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## Revised Proposal Delayed, Lessors Catch a Break and Lessees May Now Argue for Same

### Highlights

- The revised proposal for lease accounting has been delayed until the end of the first quarter of 2012.
- The final standard will not be issued until late-2012 at the earliest.
- Lessors of investment property will be able to follow current lease accounting.
- Lessees may now have a basis for arguing they should also be allowed to follow current lease accounting.

### Revised Proposal Of "Leases" Standard Delayed

Recent discussions with the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), collectively the "Boards", indicate the re-exposure of the revised "Leases" proposal has once again been delayed. As deliberations between the Boards continue, it now appears the revised proposal will be made available for public comment at the end of the first quarter of 2012.

Based upon an estimated 120-day comment period, it appears the final standard will not be issued until late-2012 at the earliest. The effective date will not be established by the Boards until the final standard is issued, but recent speculation suggests an effective date of 2015 or 2016.

### Lessors Of Investment Property Catch A Big Break! Lessees May Argue For Same?

Based on recent deliberations between the Boards, a small but significant change has been proposed relative to the accounting treatment for lessors of investment property. As found in FASB's current [Project Update](#), the relevant language pertaining to this change of direction is as follows:

*"The FASB and the IASB tentatively decided that a lessor's lease of investment property would not be within the scope of the receivable and residual approach. Instead, for such leases the lessor should continue to recognize the underlying asset and recognize lease income over the lease term."*

In short, by virtue of this language, it appears the Boards are now proposing that lessors of investment property follow current lease accounting treatment for operating leases. This is very favorable for owners of commercial real estate as the recently proposed “receivable and residual approach” for lessor accounting is both complex and burdensome.

The Boards have not put forth a definition for what constitutes an investment property and it is possible that such a definition may not be forthcoming. If this is the case, the classification of a property as an investment property may be open for interpretation, which could result in the definition being more clearly defined by way of discussions between a company and its auditors.

Of course, this favorable turn of events for lessors is still subject to change; however, it is at least an encouraging sign the Boards are beginning to better understand that a clear distinction exists between real estate leases and non-real estate leases.

## **Conclusion**

The apparent willingness of the Boards to essentially adopt a two-tiered approach for lessor accounting seems to provide a basis for lessees of real estate to now argue they should be afforded the same treatment as lessors and be able to treat leases based on current accounting guidelines. This fairly obvious conflict in methodologies should be noted and will likely be the source of numerous future comments to the Boards.

The debate continues and, as always, the revised proposal can still change between now and when it is re-exposed for comment. The CBRE Lease Accounting Task Force will continue to keep you apprised of the latest developments.

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

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