seller-lessee in a sale and leaseback transaction to the amount of the gain that relates to the buyer-lessor’s residual interest in the underlying asset at the end of the leaseback.
7. Private companies
	1. IFRS 16 does not have guidance specifically for private companies; however, Topic 842 permits an accounting policy election for private companies to use a risk-free rate to discount the lease liability for each lease.
8. Statement of cash flows
	1. IFRS 16 accounts for payments of interest in accordance with IAS 7, Statement of Cash Flows. IAS 7 allows interest to be classified within operating, investing, or financing activities.
9. Disclosure
	1. IFRS 16 has similar but not identical qualitative and quantitative disclosure requirements to Topic 842.
10. Transition
	1. IFRS 16 has different transition provisions than Topic 842 as a result of the differences in the lessee and lessor accounting provisions.
11. Existing differences in other areas of GAAP and IFRS that affect the accounting for leases
	1. The key areas of difference are the existing requirements for impairment (of financial instruments and long-lived assets other than goodwill) and the accounting for investment properties

G:\FRS\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2019\Spring\NM Exposures\16-02 - ASU 2016-02 - Leases.docx