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Governmental Accounting

GASB Proposes Lease Accounting Akin to IASB's Approach



By Denise Lugo

Feb. 9 — The Governmental Accounting Standards Board issued a proposal that would establish a single model for reporting governmental leasing agreements.

GASB issued the proposal, Leases, Feb. 8, which would require state and local governments to report leases on the principle that leases are financing the right to use an underlying asset.

"Establishing a single model for reporting governmental leasing agreements should result in greater transparency and usefulness for financial statement users and reduced complexity in application for state and local government preparers and auditors."

GASB Chairman David Vaudt

The proposed revisions would more closely align the accounting and financial reporting for leases with the substance of such arrangements, GASB Chairman David Vaudt said in a statement. "Establishing a single model for reporting governmental leasing agreements should result in greater transparency and

usefulness for financial statement users and reduced complexity in application for state and local government preparers and auditors," he said.

Provisions

Among the proposed provisions is the requirement that a lessee should recognize a lease liability and an intangible asset representing the right to use the leased asset. Furthermore, a lessor would be required to recognize a lease receivable and a deferred inflow of resources.

The guidance would apply to contracts that convey the right to use an underlying asset for a period of time in an exchange or exchange-like transaction, according to GASB's summary. The proposal, however, wouldn't apply to donated use of assets or to leases of intangible assets, such as patents and software licenses.

An impact of the provisions is that some leases—mainly real estate leases—would be treated as though they are debt and that added "debt" would have a big impact on credit ratings for municipalities, which could mean increased interest costs, Bill Bosco, principal of Leasing 101, told Bloomberg BNA Feb. 9. "A user of the financial statements will be seeing debt that really isn't debt," he said.

If finalized, the rules would be effective for reporting periods beginning after Dec. 15, 2018, the proposal states. Earlier application would be permitted.

Aligns With IASB's Model

GASB's proposed viewpoint, known for sometime, has been receiving mixed views, including some outcry because its single model approach would be aligned with the International Accounting Standards Board's lease accounting rules (12 APPR 01, 1/15/16), rather than those forthcoming from the Financial Accounting Standards Board.

Some industry practitioners disagree with IASB's single model approach because it would require leases that are operating leases to be treated as though the government owns the asset and has a debt liability.

"I don't agree with the IASB's approach; I don't agree with the GASB's approach because in substance leases that are operating leases are executory contracts and they should not be treated as though you own the asset and you have a debt liability," said Bosco.

"In bankruptcy those operating leases disappear—the asset is owned by the lessor; it's given back to the lessor; the liability is an executory liability—once you give the asset back there is no more liability to pay future end," he said.

Financed Purchases and Operating Leases

BNA Snapshot

Key Developments:

GASB proposes reporting leases as a financing of the right to use an underlying asset. GASB's approach is more aligned with IFRS than U.S. GAAP.

Impact: More debt on governments balance sheets; credit ratings could be downgraded.

Comment Deadline: May 31

Bosco said he favors the FASB's viewpoint (12 APPR 01, 1/15/16), which agrees with the leasing industry that, in substance, there are two kinds of leases: some that are financed purchases and some that are operating leases(11 APPR 1057, 11/20/15). "What the GASB is doing is opposite to that and what the IASB is doing is opposite to that—they are actually driving economic activity; they are calling an operating lease a financed purchase and it's not," Bosco said.

GASB's constituents have until May 31 to comment on the proposal. A public hearing will be held in San Francisco June 29, GASB said.

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For More Information

For a copy of the proposal, including how to submit comments go to: [GASB website](http://www.gasb.org).

Contact us at <http://www.bna.com/contact-us/> or call 1-800-372-1033

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