



## Putting Leases on the Balance Sheet

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have published for public consultation proposals to change the financial reporting of lease contracts. Any consequent change in accounting practice may influence decisions on acquisition or disposal of operational property holdings, and in particular make longer lease terms less attractive to tenants. They are likely to come into force in 2013.

The motive is to improve the financial reporting information available to investors about lease contracts. Under existing requirements, classification as an operating lease means the lessee need not record any assets or liabilities in the statement of financial position under either International Financial Reporting Standards or US standards (generally accepted accounting principles- GAAP).

This results in many investors having to adjust the financial statements (using other available information) to estimate the effects of lessees' operating leases for the purpose of investment analysis.

The proposals are intended to apply a 'right-of-use' approach to lease accounting for both lessees and lessors. This would result in such

leases being included "on the balance sheet" so providing more information to investors and other users of financial statements. The impact of the proposed changes is likely to be fairly neutral for landlords. The downside for tenants is that longer rack rent leases of operational properties will show as a higher liability on their balance sheet and so produce higher debt to equity ratios, which could impact on borrowing capacity or compliance with loan covenants.

The draft is open for comments until 15 December if you wish to give your views on the proposals. A snapshot explanation can be viewed at:

<http://www.ifrs.org/NR/rdonlyres/FBE30248-225B-48AF-AAE5-96494D83A978/0/LeasesSnapShot0810.pdf>

and comments on the draft proposals can be made via the IFRS website:

<http://www.ifrs.org/Home.htm>

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