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FASB FLASH REPORT

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FASB Issues Improvements to Leases Standard for Lessor Financial Institutions

The FASB issued ASU 2019-01 [1] to ease the application of certain aspects of the new leases guidance primarily for financial institutions. The ASU also provides certain interim period disclosure relief for all entities. The ASU is available **here**, and becomes effective for all entities for fiscal years beginning after December 15, 2019. Early adoption is permitted.

MAIN PROVISIONS

The amendments in ASU 2019-01 address the following three specific areas of the new leases standard:

- Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers
- Presentation on the statement of cash flows - sales-type and direct financing leases
- Transition disclosures related to Topic 250, Accounting Changes and Error Corrections

Determining the Fair Value of the Underlying Asset by Lessors That Are Not Manufacturers or Dealers

What was the issue? ASC 842 requires lessors to apply the definition of fair value[2] in ASC 820[3] to determine the fair value of an underlying asset, which is used to classify and eventually recognize and measure the net investment in a lease when applicable. ASC 840 provided lessors who are not manufacturers or dealers an exception that generally permitted them to use the leased property's acquisition cost as its fair value. That exception was not carried forward into the new lease guidance, and applying the definition of fair value rather than using acquisition cost would have required those lessors to expense immediately certain acquisition costs (e.g., sales taxes and delivery charges) which they previously capitalized.

1 Leases (Topic 842): Codification Improvements

2 The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

3 Fair Value Measurement

Amendments in ASU 2019-01. The ASU reinstates the previous exception such that if a lessor is not a manufacturer or a dealer, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. Like ASC 840, if there has been a significant lapse of time between the acquisition of the underlying asset and lease commencement, the lessor must apply the ASC 820 definition of fair value.

Presentation on the Statement of Cash Flows - Sales-Type and Direct Financing Leases

What was the issue? ASC 842 requires lessors to present all cash receipts from leases within operating activities in the cash flow statement. However, depository and lending institutions have historically presented principal payments received under leases within investing activities consistent with an illustrative example in ASC 942[4] which was not amended by ASC 842. As such, conflicting guidance existed for depository and lending institutions on cash flow presentation for leases.

Amendments in ASU 2019-01. The ASU clarifies that lessors that are depository and lending institutions within the scope of ASC 942 will continue to present all principal payments received under leases within investing activities. All other lessors will apply ASC 842, meaning they will present all cash receipts from leases within operating activities.

Transition Disclosures Related to Topic 250, Accounting Changes and Error Corrections

What was the issue? The transition provisions of ASC 842 refer entities to the transition disclosure requirements in ASC 250 to explain the reasons for, and impact from, adoption of the new standard; but ASC 842 also provided an exemption from the quantitative disclosure requirements in ASC 250 to disclose in the first annual period of adoption the impact on certain financial statement line items. ASC 250 requires similar quantitative disclosure requirements for interim periods and ASC 842 did not provide a specific exemption for those, thereby requiring entities to provide in the year of adoption interim quantitative disclosures that are otherwise not required for the annual period.

Amendments in ASU 2019-01. The ASU adds an exemption in ASC 842 from those interim quantitative disclosure requirements in the year of adoption.

EFFECTIVE DATE AND TRANSITION REQUIREMENTS

For public business entities[5], the amendments in Issues 1 and 2 are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, those amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities.

Entities are required to apply the amendments in the ASU as of the first date they applied ASC 842 and using the same transition method used when adopting ASC 842 initially.

As the amendments in Issue 3 affect transition requirements only, there is no effective date.

4 Financial Services—Depository and Lending

5 This effective date also applies to 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 to an employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission.

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