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## The Accounting Boards Keep Moving the Target

### FASB and IASB make another change

The Financial Accounting Standards Board and the International Accounting Standards Board (the "Boards") have made a somewhat surprising reversal of their previously announced intention to develop two categories of leases relative to the new lease accounting standard. Noting that the Boards were unable to develop an appropriate and consistent methodology for the conceptual "Finance" and "Other-Than-Finance" leases, they have now reverted back to the original profit & loss treatment as proposed in the Exposure Draft.

We now find ourselves back to square one relative to lease accounting treatment by lessees. This approach, as outlined in the original Exposure Draft, includes:

- A right-of-use asset and a corresponding liability being recorded for each lease based on the present value of the lease payments to be made over the primary lease term. This is the case unless a "significant economic incentive" exists to exercise an option. In such instances, per the Boards' latest guidance, the rent to be paid during the option period is also to be included in the present value calculation.
- The right-of-use asset will be amortized on a straight-line basis over the lease term.
- The interest expense associated with the corresponding liability will be recognized based on the effective interest method.
- The effective interest method results in a declining level of interest expense over the lease term (much in the same way the interest component of a standard mortgage payment declines over time).
- The combined amortization and interest expense will result in a greater expense in the early years of a lease when compared to the straight-line expense currently reported for an operating lease. It has been estimated this increase in expense could range from 10% to 25% in the first year of a lease.

*Note: The methodology for lessor accounting continues to be debated by the Boards.*

The Boards continue to discuss/debate numerous aspects of the proposed new standard. As such, it is possible that significant changes could still occur prior to the final standard being issued (estimated to be prior to year-end 2011). It is our understanding the Boards plan to have the major business points addressed by mid-summer 2011. At that time, whether the revised standard is made available for review on the Boards' respective websites or if they formally re-expose all or a portion of the revised standard, we expect public comment will once again be encouraged. Although no timeframe has been formally put forth by the Boards for the effective date of the new standard, it appears that it could be pushed back to 2015.

The CB Richard Ellis Global Lease Accounting Task Force will continue to keep you apprised of future developments. As the proposed standard continues to be a moving target, it appears that many companies have placed it on the "back burner" as they await a final decision by the Boards. While this "FASB fatigue" is understandable, it is imperative those in the real estate industry continue to track this issue and be ready to voice their opinions relative to the changes that are ultimately put forth. Stay tuned!

If you wish to share this information with your clients, please feel free to use the attached file.

*The CB Richard Ellis Global Task Force on Lease Accounting is composed of the following team members:*

- [Jeff Beatty](#), Financial Consulting Group (Task Force Director)
- [Todd Anderson](#), Global Corporate Services
- [Ian Billenness](#), Global Corporate Services
- [Richard Hurst](#), Global Corporate Services

- [Judy Dahlke](#), Client Accounting Services
- [Steve Latkovic](#), Investment Properties
- [Mike Nelson](#), Strategic Consulting
- [Jennifer Pazzia](#), Global Financial Reporting
- [Andrew Steinberg](#), Global Financial Reporting
- [Nick Tansey](#), Portfolio Administration Services

For a more in-depth understanding of the Exposure Draft and the initial proposed changes, please read the CB Richard Ellis Special Report entitled “Upcoming Change in Accounting For Leases: A Series.”

[Click here to download the Report](#)

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For more information, please contact:

Jeff Beatty

*Senior Managing Director, Financial Consulting Group*

+1 602 735 5608

[jeff.beatty@cbre.com](mailto:jeff.beatty@cbre.com)

Ian Billenness

*Director, Global Corporate Services*

+44 20 7182 3039

[ian.billenness@cbre.com](mailto:ian.billenness@cbre.com)