



Issue Fact Sheet

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LEASE ACCOUNTING RULES

Background

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are developing revised accounting rules for leases (<http://bit.ly/dRPqG>). As originally proposed, the rules would have required apartment firms to account for all of the income for leases lasting longer than 12 months on their balance sheet at the time of execution. While 12-month leases are common in the apartment sector, most leases have an automatic renewal (month-to-month) provision that would have made them long-term leases under the rules. Even some short-term leases (month-to-month) would also have been included because they are open ended unless terminated by the resident or apartment provider.

The original draft would have had an enormous impact on multifamily firms. First and foremost, they would have had to modify their lease management tracking procedures and data management to facilitate the new accounting treatment. Second, firms would have had to decide whether to use two different standards--one for leases under a year and one for longer-term leases. On October 21, however, FASB/IASB announced that commercial property owners, including apartment firms, would not be subject to proposed lease accounting rules.

NMHC/NAA Position

NMHC/NAA strongly support the October 21 action taken by FASB/IASB to exclude lessors of commercial property from lease accounting. Although NMHC/NAA believe that leases should be accurately reflected on financial statements, the costs and benefits of any modification to the rules should be carefully weighed before new conventions are put into place. While apartment firms would undoubtedly have faced significant expense to comply with the proposed lease accounting rules, FASB/IASB was unable to conclusively demonstrate that information provided to users of financial statements would have outweighed the cost.

Current Status

FASB/IASB issued an exposure draft of their original proposal in August 2010. It was supposed to be finalized in June 2011; however, in July 2011, they agreed to accept additional comments on a revised version. In September 2011, the agencies indicated that they expected to issue a final draft proposal during the first quarter of 2012. On October 21, 2011, they announced that commercial real estate firms would be exempt from the changes. Many observers believe that it is unlikely that any final proposal will be made effective before 2015 at the earliest.

Relevant Regulatory Authorities

Financial Accounting Standards Board
International Accounting Standards Board
Securities and Exchange Commission

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