Lease accounting: comment period draws to an end

After long delays in preparation, the exposure draft (ED) of the new global lease accounting standard was issued in May this year. The four-month formal comment period ended on September 13.

The core proposal remains as it has always been. This is to require balance sheet recognition of an asset by lessees in all leases (other than short term leases no longer than 12 months), including the currently off-balance-sheet category of operating leases with substantial residual values (RV) that are not guaranteed by the lessee.

However, the question of exactly how to formulate this requirement – together with directly associated issues like the treatment of lessees' expense in the income statement or profit and loss (P&L) account, and a range of other issues such as possible changes on the lessor accounting side – has been very problematic. The joint standard setting bodies – the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) – effectively took three years to re-deliberate and redraft the proposals into their current form, following a first exposure draft (ED1) issued in 2010.

The global scope

The proposed lease accounting standard is part of a wider project to converge international financial reporting standards (IFRS) and US generally accepted accounting principles (GAAP). Most major countries outside the US have now to some extent adopted IFRS, or have plans to do so.

However, most lessees are SMEs, and in many jurisdictions IFRS rules are applied only to the larger public companies with listed share capital. In Europe only listed companies are made subject to IFRS by EU rules. Other entities remain subject to national GAAP rules, which in respect of lease transactions vary widely in their degree of closeness to the current IFRS rules in the IAS 17 standard. The UK, Spain and Ireland are among EU states with national GAAP rules close to IAS 17. They would be likely to be brought into line with any changes in IAS 17 relatively soon after these take effect; but in other countries including Germany and France national GAAP rules could remain out of line with IFRS lease accounting for much longer.

In some jurisdictions, however, SMEs are subject to IFRS. There is a simplified version of IFRS for unlisted non-financial companies (IFRS SMEs). While this omits some rules

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from other standards, it currently contains all the requirements in IAS 17. It is likely that it will eventually include all the rules in any new leasing standard.

Main lessee proposals

It is proposed that, for all leases that run (or are capable of being extended) for periods of more than 12 months, lessees will recognize a fixed asset on the balance sheet with a corresponding liability for the payments. The asset will be classed as a "right of use" (ROU) asset, which to some extent will form a unique asset class. It will differ from the asset type recognized in current on-balance-sheet finance leases, which is the underlying tangible equipment or property asset subject to the lease.

In terms of P&L expensing, nearly all equipment leases will be subject to the same front-loaded expense profile as under current finance leases. The amortization of the ROU asset will normally be on a straight line basis, as with depreciation of the underlying asset in today's finance leases. However, the finance charges will be heavily front-ended, resulting in a front loaded profile of overall expense.

There would be an alternative expensing basis, corresponding with the straight line profile of current operating lease expense; but it is proposed that this should be largely confined to real estate leases.

This will be achieved through a two-way lease classification system. Under current rules the split into finance and operating leases determines whether or not the asset goes on the balance sheet, and it is based on whether "substantially all of the risks and rewards of ownership" are passed to the lessee. Under the new proposals nearly all leases will go on-balance-sheet, and lease classification will determine only the P&L expense profile.

However, the dividing line between the two types of lease would be struck in a different place compared with current lease classification. The proposed principle is that a lease should be "Type A", accounted for like a financing transaction, "if the lessee consumes more than an insignificant proportion of the benefits embedded in the underlying asset". Other leases (including most real estate leases) would be classed as "Type B" with straight line expensing.

This represents a purposive moving of the goal posts compared with current lease classification. At present there is in effect financing type treatment only if the lessee consumes "substantially all" the benefits of the asset; whereas the new proposal is for financing type treatment in any case where the portion consumed is significant.

The standard setters claim that the principles of the split expensing model are intended to be the same for both equipment and real estate leases. Despite this, a distinction by asset type has been made the starting point for the proposed split.

For an equipment lease, the model would be "Type A", i.e. front loaded expense, unless either the lease term is insignificant in relation to the economic life of the asset, or the present value (PV) of the lease payments is insignificant in relation to the fair value of the asset. For real estate leases, it would be "Type B" unless either the lease term is a significant part of the asset's economic life, or the PV of lease payments represents substantially all of the fair value of the asset.

While the "Type A" expensing model conforms with current finance lease accounting, the "Type B" model does not. The values of the asset and the liability are kept in line throughout the lease period, through back-ending the amortization of the asset to neutralize the front loaded profile of the financing component of expense. The periodic expense would, however, be presented on the face of the P&L account as a single rental expense rather than a combination of finance charges and amortization.

The Boards have been conducting targeted outreach among lessees, lessors and account users on their proposed lessee expensing model during the comment period. A similar outreach exercise was undertaken early last year when this issue was being re-deliberated following a disagreement between the two Boards. However, all of the alternative expensing models subject to outreach consultation at that stage were found to be non-operational in light of the response. The present "equipment versus real estate" split model approach was then agreed by the Boards, but had not been subject to any outreach consultation prior to the ED being issued.

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Possible exceptions

The proposed "short term contract" exception to the lessee capitalization rule represents a concession compared with the ED1 proposal. It is nevertheless very limited in scope. All contracts in the mainstream equipment leasing market are at least capable of continuing for more than 12 months, and so will not be within the terms of this exception. Only contracts such as construction plant hire, vehicle daily rental, and some of the more short term shipping charters seem likely to be among the equipment contracts within its scope.

Throughout the lease accounting project to date, there have been suggestions from within the leasing industry that assets that are "non-core" to the lessee's business model – such as business cars and office equipment for typical lessees – should be excluded. Until very recently, the standard setters seemed unresponsive to any such proposal.

However, a representative of the IASB stated in July this year that if respondents to the ED could identify a workable definition of non-core assets, the Board would be prepared to consider it. Real estate leases are likely to present more difficulties in that respect than equipment leases; and the Boards would be looking for an approach applicable to both, if the idea were to gain traction.

All accounting standards are subject to a "materiality" condition. Their specific rules do not have to be applied to transactions that are immaterial to the reporting entity's overall activities. However, this exception could not itself be extended to the "non-core" concept; and even relatively small equipment leasing contracts might not qualify as immaterial in the case of SME customers. Only those assets which might remain off-balance-sheet on materiality grounds if purchased outright by the user, in the application of the accounting standards for property, plant and equipment, would fall within the same exception as applied to capitalization in current and future leasing standards.

Contingent rentals

Contingent rentals of various kinds are significant features of many operating lease agreements. In order to keep the compliance costs of their proposals manageable for lessees, the Boards have excluded most of these commitments from the draft rules for capitalization.

Optional renewals into secondary lease periods will be excluded, except where there is a "significant economic incentive" for the lessee to exercise the option – which in typical operating lease renewals will not be the case. Likewise contingent rentals based on usage of the asset, such as excess mileage payments in typical vehicle leases, will be excluded other than in exceptional cases where these amount to "in-substance fixed payments".

Variable rentals based on an index or rate will in principle have to be included in the initial valuation. However, this will be done at the rate prevailing at the time of inception, so in typical contracts they would not anticipate escalations in the case of a price index or other fluctuations.

Three of the seven FASB members attached dissenting notes to the ED. While there was some variation in the reasons for their dissent, all were critical of the general exclusion of contingent rentals. While it is widely acknowledged that lessees would find it extremely difficult to cope with a more inclusive approach to contingent rentals, as had been proposed in ED1, these members questioned whether the new standard would produce a net improvement in the information available to account users, given the simplified proposal for contingent rentals.

Other issues

Many specific proposals within the current draft were widely viewed as distinct improvements compared with ED1, but nevertheless warranted scrutiny in the comment period.

The general model for lessor accounting would bring less fundamental changes compared with the current rules than on the lessee side. The "receivable and residual" (R&R) model proposed for the lessor in nearly all equipment leases would be broadly comparable with current lessor accounting for finance leases.

For those contracts currently classified as operating leases, the R&R model would bring a more accelerated income recognition profile. It would also make a significant difference to the ability of captive lessor groups to recognize a normal selling profit when their

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products are sold on lease. This is currently precluded for operating leases, while a full selling profit is recognized in the case of finance leases. Under R&R, captives would recognize up-front selling profit on the proportion of overall asset value which is represented by the receivables rather than the RV.

A high proportion of operating lease for equipment are service-inclusive. Under the proposed standard, the service element would remain off-balance-sheet while the finance element is to be capitalized.

The proposed rules for valuing the finance element in such leases – and perhaps more importantly the guidance for identifying an "embedded lease" in the borderline areas between pure service contracts and service-inclusive leases – were greatly improved compared ED1. They were nevertheless worthy of scrutiny, in their application to both lessees and lessors.

Operating leases that are already running when lessees first have to apply the new rules would be included in the capitalization requirement. The alternative of non-retrospective application would seem unlikely to be conceded by the standard setters. However, the detailed transition rules for lessees for these contracts are substantially improved compared with ED1. They would offer a means of avoiding a concentrated recognition of losses at the adoption date as a consequence of moving to a front loaded expense profile, without incurring the compliance cost of restating accounts for the entire period from the inception of the oldest running leases.

A number of other issues were worthy of comment. A small number of contracts would be affected by an apparent anomaly in the transition rules for operating leases on the lessor accounting side. This concerns portfolios that were securitized prior to the adoption date. In these cases the outstanding lease receivables would have to be recognized on the originating lessor's balance sheet at that date, even though they would have been effectively sold off to other parties.

This anomaly arises purely because under current operating lease rules, where the lessor recognizes only the underlying asset, there would have been no lease receivables to de-recognize at the time of the securitization deal. The Boards' staff did identify a more equitable solution to this problem during the re-deliberation process, but the Boards have so far chosen not to adopt it.

On the lessee side it would appear that under the ED proposals contracts where rentals can escalate based on a price index would be under-valued by comparison with those with level rental profiles – especially in jurisdictions with relatively high inflation rates, where the prospective escalations would be substantial. The index-linked contracts would effectively be subject to a double discount. The ED proposes that initial valuation be based on the current price index figure; and yet the future (pre-indexation) rentals would then be discounted again, just as in other leases, to derive a present value for the balance sheet.

The ED proposes not to clarify whether the lessee's ROU asset should be regarded as tangible or intangible. Although this would make no difference to financial reporting as such, given that the draft standard prescribes the accounting rules, it could potentially make a significant difference to banks as lessees under the regulatory capital rules.

Reactions

Of all stakeholders who responded in the consultative process, the Boards are likely to pay the closest attention to comments from lessees, who would face the most far-reaching compliance implications, and from account users such as corporate analysts who are envisaged as key beneficiaries.

Most of the significant responses came in close to the final deadline. Not all of these are yet posted by the Boards, and additional comments received shortly after the deadline will be accepted. The final tally of comment letters exceeds 400.

It is already clear that lessees and lessors are overwhelmingly hostile to the lessee P&L expensing proposals, and are to a lesser degree critical of the capitalization principle, at least on the ED basis. Audit practitioner respondents seem quite evenly divided on the main issues, and overall probably less supportive than they were of ED1 in 2010. Corporate analysts have not returned comments in very large numbers, and those who did so are divided.

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Under the current financial reporting regime for leases, the bond rating agencies and other analysts make their own calculations of implicit capital values of operating lease commitments of major public company lessees, for the purpose of calculating certain adjusted financial ratios. This is done on the basis of disclosures of those off-balance-sheet commitments in notes to the accounts, as required in existing lease accounting rules.

Some analysts feel that the ED as now proposed will not produce any more meaningful information than can be obtained already from disclosures. This is partly because of the Boards' decision to exclude capitalization of most contingent rental commitments (see p3. above).

One of the most important respondents was the European Financial Reporting Advisory Group (EFRAG). This is the official body that advises the EU institutions on the adoption of new IFRS standards. The EU reserves the right not to adopt specific new accounting rules approved by the IASB, although such a step has only once been taken since the general EU adoption of IFRS for listed companies with effect from 2005.

EFRAG's constituents include European level accountancy bodies and financial sector trade associations.

The EFRAG response is critical of several features of the ED, particularly of the proposed lessee expensing rules for "Type B" leases. EFRAG suggests that the Boards should proceed on a two-stage basis, concentrating first on an extension of the disclosure rules for operating leases and deferring capitalization until the periodic expensing models have been further developed.

Timetable to completion

It will probably not be until November this year that the Boards will be able to receive a full analysis of comments in response, and commence their further re-deliberations. Assuming that they do then proceed to finalize a new leasing standard, it could be towards the end of 2014 before this is finally issued.

The earliest possible final effective date of the new lease accounting standard would be January 1 2017; and it could well slip to a year later. The "dates of initial application", from which listed company lessees and lessors would have to file prior year comparative information on the new basis, would be two years before the effective date (i.e. possibly as soon as January 2015) for those in the US, and one year before the effective date for those in the EU.

SMEs will have a little longer to adopt the new rules compared with larger companies. In the US unlisted companies usually have an effective date 12 months later than the main effective date applying to listed companies, for all major new accounting standards. The IFRS SMEs standard, which (subject to national rules) may be applicable to unlisted company lessees in most countries that have adopted IFRS, is planned to be updated in future at three-yearly intervals. While it is likely eventually to incorporate the new leasing rules (see pp.1-2 above), it may not make these effective before January 2018.

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Bank capital rules increasing in importance

Most forms of commercial equipment finance are intermediated in some way by the banking system. In most countries the major lessors are themselves banks or parts of banking groups. Those non-bank lessors who share a major role in the market are also largely funded by bank credit. Banking regulations, and in particular the prudential regulation of the level of loss-absorbing shareholders' capital in bank balance sheets, therefore has a significant influence on the operating environment for asset finance.

In response to the banking collapses in the "credit crunch" period of 2008-9, there have been global moves to tighten prudential regulation. This is a phased process, centered mostly on the global Basel III accord.

The single most important part of Basel III is an increase in the minimum ratios of banks' "common equity tier 1" (CET 1) measure of shareholders' capital to their "risk weighted" assets (RWAs). This is being introduced in three annual phases, of which the first came at the beginning of this year.

Other elements will include the introduction of additional buffer zones above minimum capital within which banks' distributions from profit, and the exclusion from regulatory capital of certain hybrid instruments between debt and equity currently issued by banks in the capital markets. These will be phased in over a longer period and some have yet to start.

Some jurisdictions are late in starting the Basel III compliance process, but are nevertheless clearly committed to it. On present plans the US will apply the first three phases of Basel III to the banks affected by it from January 2015. Japan, however, started complying with the first phase from March this year.

The European Union, in contrast with the US and many other countries, requires its member states to apply the Basel accords to all banks and not merely to locally based "internationally active banks", which is the minimum international commitment. EU implementation of Basel III is being undertaken through a combination of legislative instruments. A new Directive (CRD IV) will require executive regulatory action and some legislative changes by the member states, while on other aspects an EU Regulation will have the direct force of law.

All of this European legislation will not be fully in place until the beginning of next year, coinciding with the second phase of Basel III. The EU has nevertheless already acted, with effect from June 2012, to require member states to go beyond the pre-existing Basel II minimum levels of CET 1 capital. This is effectively part of the transition to "fully loaded Basel III". The risk asset weighting (RAW) system for most credit exposures in banking books is not itself being changed in the transition from Basel II to Basel III. However, the consistency of RAWs in operation, which is the key cornerstone of the advanced internal ratings basis (AIRB) applied by most major bank lessors and lease funders, has been under regulatory review at various levels. As the global supervisory body the Basel Committee of Banking Supervisors (BCBS), has been reviewing the consistency of RAWs among the national regulators; and the European Banking Authority (EBA), which co-ordinates banking supervision throughout the EU, has been reviewing the same issue on a bank-by-bank basis.

The policy tensions

While the Basel III changes should strengthen bank balance sheets, their economic effects will clearly be contractionary since they will constrain the lending capacity of the banking system. In those parts of the world where economic conditions are still depressed in the direct aftermath of the credit crunch – principally the US and Europe - this effect is being balanced by almost unprecedented levels of monetary easing, designed in various ways to underpin asset prices throughout those economies.

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A part of this process has been the prolonged periods of low market interest rates, driven by central bank discount rates close to zero in nominal terms - and negative in real terms allowing for inflation rates. There has also been quantitative easing (QE) whereby central banks have sharply expanded their own balance sheets by purchasing sovereign bonds and some other financial assets of high credit quality.

Pronouncements from central bankers over recent months, notably in the US and the UK, suggest that monetary easing will remain in operation for the next two years at least. At the same time there have been some more direct moves by governments and central banks to stimulate commercial bank credit to SME customers.

While their economic effects have been somewhat conflicting, the policy changes on either side – both tighter prudential banking regulation and the monetary easing measures – have at various points raised specific issues for the treatment of asset finance business.

In the UK, for example, the Funding for Lending (FFL) scheme involves the central bank offering three-year collateralized lending facilities to commercial banks at various margins above the sovereign's own funding costs. Most major UK banks is taking advantage of this funding.

Under FFL the margins charged to banks are attuned to the level of change in a borrowing bank's exposures to UK consumers and non-financial businesses during the scheme's period of operation. Leasing advances to non-financial customers are included in this measure, and are therefore effectively incentivized by the scheme. On the other hand banks' funding to most non-bank lessors is not included in the lending volume criteria – although such portfolios are included in eligible collateral for these central bank loans.

Within the Euro zone the European Central Bank has recently extended some collateralized lending facilities via national central banks to commercial banks, as a monetary stimulus measure. It has, however, so far restricted the eligible collateral under this scheme to residential mortgage portfolios, so that equipment leasing exposures would be ineligible.

The public policy tension between the need to ensure strength in bank balance sheets, and on the other hand concern to prevent a general contraction of credit, is a factor that may soon extend beyond Europe and North America. Some key emerging markets, and other economies that were relatively less affected by the credit crisis of 2008, have seen a distinct deterioration in economic buoyancy since around the middle of this year.

The tensions can be seen within the prudential regulation systems, and not merely in comparisons between these regimes and wider monetary policy initiatives. In the UK, for example, within the past two months the Bank of England has been starting to require some major lenders to move towards higher "leverage ratios" of CET1 capital to total assets (unweighted for risk). These moves anticipate the scheduled adoption of global minimum leverage ratios for the first time under Basel III – in parallel with the system of ratios based on weighted risk assets - as from 2018.

In contrast with these moves on leverage, however, as a stimulus move in August this year the Bank eased back on the minimum liquidity rules for major UK banks. In that area the UK rules to date have generally been more stringent compared with the Basel III minimum liquidity rules that will be phased in – again for the first time as global requirements – from 2015. The UK easing of liquidity rules follows a global concession by BCBS at the beginning of this year, when it was announced that the first Basel III liquidity rule would be phased in over four years from January 2015, instead of coming into full force in that year as originally agreed.

The US banking authorities have long operated simple leverage ratios; and compared with other countries they have placed more reliance on these than on the weighted risk measurement system which has been the cornerstone of the Basel accords to date. Currently they are moving to require tighter leverage ratios for the largest US based banks.

Scope and operation of supervision

In the US banking regulators acted in July this year to extend the scope of banking supervision as applied to

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two major non-bank financial institutions – GE Capital and the insurance group AIG. This was done under a mandate from the 2010 “Dodd Frank Act”, designed to strengthen banking oversight after the 2008 financial crisis. The legislation provides for major non-banks to be overseen by the Federal Reserve Board as if they were banks, if the scale of their operations or potential impact on financial markets is considered to warrant such regulation.

It also provides for enhanced prudential standards for those non-banks which (like GE Capital and AIG) already have companies in their groups which are subject to banking supervision, whether or not these groups fund their credit business to a significant extent through retail deposits. The details of such enhanced standards may vary from one case to another. They are likely to include the application of liquidity rules and (when the US starts to apply Basel III next year) the capital surcharges that will apply to systemically important banks.

Both of those players have been active in asset finance markets, and GE Capital is among the largest non-bank players in global leasing business. This US move therefore represents a significant extension in the scope of banking supervision, and its interface with leasing markets.
In other home states of major leasing companies the scope of banking supervision has not in itself changed in recent years. However, it remains variable from one jurisdiction to another. Many countries apply prudential regulation only to retail deposit taking institutions – as did the US until the latest designations of non-banks under Dodd Frank. In others countries the question of the scope of banking supervision addresses factors on the assets side as well as the liabilities side of an institution's balance sheet. It may therefore capture some companies undertaking certain types of leasing business whether or not they are deposit takers.

Elsewhere there is significant evolution in the regulatory architecture of banking supervision. In the Euro zone the ECB will for the first time become a bank regulator next year, when it assumes responsibility for supervising the largest banks within the zone. Plans for a wider “banking union”, however, have stalled as the financially stronger countries within the zone have resisted additional potential fiscal commitments.

Proposals recently agreed between the German and French governments envisage that responsibility for resolution or bailout issues in the event of financial distress at any banks regulated by the ECB seems likely to remain with national authorities for the foreseeable future.

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Key developments over the past year

Date 2012	Subject area	New development
August	Lease funding	Start of UK Funding for Lending scheme: central bank funding of commercial bank credit, including some leasing business.
September	Accounting	International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) complete agreement on details of split lessee expensing models for equipment and real estate leases, within proposals for converged lease accounting standard.
October	Banking supervision	Basel Committee of Banking Supervisors (BCBS) finalizes rules for required national action for enhanced regulatory capital buffers for "domestic systemically important banks" (D-SIBs) following earlier decisions for "global systemically important banks" (G-SIBs).
October	Banking supervision	Liikanen Report proposes EU-wide rules for capital ring-fencing of retail banking within universal banks.
November	Lease funding	IOSCO (international securities market regulatory body) proposes global convergence of rules for minimum risk retention by credit originators in securitizations.
November	Banking supervision	Financial Stability Board (FSB) identifies individual banks to be treated as G-SIBs under Basel III.
November	Banking supervision	FSB issues consultative proposals on global regulation of "shadow banking".
December	Banking supervision	EU reaches agreement on move for ECB to assume supervision of the larger banks within Euro zone states.
December	Accounting	UK and German national standard setting bodies criticize IASB/ FASB proposals, and call for more cost-benefit analysis.

Date 2013	Subject area	New development
January	Banking supervision	General start of transition to global Basel III rules (subject to implementation delays in many jurisdictions): ● 1st of 3 annual phases of higher common equity tier 1 (CET 1) capital levels ● removal of newly disqualified capital instruments from CET 1 capital ● 1st of 10 annual phases in removal of other capital instruments to be newly disqualified from non-CET 1 capital.
January	Taxation	Ending of US fiscal stimulus for investment in equipment (enhanced Year 1 write-offs): rates revert to pre-stimulus levels for each asset class, for expenditure incurred from this date.
January	Taxation	Further increase in rate of UK bank levy.
January	Banking supervision	BCBS agrees major relaxation of earlier agreement for Basel III liquidity rules due for adoption from 2015.

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KEY ASSET FINANCE REGULATION 2012-2013

January	Business conduct	UK government confirms plans to transfer Consumer Credit Act regulation from Office of Fair Trading (OFT) to the new Financial Conduct Authority (FCA); but with further consultation on some aspects.
January	Taxation	European Commission firms up proposals for financial transactions tax (FTT) among 11 concurring member states under enhanced co-operation procedures.
February	Banking supervision	EU institutions reach agreement on principles of legislation to implement Basel III changes.
March	Taxation	UK Budget statement: government announces further future reduction in corporation tax rate, but further future rise in bank levy rate.
March	Taxation	Ending of lessors' access to enhanced tax write-offs on “green” car fleets in UK, for expenditure incurred after this month.
March	Banking supervision	Commencement of Basel III implementation in Japan.
April	Taxation	UK main corporation tax rate falls from 24% to 23%.
April	Banking supervision	UK oversight passes from former Financial Services Authority (FSA) to Prudential Regulation Authority (PRA) within Bank of England.
April	Business conduct	FCA succeeds FSA as UK business conduct regulator.
April	Taxation	Start of optional “cash basis” for UK income tax on unincorporated micro-businesses: simplified tax deductibility of rentals etc for eligible lessees.
April	Taxation	UK launches legal challenge against European Commission's FTT proposals due to impact outside participating states.
May	Accounting	IASB and FASB issue revised ED of new accounting standard.
May	Banking supervision	German and French governments agree proposed allocation of future “resolution powers” over Eurozone banks to be subject to ECB supervision.
June	Accounting	IASB, FASB and some national standard setters commence outreach process with lessees, lessors and others on the draft standard, focusing on the proposed lessee expensing models.
June	Banking supervision	BCBS issues consultative proposals for detailed application of non-risk-weighted leverage ratios to be fully applied from 2018 under Basel III accord.
June	Banking supervision	US authorities propose Basel III compliance rules for affected banks.
June	Banking supervision	Bank of England starts to indicate transition timetables for major individual UK banks deemed to need more capital under future Basel III leverage rules.

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July	Accounting	European Financial Reporting Advisory Group (EFRAG) circulates draft of comments on lease accounting ED.
July	Banking supervision	US Financial Stability Oversight Council (FSOC) designates GE Capital and AIG as systemically important non-bank institutions to be subject to banking supervision rules by Federal Reserve Board.
July	Banking supervision	BCBS publishes initial analysis of international consistency of risk asset weightings (RAWs) in banking books, under Basel II rules.
July	Banking supervision	European Banking Authority (EBA) issues proposals for transition in minimum risk-weighted capital requirements for EU banks, from "nominal floor" (effective from June 2012) to levels to be required under EU rules to implement Basel III accord.
July	Taxation	Enactment of "general anti-abuse rule" (GAAR) in UK corporation tax: for transactions entered into from this date, authorities assume power to challenge tax planning arrangements deemed to be abusive, without relying on specific anti-avoidance rules.
August	Banking supervision	EBA produces interim results of review of consistency of RAWs under Basel II rules, for "low default portfolios" (i.e. exposures to large corporate customers etc) among EU banks.
September	Accounting	Expiry of comment period on ED.

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Timetable for future developments

Likely date or period 2013	Subject area	Development
September onwards *	Lease funding	US authorities to announce next step (either finalization or further consultations) on minimum risk retention rules for securitization deals.
November	Accounting	Boards to commence re-deliberation of accounting standard following comments on ED.
November	Taxation	Target date for report from Swedish review of corporate taxation.

Likely date or period 2014	Subject area	Development
January	Banking supervision	Further transition steps in Basel III: ● next phases in increased CET 1 capital ratios and removal of certain instruments from non-CET 1 capital; ● 1st of 5 annual phases in required new deductions from capital (for goodwill etc).
January	Banking supervision	Effective start date for compliance with Basel III (first two phases to date) in EU.
January	Taxation	Further increase in UK bank levy rate.
March	Banking supervision	Effective date for ECB to assume partial control of banking supervision in Eurozone .
April	Business conduct	UK credit regulation to pass from OFT to FCA.
April	Taxation	UK corporation tax rate to fall to 21%.
October-December	Accounting	Possible period for finalization of new global lease accounting standard.

Likely date or period 2015	Subject area	Development
January	Banking supervision	Further transition steps in Basel III: ● 1st of 5 annual phases of new liquidity coverage ratio (LCR); ● final phase of higher CET 1 capital requirements; ● next phases of removal of certain instruments from non-CET 1 capital, and items to be deducted from capital.
January	Banking supervision	Effective start date for compliance with Basel III (first three phases to date) for affected banks in US.
January	Accounting	Earliest possible “date of initial application” (DIA), for purposes of prior year accounts comparable with period after final effective date of new lease accounting standard, for US listed companies.

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January	Lease funding	Minimum 5% risk retention rule for securitizations in which EU banks invest (in force since January 2011 for new bond issues) to be extended to new exposures within pre-2011 securities.
January	Banking supervision	Risk asset weightings for US non-core banks to become more aligned with Basel II model.
January onwards *	Taxation	Authorities in many counties (including the UK) subject to IFRS will start to review the corporate tax treatment of some features of leasing transactions, as a consequential effect of the new accounting standard (if finalized).
January onwards *	Accounting	Possible start of moves by national standard setters to align national GAAP lease accounting rules for unlisted companies with the new global standard (if finalized), in EU countries where national GAAPs are currently close to, but independent from, IFRS – including UK, Sweden, Netherlands and Norway.
April	Taxation	UK corporation tax rate to fall to 20%.
May	Banking supervision	Final target date for UK legislative enactment of new prudential banking rules ("ring fencing" rules for separate capitalization of retail banking operations within major banks, resolution powers, and requirements for banks to issue more loss-absorbing debt instruments).

Likely date or period	Subject area	Development
2016		
January	Banking supervision	Further transition steps in Basel III: ● 1st of 4 annual phases in start of new "buffer zones" (i.e. levels of CET 1 capital above minimum for licensing, but within which banks will be subject to limits on distributions from profit), and in capital surcharges for G-SIBs; ● next phases of removal of certain instruments from non-CET 1 capital, items to be deducted from capital and LCR ● start of capital surcharges for D-SIBs.
January	Accounting	Earliest possible DIA (see above) for new lease accounting standard for listed companies subject to IFRS, and for US unlisted companies.

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Likely date or period	Subject area	Development
2017		
January	Banking supervision	Further transition steps to Basel III: next phases of buffer zones, G-SIB surcharges, removal of certain instruments from non-CET 1 capital, items to be deducted from capital, and LCR.
January	Accounting	Earliest possible final effective date (i.e. for account periods starting from this date) of new global lease accounting standard - except for those eligible to use the international standard for smaller companies (IFRS SMEs).

Likely date or period	Subject area	Development
2018		
January	Banking supervision	Further transition steps in Basel III: ● (subject to further review) introduction of "net stable funding ratio" (additional liquidity rule); ● introduction of new leverage ratio (regulatory capital measured against unweighted risk assets); ● final phase of items deducted from capital; ● next phases of buffer zones, G-SIB surcharges and removal of certain instruments from non-CET 1 capital.
January	Accounting	Possible final effective date of new lease accounting standard for users of IFRS SMEs.

Likely date or period	Subject area	Development
2019		
January	Banking supervision	Further transition steps to Basel III: ● final phases of buffer zones, G-SIB surcharges and LCR; ● next phase of removal of certain instruments from non-CET 1 capital.
January	Banking supervision	Target effective date for required use of more loss-absorbing debt by UK banks.

Likely date or period	Subject area	Development
2020-2022		
January each year	Banking supervision	Final transition to Basel III, with last three phases of removal of certain instruments from non-CET 1 capital.

* = best estimates of uncertain dates

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