

Effects of the differences between FASB and IASB accounting policy for leases

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Abstract

Objective: This research investigates the effects of the 2019 US lease standards for US lessee companies, comparing with the potential effects of IFRS 16 to explore the economic reasons that would have led the FASB and the IASB to diverge from their joint lease standard project.

Method: We hand-collected detailed data on leases for 500 US lessees firms' 2019 financial statements to first analyze Topic 842's effects on financial ratios and to simulate these effects had the FASB adopted the same earnings recognition criteria in IFRS 16. Next, we investigate the value relevance of these observed and simulated effects on the stock market.

Results: Topic 842 generated significant variations in companies' financial indicators, but it was not possible to identify the value relevance of these variations due to model limitations. The IFRS 16 simulation shows a significant increase in EBIT and operating cash flows, but a drop in net income, which seems to have been incorporated into stock prices. This suggests the FASB's decision to diverge from the IASB could include the desire to avoid lower earnings and their negative impacts on the stock market.

Contribuições: This research adds to the literature first by focusing on the US when most of the recent studies investigated the IFRS world and, second, by exploring economic reasons rather than the hierarchy of power between the FASB and the IASB. Finally, we add a novelty derived from the detailed manual work which allowed us to estimate the effects had the US firms been under IASB's jurisdiction.

Keywords: Lease accounting; Topic 842; IFRS 16; value relevance.

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Introduction

A report released by the US Securities and Exchange Commission (SEC) in 2005 indicated an approximate amount of USD 1.25 trillion in lease agreements classified as operating leases which, therefore, were kept off the balance sheet and reported only in the Notes to the Financial Statements of US listed firms. This information attracted the attention of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (the Boards), which started working together to promote greater transparency in recognizing the assets and liabilities arising from lease agreements (Branswijck et al., 2011).

After ten years of working together, however, the Boards were unable to agree on just one lease accounting standard, with the IASB issuing IFRS 16 Leases and the FASB issuing Topic 842 Leases: both standards came into force in January 2019. Although they agreed on several points, such as determining the recording of finance and operating leases in the lessee firms' balance sheets, and adopting similar criteria for defining and recognizing leases, the Boards diverged on important points. Namely, regarding the recognition of expenses arising from lease agreements (FASB, 2016; IFRS, 2016; Kabir & Rahman, 2018), the FASB decided to maintain the two existing approaches, classifying leases as financial and operating, while the IASB took a single approach, that is, using the finance lease agreement model for all leases (FASB, 2016).

Previous studies have listed several reasons that may have contributed to the divergence that arose between the Boards. These reasons can be summarized into three main groups: (i) institutional reasons regarding the survival of the Boards (especially the FASB) (Hail et al., 2009; Ong, 2017); (ii) theoretical reasons, based on different interpretations of the conceptual frameworks of the FASB and the IASB (FASB, 2021; IFRS, 2016a); and (iii) economic reasons (FASB, 2021; FASB, 2021a; IFRS, 2016a; Jennings & Marques, 2013; Zeff, 2005), based on the economic and financial impacts, and the costs and benefits involved.

This research aims to investigate the economic and financial effects of the new lease standard for US lessee firms, comparing with the potential effects of IFRS 16, exploring the economic reasons that would have led to the FASB and IASB diverging from the joint lease standard project. We start by describing the main characteristics of the operating lease agreements of a sample of US firms, such as the average term and the customary discount rates. We, then, analyze the main economic and financial impacts of the changes introduced by Topic 842 on US lessee firms' financial ratios and stock prices, via a value relevance analysis.

Finally, we estimate the main impacts for these firms if the

FASB had adopted the single criterion for lease expense recognition (as in IFRS 16). We simulate the financial statements of the sample firms for the year 2019 as if the FASB had adopted the single leasing accounting model in the income and cash flow statements. We carry out the simulation using the information disclosed in the sample firms' Notes to the Financial Statements. We simulate new values for the Earnings Before Interest and Taxes (EBIT), Net Income (NI), and Cash Flow from Operations (CFO), which we then use to analyze the effects on financial ratios and stock prices.

The results show that the right-of-use assets and the respective operating lease liability generated significant variations in the firms' financial ratios, particularly for the Aviation, Retail, and Hotels & Restaurants industries. The simulation of firms' accounting figures based on IFRS 16 shows a significant increase in EBIT and operating cash flow, but a drop in net income. The value relevance results indicate the market seems to have incorporated this drop in stock prices, even though the FASB has followed a different path from the IASB concerning leasing expenses recognition. Therefore, the study suggests that the FASB's decision not to adopt the earnings recognition model according to IFRS 16 would have, at least as one of its motivations, the desire to avoid lower earnings and, consequently, the negative impacts on the stock market prices for American firms.

This study is important for three main reasons. First, although IFRS 16 has been the subject of several studies that focused on the impacts on firms' financial ratios (Branswijck et al., 2011; Öztürk & Serçemeli, 2016; Pereira, 2019; Quach & Tu, 2020; Tai, 2013; Wong & Joshi, 2015) and lease accounting standards lobbying (Beckman, 2016; Hussey, 2018; Osei, 2017), to the best of our knowledge, this is the first study to compare the FASB and IASB lease standards and to estimate the effects of adopting IFRS 16 in the United States. Second, the lease standard is one of the accounting standards which have, historically, undergone the most changes, and the significant growth in operating lease operations gave rise to the term "off-balance sheet financing" (Zeff, 2005). Third, this is the IFRS standard that received the highest number of Comment Letters as of 2020 (Rey et al., 2020), with more than 1,770 in response to the 2009 Discussion Paper and the 2010 and 2013 Exposure Drafts (FASB, 2021). This was the last work jointly developed by the FASB and the IASB as a result of the Norwalk Agreement signed by the Boards in 2002 seeking the convergence of international accounting standards. While most of the studies on the joint work between the IASB and the FASB focus on lobbying (Rey et al., 2020) and on the boards' political and institutional influences (Matos, 2020) and hierarchy of power (Ong, 2017), our work contributes with the literature bringing the potential economic reasons

behind the boards disagreement on the lease standard.

2. Literature review and hypotheses development

2.1 Operating leases and off-balance-sheet information

Discussions about the increasing use of lease operations and their (lack of) accounting have been dragging on for decades. In 1949, the Accounting Procedures Committee of the American Institute of Certified Public Accountants (AICPA) issued Accounting Research Bulletin No. 38 (AICPA, 1949), which recognized the importance of this type of financial transaction and established criteria for recording and disclosing it in the balance sheet and the notes. According to Zeff (2005, p. 9), the leasing industry grew exponentially from the 1950s onwards, and there was a consequent increase in the volume of long-term leases controlled off the balance sheet of the lessee firms, and “. . . that’s how the infamous term ‘off-balance sheet finance’ was born”.

In 1976, the FASB established the criteria for lease accounting and for disclosing these operations, for both lessors and lessees (FASB, 2021b). The IASC, in turn, issued IAS 17 in September 1982 with effect from January 1984. The criteria defined for the classification of operating and finance leases were very similar to those that had already been adopted by the FASB in SFAS 13 (Peprníčková, 2018).

Concern with the excessive volume of lease contracts that are classified as operating leases and kept off the balance sheet of the lessee firms motivated several academics to investigate the effects of capitalizing these contracts’ assets, which, in general, estimated a considerable increase in leverage as well as a decrease on profitability (Branswijck et al., 2011; Goodacre, 2003; Imhoff et al., 1991; Imhoff et al., 1997; Kostolansky & Stanko, 2011; Öztürk & Serçemeli, 2016; Tai, 2013; Wong & Joshi, 2015). Therefore, Hypothesis A1 states that: The adoption of Topic 842 in the United States led to a significant increase in firms’ debt levels and a significant reduction in return on assets.

Since industry differences are expected according to the study by PricewaterhouseCoopers (2016), Hypothesis A2 is: Changes in firms’ debt and return on assets levels vary significantly among industries.

Next, considering the findings of Arata (2010), at least most sophisticated investors have already included operating lease liabilities and right-of-use assets in their analyses, so we expect that recognizing these items in the financial statements should not add information to the market: Hypothesis A3: The information about lease contracts in the Notes of lessees under Topic 840 is as relevant for the stock market as the information disclosed

in the financial statements under Topic 842, regardless of firms’ industries.

2.2 Lobbying during the convergence process of the lease standards

The practice of lobbying was extensively explored during the process of changing the accounting standards for leases. The major repercussion among stakeholders is reflected in the more than 1,700 Comment Letters sent to the FASB and the IASB in response to the 2009 Discussion Paper and the 2010 and 2013 Exposure Drafts (IFRS, 2016a). Comiran and Graham (2016) examined the motivations that led firms to lobby against the proposed changes in lease accounting. The results show that firms that estimate negative impacts lobby more intensely. Firms that are subject to restrictive clauses (covenants) in contracts are more likely to lobby because they believe that the cost of renegotiating the contracts will be high. Another motivation is linked to the wish to avoid higher management costs.

Morley (2016) approaches the lobbying processes by focusing on the IASB’s internal divergences. According to the study, these differences expose weaknesses or inconsistencies in the process of changing or creating a new standard which serves as an invitation to external lobbying activities. Other researchers, such as Ong (2017) and Padgett (2017), argue that in addition to the external pressures exerted by a wide range of stakeholder groups, there is also an institutional issue involving the boards of directors of both Boards. After adopting a single internationally accepted accounting standard, it would no longer be necessary for the FASB to develop accounting standards in the United States, while the IASB would probably be the body responsible for creating the international standards. Furthermore, without pressure from outside forces, such as the SEC or the US Congress, the FASB is unlikely to show interest in converging international accounting standards.

2.3 Differences between Topic 840, Topic 842, and IFRS 16

The FASB and the IASB have agreed on various points, such as requiring the recording of all lease contracts in the balance sheet (with the exception granted by the IASB, which made the capitalization of assets whose unit value is less than or equal to USD 5,000 optional) and on the criteria for defining leases and measuring lease liabilities (more details are in Guillaume & Pierre, 2017). However, the Boards ended up diverging on important points, such as the recognition and presentation of lease-related expenses in the income and cash flow statements (IFRS, 2016a). According to the original idea proposed in the Discussion Paper and Exposure Drafts of 2009 and 2010, lessees should use a single model for recognizing lease expenses for all leased assets (except for short-term

leases and low-value assets) (FASB, 2021c), that is, using the same criteria for operating and finance leases.

According to the FASB (2021c), respondents expressed views both for and against this single approach. Among those in favor, as per the FASB's Basis for Conclusion 48 (BC48), some argued that since all lessees obtain a lease asset (right-of-use) and a lease liability at the inception of the lease, the amortization treatment applied to other non-financial assets should be applied to lease assets. Other stakeholders, though not considering this the ideal model to reflect the economic benefits of all leased assets, argued considering all leases as finance leases would be a less onerous model than one with multiple approaches for different types of leases.

On the other hand, according to BC49, some of the stakeholders who spoke out against the single approach argued that separately recognizing interests on lease liabilities and amortizing right-of-use assets would imply higher lease expenses in the early years and lower expenses in the final years of the contract. Therefore, the lease benefits and payments would be unmatched. Other stakeholders argued that since the right to use lease assets' benefits is different between finance and operating leases, a single model for recognizing lease expenses would not be suitable for all types of leases. Further, according to the FASB (2021c), many stakeholders argued that the main objective of recognizing assets and liabilities for all leases had been met.

As explained in BC420, the FASB decided to maintain the classification of finance and operating leases as in the previous standard (Topic 840) for the income and cash flows statements. According to the FASB (2021c), this decision was significantly influenced by feedback from stakeholders that, in general, argued that: (i) classifying the lease in a similar way to the previous standard would not be difficult, nor would it result in significant costs or greater complexity; (ii) additional costs for US tax preparers would be reduced due to keeping accounting and tax reports aligned; and (iii) the most significant costs involved in adopting the new lease standard would come from acquiring new control systems and changing processes so that maintaining the current lease classification would avoid such costs.

On the IASB side, stakeholders also expressed different points of view regarding the model for recognizing lease expenses. According to the IFRS (2016b), the main feedback argued that the proposed dual model for classifying lease expenses was too complex. On the other hand, most investors and financial analysts argued that leases create rights and obligations for the lessee. Therefore, the separate presentation of the interest and depreciation expenses would generate more useful information.

After analyzing these various arguments, the IASB concluded that all leases reported on the balance sheet should be accounted for in the same way, that is, using the single model. In making this decision, the IASB considered three points. First, a single model, which separately presents the depreciation and interest for all leases reported in the balance sheet, provides more useful information for the vast majority of investors and analysts. Second, from a conceptual point of view, all leases are the result of the lessee obtaining the right to use one or more assets, and making the respective payments over time constitutes financing. Third, the IASB considered that the single and dual models for recognizing lease expenses would have similar costs, but the single model would be simpler. By using a single model, the lessee can also use the same existing fixed asset control systems to control all the firms' assets, including the right-of-use assets (IFRS, 2016b).

Since separately recognizing interests on lease liabilities and amortizing right-of-use assets would imply higher lease expenses in the early years and lower expenses in the final years of the contract, had the US adopted IFRS 16 firms would see a decrease in net income, decreasing profitability and equity. Further, under IFRS 16, lease payments are classified in the cash flow from financing activities rather than operating activities, so an increase in operating cash is also expected. Therefore, the first of our second set of hypotheses is Hypothesis B1: *The adoption of IFRS 16 by lessee firms in the United States would generate a significant increase in the Debt-to-Equity (D/E) ratio and the operating cash flow, plus a significant decrease in firms' profitability in the early years of the operating lease agreements.*

As discussed before, we also expect these variations to differ among industries: Hypothesis B2: *The variation in the D/E ratio, the operating cash flow, and profitability varies significantly among industries.*

Finally, considering the FASB's decision to maintain the dual model in the income statement, we expect this information to be the most relevant for the market: Hypothesis B3: *Information about lease agreements in the Notes to the financial statements notes of lessees under IFRS 16 would not add any relevant facts to the stock market, regardless of the firms' industry. This would also be consistent with some studies that did not find any value relevance difference between IFRS and US GAAP, such as Van der Meulen et al. (2007), who studied German firms applying both standards.*

3 Research design

3.1 Data and the sample

To define our sample, we first considered a ranking

from the LeaseAccelerator (2018) selecting the 500 US public firms with the largest operating leases liabilities (relative to total liability) from the Fortune 1000 list whose data were available at Economatica and whose fiscal year started on or after 1/01/2019 and ended on or before 11/30/2020 (date of data collection). We must consider, however, that the 1,000 largest US firms by revenue (Fortune 1000) do not necessarily represent the 1,000 firms with the largest operating lease volume, so the final sample does not necessarily represent the firms in the US market that were most affected by the lease standard. Therefore, our results might be attenuated by these sample selection procedures.

The data is of two types. First, we hand-collected the following information related to the operating leases agreements from the notes to the financial statements of the sample firms: (i) the average annual remaining term of the contract; (ii) the average annual discount rate; (iii) the total gross amount of the lease liability; (iv) the total net lease liability (item (iii) minus interests calculated using the average discount rate); and (v) the total amount of operating lease expenses. We then tabulated the data to simulate the amortization of the right-of-use asset and the interest over the average term of the operating lease liabilities, according to the requirements of IFRS 16. We collected the financial statements from firms' websites and the SEC's database. Since these data is hand-collected, due to time constraints, we limit our sample period to the first year of the adoption of the new standard.

Second, we collected financial and market data from the Economatica database. To ensure data reliability, we were careful to cross-reference some of the information in the financial statements with the data obtained from Economatica and the SEC website, such as the financial statements' closing date, total assets, and the Central Index Key (CIK) code.

3.2 Topic 842 versus Topic 840

To test Hypothesis A1, we calculate Debt-to-Assets (D/A), Debt-to-Equity (D/E), and return on assets (ROA, net income scaled by total assets) ratios based on firm data for the fiscal year starting after 1/01/2019 with and without including the right of use (RoU) and operating lease (OL) liability and compare the difference employing a paired samples t-test. Next, to test Hypothesis A2, we estimate three regressions, one for each ratio:

$$\Delta Ratio_i = \beta_0 + \sum_{k=1}^{11} \beta_k Industry_{i,k} + \epsilon_i \quad (1)$$

The dependent variable in Equation (1) is the difference between each ratio (D/A, D/E, and ROA) under Topic 840 (that is, using data from 2019, but excluding the values of the RoU and OL) and under Topic 842 (that is, using the actual data from 2019 including the amounts of the

RoU and OL). This difference is regressed against a set of industry dummies that identify 11 different classifications, whose coefficients, if statistically significant, show how much larger or smaller the change in the ratio with the new standard is relative to the base industry.

Finally, to test Hypothesis A3, we analyze the value relevance of the book values under Topic 842 and Topic 840. First, we estimate the traditional value relevance model according to Equation (2), where $\ln Price$ is the natural logarithm of the stock price three months after the fiscal year closing date, EPS is the earnings per share, and BVS is equity (book value) per share:

$$\ln Price_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 BVS_{it} + \epsilon_{it} \quad (2)$$

We first estimate Equation (2) using data from one year before (2018) and one year after (2019) the adoption of Topic 842 to test the basics of the value relevance model. Then, using the same data, we estimate the regression in Equation (3), where TAS is total assets per share, TLS is total liabilities per share, and $Post$ is a time dummy that identifies the period after adopting Topic 842:

$$\ln Price_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 TAS_{it} + \beta_3 TLS_{it} + \beta_4 Post_t + \beta_5 TAS \times Post_t + \beta_6 TLS \times Post_t + \epsilon_{it} \quad (3)$$

Equation (3) allows us to test the recognition of the RoU in the assets and the OL in the liabilities in the period after adopting Topic 842. If the coefficients of the interactions between assets and liabilities and the $Post$ dummy are statistically significant, then assets and liabilities are more relevant under Topic 842. We also analyze the RoU and OL value relevance separately according to Equation (4), which uses data only for 2019 (post Topic 842 period) and includes the total assets per share without the RoU ($TASnoRoU$), the RoU per share ($RoUS$), the total liabilities per share without the OL ($TLSnoOL$), and the OL per share (OLS):

$$\ln Price_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 TASnoRoU_{it} + \beta_3 RoUS_{it} + \beta_4 TLSnoOL_{it} + \beta_5 OLS_{it} + \epsilon_{it} \quad (4)$$

Finally, we expanded Equation (4) to include an interaction between the RoU and the OL with each industry dummy, to analyze whether these items are more or less relevant to the stock market across different industries, as per Equation (5):

$$\ln Price_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 TASnoRoU_{it} + \beta_3 RoUS_{it} + \sum_{k=1}^{11} \alpha_k RoUS \times Industry_{ik} + \beta_4 TLSnoOL_{it} + \beta_5 OLS_{it} + \sum_{k=1}^{11} \gamma_k OLS \times Industry_{ik} + \epsilon_{it} \quad (5)$$

3.3 IFRS 16 versus Topic 842

To test Hypothesis B1, we first simulate the financial statements under IFRS 16 and describe the effects on EBIT, NI, and CFO. Since IFRS 16 would change firms' income (and

equity) and cash flow, we evaluate the effects on the (i) D/E ratio, (ii) ROA, (iii) return on equity (ROE), (iv) earnings per share (EPS), and (v) CFO to revenues (CFO/Rev) ratio, using data for the fiscal year starting on 1/01/2019 considering the actual values (under Topic 842) and the simulated values under IFRS 16. Similar to Section 3.2, we then perform a paired samples t-test to analyze the differences between Topic 842 and IFRS 16 ratios.

To test Hypothesis B2, we estimate Equation (1) for each of the five ratios, as in Section 3.2. Finally, to test Hypothesis B3, as IFRS 16 only impacts EPS in the original value relevance model, we estimate Equation (6), where ΔEPS_i is the variation in the EPS if the firms were to adopt the single recognition model from IFRS 16:

$$\ln Price_{it} = \beta_0 + \beta_1 BVS_{it} + \beta_2 EPS_{it} + \beta_3 \Delta EPS_{it} + \epsilon_{it} \quad (6)$$

Finally, we expand Equation (6) to include an interaction between the variation in EPS with each industry dummy, to analyze potential differences in the value relevance of IFRS 16 among industries:

$$\ln Price_{it} = \beta_0 + \beta_1 BVS_{it} + \beta_2 EPS_{it} + \beta_3 \Delta EPS_{it} + \sum_{k=1}^{11} \alpha_k \Delta EPS \times Industry_{ik} + \epsilon_{it} \quad (7)$$

4 Results

4.1 Topic 842 versus Topic 840

Table 1 shows the average lease contracts' terms, ranging between five to 17 years, and discount rates by industry, ranging between 5.1 and 7.6 percent.

Table 1 – Average term and annual discount rates of operating leases

	Term	Discount Rate
Aviation		
Healthcare	9.7	5.7%
Wholesale	9.8	7.6%
Retail	6.7	5.9%
Construction	9.4	7.0%
Electrical	5.7	5.2%
Finance & Insurance	12.4	5.3%
Hotels & Restaurants	12.0	5.3%
Manufacturing	16.4	7.0%
Mining & Extraction	7.3	5.1%
Services	6.2	6.9%
Transportation	7.6	5.3%
Total	8.9	6.1%
Total Geral	8.8	5.7%

Table 2 shows the effects of capitalizing operating leases on firms' total assets (Panel A) and liabilities (Panel B), grouped by industry. We winsorized data at 95% and also excluded 34 observations with negative equity, which is especially important in the value relevance analysis (Jan & Ou, 2012). Panel A of Table 2 shows that, on average, total assets increase by 8.9 percent with the inclusion of the RoU, while for some industries such as Retail and Hotels & Restaurants, this value is over 30 percent. Panel B shows that the increase in total liabilities was much more expressive, with an average of 19.7 percent, driven by the Retail and Hotels & Restaurants industries, for which the increase was higher than 80 percent. According to Deloitte (2020), the recognized values of the lease liabilities can be higher than the capitalized values of the RoU assets because both are initially measured by the present value of the future payments, but the RoU asset is adjusted for incentives provided by the lessor and any initial direct costs. As these incentives or initial costs are amortized over the life of the contracts, this difference tends to disappear.

Table 2 – The effects of Topic 842 on total assets and liabilities

Panel A: Variation in total assets (RoU/TA)						
Industry	No.	Mean	Stand. Dev.	Median	Min.	Max.
Aviation	9	10.9%	6.1%	9.6%	4.8%	21.7%
Healthcare	9	13.5%	17.1%	4.8%	2.9%	55.6%
Wholesale	26	7.5%	4.1%	7.2%	1.8%	14.5%
Retail	58	32.5%	25.3%	24.4%	3.1%	77.9%
Construction	12	3.8%	2.3%	3.5%	1.1%	9.8%
Electrical	18	0.7%	0.5%	0.6%	0.1%	1.8%
Finance & Insurance	60	2.0%	2.5%	0.8%	0.1%	9.2%
Hotels & Restaurants	12	36.6%	29.2%	35.5%	3.0%	86.0%
Manufacturing	150	3.8%	3.9%	2.4%	0.5%	15.2%
Mining & Extraction	15	4.0%	6.5%	1.1%	0.1%	19.9%
Services	82	6.0%	4.7%	4.9%	0.8%	18.7%
Transportation	15	6.7%	6.8%	3.0%	1.6%	21.8%
Total	466	8.9%	15.1%	3.4%	0.1%	86.0%
Panel B: Variation in total liabilities (OL/TL)						
Industry	No.	Mean	Stand. Dev.	Median	Min.	Max.
Aviation	9	17.8%	8.0%	15.9%	8.8%	33.1%
Healthcare	9	22.8%	30.4%	8.4%	5.9%	100.5%
Wholesale	26	12.9%	7.3%	10.8%	2.8%	24.6%
Retail	58	80.9%	89.8%	46.7%	4.9%	299.7%
Construction	12	7.9%	5.4%	6.8%	1.7%	20.3%
Electrical	18	1.0%	0.7%	0.7%	0.2%	2.6%
Finance & Insurance	60	3.6%	4.7%	1.5%	0.1%	15.7%
Hotels & Restaurants	12	83.2%	87.1%	60.1%	5.1%	301.9%
Manufacturing	150	8.2%	10.6%	4.3%	1.1%	43.4%
Mining & Extraction	15	7.2%	10.2%	2.5%	0.2%	34.3%
Services	82	11.1%	9.1%	7.8%	1.2%	30.9%
Transportation	15	12.5%	10.8%	8.6%	2.4%	34.7%
Total	466	19.7%	44.0%	6.2%	0.1%	301.9%

Table 3 shows the effect on the D/A, D/E, and ROA ratios. We have the values of the ratios for the year 2019 under Topic 842 and how they would be if the current standard was still Topic 840 (excluding the RoU asset and the OL liability). On average, Topic 842 led to an increase in leverage ratios and a reduction in ROA, all highly statistically significant, in line with previous studies

(Chartered Financial Analysts Institute [CFA], 2019; Deloitte, 2020).

Therefore, our results are consistent with Hypothesis A1, that is, the adoption of Topic 842 in the United States significantly increased firms' levels of debt while significantly reducing the return on assets for lessee firms.

Table 3 – Variations in the ratios under Topic 842 and Topic 840

Ratio	Topic 840			Topic 842			T Student		
	Mean	Stand. Dev.	Median	Mean	Stand. Dev.	Median	diff.	t	P-value
D/A	0.622	0.173	0.625	0.660	0.159	0.680	-0.038	-12.530	0.000
D/E	2.734	2.860	1.672	3.100	3.198	2.124	-0.366	-10.093	0.000
ROA	0.050	0.058	0.048	0.046	0.052	0.045	0.004	7.443	0.000

Table 4 presents the estimation results for analyzing the differences among industries. The variations in the three ratios were significant for most industries, but the largest increases in leverage and the largest decreases in profitability are in the Retail and Hotels & Restaurants, followed by the Aviation and Healthcare industries. These results are consistent with Hypothesis A2, that

is, the variation in debt and profitability varies significantly across different industries. These results are consistent with the previous literature (Goodacre, 2003; Imhoff et al., 1997; Tai, 2013), which estimated a significant increase in debt and profitability ratios for firms, especially in the retail and restaurant industries.

Table 4 – Variations in the ratios by industry for Topic 842 vs. Topic 840

	Dependent variable		
	D/A	D/E	ROA
const	0.008*** (0.001)	0.083*** (0.016)	-0.001*** (0.000)
Aviation	0.033*** (0.006)	0.271*** (0.056)	-0.005*** (0.001)
Healthcare	0.034** (0.014)	0.541** (0.014)	-0.004 (0.003)
Wholesale	0.020*** (0.003)	0.168*** (0.041)	-0.002** (0.001)
Retail	0.114*** (0.015)	1.144*** (0.162)	-0.013*** (0.003)
Construction	0.013*** (0.005)	0.023 (0.026)	-0.001* (0.001)
Electricals	-0.006*** (0.001)	-0.047*** (0.017)	0.001*** (0.000)
Hotels & Restaurants	0.113*** (0.001)	-1.321*** (0.017)	-0.015*** (0.000)
Manufacturing	0.011*** (0.002)	0.061*** (0.022)	-0.001*** (0.000)
Mining & Extraction	0.008 (0.005)	0.015 (0.041)	0.001** (0.001)
Services	0.016*** (0.002)	0.202*** (0.042)	-0.002*** (0.000)
Transportation	0.017*** (0.002)	0.264* (0.140)	0.000 (0.002)
Observations	466	466	466
Adjusted R ²	0.368	0.341	0.169
F statistic	34.305***	17.807***	18.328***

Note: * p-value < 0.1; **p-value < 0.05; ***p-value < 0.01. Robust standard errors are presented between parentheses

Finally, we analyzed the value relevance of the operating lease information disclosed in the Notes under Topic 840 and in the financial statements under Topic 842 to test Hypothesis A3 that both types of information are equally relevant to the stock market, regardless of the industry. Table 5 shows the estimation results of the value relevance

models. We first estimated models 1 (Equation (2)) and 2 (Equation (3)) considering the full observations for both the pre (2018) and post-adoption (2019) periods. Model 1 shows the result of the basic value relevance model: both EPS and BVS are statistically significant with the expected signals, with an adjusted

BVS are statistically significant with the expected signals, with an adjusted R² of 40.5. In model 2, we decompose the BVS into total assets per share (TAS) and total liabilities per share (TLS), which appear statistically significant and with the expected signs, and added their interactions with the Post dummy. The interactions of TAS and TLS with Post are not statistically significant, indicating that TAS and TLS are not more relevant under Topic 842 than they were under Topic 840. Therefore, based on model 2, the market did not react to the recognition of lease assets and liabilities in the balance sheet.

Next, we estimate models 3 (Equation (4)) and 4 (Equation (5)) using the 447 observations from 2019 (post-adoption period). In model 3, we disaggregate the RoU and OL values from firms' total assets and liabilities to form the total assets per share without the RoU (TASnoRoU), and the total liabilities per share without the operating lease (TLSnoOL) variables. The coefficients of the RoUS (-0.006) and OLS (-0.002) variables are not statistically significant, thus reinforcing the result in model 2.

Finally, model 4 uses industry dummies to estimate RoU and OL value relevance by industry. In this model, the RoUS and OLS coefficients are statistically significant at the 5% level with the expected signs. When we analyze the variables by industry, however, different results appear. For the Aviation industry, for example, RoUS and OLS are statistically significant at 1%, but the partial effect of RoUS on price is negative, (-0.170 = 0.524 - 0.694). The same happens with the Construction industry, with a partial effect of -0.158 (0.524 - 0.682), Hotels and Restaurants, (0.524 - 0.981 = -0.457), Manufacturing (0.524 - 0.739 = -0.215), and Services (0.524 - 0.559 = -0.035).

The most likely reason for these results is the fact that operating leases recognized in the balance sheet under Topic 842 have higher values for liabilities than for assets, that is, they have negative equity (see Panel B of Table 2). Jan and Ou (2012) explain that if equity is negative, the valuation models derived from Ohlson (1995) no longer work. Only 15% of the firms in the sample have RoU assets larger than the OL, and all industries have an average RoU lower than the OL, except for the Electrical industry. The fact that the OL is normally larger than the RoU invalidates the analysis of the value relevance of these specific items, either because of bias or because the market focuses on other variables (Jan & Ou, 2012). Therefore, it is not possible to make any inferences about Hypothesis A3, because of the limitations of the value relevance model and the sample.

Table 5 - Value Relevance of Topic 842

	Dependent variable: ln(Price)			
	Model 1	Model 2	Model 3	Model 4
const	3.146*** (0.043)	3.316*** (0.050)	3.079*** (0.627)	2.839*** (0.148)
EPS	0.147*** (0.009)	0.158*** (0.009)	0.170*** (0.014)	0.172*** (0.143)
BVS	0.006*** (0.002)			
TAS		0.006*** (0.002)		
TLS		-0.007*** (0.002)		
Post		-0.266*** (0.080)		
BVS x Post		0.002 (0.003)		
TLS x Post		-0.003 (0.003)		
TASnoRoU			0.007*** (0,002)	0.007*** (0,002)
RoUS			-0.006 (0.054)	0.524** (0.206)
RoUS x Aviation				-0.694*** (-0.207)
Ro x HealthPlans				-0.256 (0.310)
RoU x Wholesale				0,120 (0.430)
RoUS x Retail				-0.207 (0.237)
RoUS x Constr				-0.682* (0.380)
RoUS x Electric				-0.195 (0.371)
RoUS x HotRest				-0.981*** (0.364)
RoUSx Manufact.				-0.739** (0.294)
RoUS x Mining				-0.686 (0.620)
RoUS x Serv				-0.559* (0.287)
RoUS x Transp				0.438 (0.368)
TLSnoOL			-0.009*** (0.002)	-0.011*** (0.002)
OLS			-0.002 (0.049)	-0.432** (0.209)
OLS x Aviation				0.552*** (0.208)
OLS x HealthPlan				0,193 (0.307)
OLS x Wholesale				-0.158 (0.408)
OLS x Retail				0.139 (0.235)

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OLS x Constr	0.591 **
	(0.298)
OLS x Electric	0.153
	(0.355)
OLS x HotRest	0.892***
	(0.345)
OLS x Manufact.	0.598**
	(0.283)
OLS x Mining	0.577
	(0.642)
OLS x Serv	0.439
	(0.279)
OLS x Transp	0.350
	0.577
LOATransp	-0.408
	(0.350)
Industry fixed effects	No No No Yes
Observations	894 894 447 447
Adjusted R ²	0,405 0,438 0,405 0,481
F statistic	296.448*** 112.081*** 58.485*** 28.586***

Note: * p-value < 0.1; **p-value < 0.05; ***p-value < 0.01. Robust standard errors are presented between parentheses.

It is interesting to note that the effect of capitalizing operating leases was not significant for industries such as Healthcare and Retail, despite their significant variations in the RoU/TA and OL/TL ratios, as can be seen in Table 2. Some argue that investors in had already taken into account the operating lease information disclosed in the Notes under Topic 840, so simply moving this information to the financial statements would not necessarily change stock valuations (Altamuro et al., 2014). Notwithstanding, considering the inconclusive results of model 4, we are not able to infer RoU and OL value relevance (Hypothesis A3).

4.2 IFRS 16 versus Topic 842

To investigate the impacts of adopting IFRS 16 on the income statement of US firms, we simulate the amortization and interest expenses according to the requirements of IFRS 16, based on information from the Notes of the first fiscal year after Topic 842 (2019). Table 6 compares the OL expenses under Topic 842 with the estimated OL expenses under IFRS 16 (as a ratio of net revenues) averaged by industry, showing OL expenses under IFRS 16 are higher than under Topic 842 for all industries, but especially for the Hotels & Restaurants, Healthcare,

Retail, and Aviation industries. with an increase of 0.94, 0.83, 0.53, and 0.43 percentage points, respectively.

Tabela 6 - Operating lease expenses - Topic 842 vs. IFRS 16

Industry	Receita Líquida	Topic 842		IFRS 16	
		Total OL expenses	Amortization expenses RoU	Interest expenses	Total OL expenses
Aviation	18.771.092	2.42%	1.94%	0.91%	2.85%
Healthcare	6.860.929	2.86%	1.94%	1.74%	3.69%
Wholesale	10.094.252	0.79%	0.67%	0.22%	0.90%
Retail	35.785.144	3.10%	2.49%	1.13%	3.63%
Construction	7.381.743	0.72%	0.64%	0.14%	0.78%
Electrical	12.024.157	0.46%	0.37%	0.18%	0.55%
Finance & Insurance	12.930.202	1.07%	0.80%	0.52%	1.32%
Hotels & Restaurants	8.344.359	3.11%	2.09%	1.97%	4.05%
Manufacturing	16.565.560	0.86%	0.73%	0.24%	0.97%
Mining & Extraction	6.374.050	1.58%	1.19%	0.73%	1.92%
Services	15.064.953	1.54%	1.28%	0.48%	1.76%
Transportation	10.220.628	1.03%	0.85%	0.33%	1.18%
Total	16.729.124	1.46%	1.16%	0.55%	1.72%

Table 7 shows the variations in the operating income (EBIT), net income, and cash flow from operations under IFRS 16, compared to the numbers disclosed under Topic 842. The data is winsorized at 5%.

According to Table 7, if US firms were to adopt IFRS 16 there would be an average increase of 5.5% in EBIT, a decrease of 6% in NI, and a 16.6% increase in CFO. On the other hand, individual analysis by industry suggests that the variations in EBIT and NI are more pronounced in the Healthcare, Retail, and Hotels & Restaurants industries. For the CFO, the Aviation, Healthcare, Wholesale, Retail, Construction, Hotels & Restaurants, and Services industries stand out, because they all have positive variations in the CFO of over 10%. In general, negative variations in NI and positive variations in EBIT and CFO are expected and are in line with the previous literature (CFA, 2019; Deloitte, 2020; KPMG, 2021).

Table 7 – Effects of IFRS 16 on EBIT, NI, and CFO

Panel A: Variation in EBIT						
Industry	Nobs.	Average	Stand. Dev.	Median	Min.	Max.
Aviation	9	3.6%	2.0%	3.3%	1.4%	8.0%
Healthcare	9	18.9%	38.9%	1.6%	0.6%	117.6%
Wholesale	26	9.0%	10.4%	3.9%	0.7%	35.3%
Retail	58	18.3%	30.5%	7.5%	0.7%	120.5%
Construction	12	1.3%	1.0%	1.1%	0.3%	3.1%
Electrical	18	0.9%	1.8%	0.4%	0.0%	8.1%
Finance & Insurance	60	1.2%	2.5%	0.1%	0.0%	9.6%
Hotels & Restaurants	12	25.3%	37.2%	11.6%	1.9%	135.4%
Manufacturing	150	1.8%	2.3%	0.9%	0.1%	8.4%
Mining & Extraction	15	2.5%	4.2%	0.5%	0.1%	13.6%
Services	82	3.9%	5.1%	1.4%	0.3%	17.0%
Transportation	15	2.3%	2.5%	1.4%	0.2%	7.7%
Total	466	5.5%	15.2%	1.3%	0.0%	135.4%
Panel B: Variation in NI						
Industry	Nobs.	Average	Stand. Dev.	Median	Min.	Max.
Aviation	9	-4.7%	2.8%	-4.1%	-10.9%	-1.7%
Healthcare	9	-10.2%	12.4%	-2.7%	-34.3%	-0.7%
Wholesale	26	-8.3%	9.1%	-5.1%	-31.0%	-0.6%
Retail	58	-17.9%	25.8%	-8.8%	-103.6%	-1.0%
Construction	12	-1.5%	1.4%	-1.1%	-4.3%	-0.2%
Electrical	18	-0.9%	0.8%	-0.7%	-2.8%	-0.1%
Finance & Insurance	60	-2.1%	4.1%	-0.6%	-15.6%	-0.1%
Hotels & Restaurants	12	-30.6%	36.1%	-18.2%	-127.4%	-1.6%
Manufacturing	150	-2.0%	2.7%	-0.9%	-10.2%	-0.1%
Mining & Extraction	15	-5.8%	13.0%	-0.4%	-40.0%	-0.1%
Services	82	-5.3%	8.6%	-1.5%	-33.0%	-0.2%
Transportation	15	-4.8%	7.4%	-1.2%	-25.7%	-0.3%
Total	466	-6.0%	13.7%	-1.5%	-127.4%	-0.1%
Panel C: Variation in CFO						
Industry	Nobs.	Average	Stand. Dev.	Median	Min.	Max.
Aviation	9	14.7%	11.7%	10.2%	5.6%	40.3%
Healthcare	9	26.9%	36.4%	10.0%	3.1%	107.0%
Wholesale	26	16.9%	10.6%	15.2%	4.1%	39.0%
Retail	58	59.5%	81.4%	33.6%	4.2%	317.4%
Construction	12	12.7%	9.9%	12.2%	2.0%	36.6%
Electrical	18	3.4%	5.7%	1.1%	0.3%	20.9%
Finance & Insurance	60	5.9%	6.2%	3.3%	0.6%	19.7%
Hotels & Restaurants	12	28.9%	19.0%	26.7%	5.6%	55.0%
Manufacturing	150	7.9%	9.1%	4.3%	1.1%	35.4%
Mining & Extraction	15	9.3%	16.2%	3.4%	0.2%	49.3%
Services	82	13.4%	13.5%	7.6%	1.7%	45.9%
Transportation	15	9.9%	10.9%	5.5%	0.9%	34.7%
Total	466	16.6%	34.9%	6.6%	0.2%	317.4%

The next step is to analyze the variations in the financial ratios under IFRS 16 relative to Topic 842. The results in Table 8 show that the variations in the ratios under IFRS 16 compared to Topic 842 are all statistically significant. In line with the extant literature (Branswijck et al., 2011; Goodacre, 2003; Imhoff et al., 1997; PricewaterhouseCoopers, 2016; Tai, 2013), the increase in the debt-to-equity (D/E) under IFRS 16 is expected because although total liabilities do not change, equity is reduced as a result of the decrease

in net income under IFRS 16. Similarly, CFO/Rev increases by 0.014 points after reclassifying the principal and interest payments of operating leases from the operating to the financing activities. Profitability ratios also reduce because of the decrease in net income under IFRS 16. These results confirm Hypothesis B1, that adopting IFRS 16 in the United States would lead to a significant increase in the level of debt and operating cash and a significant reduction in profitability.

Table 8 – Variations in the ratios under IFRS 16 and Topic 842

Ratio	Topic 842			IFRS 16			diff.	T Student t	P-value
	Mean	Stand.	Mediana	Mean	Stand.	Mediana			
D/E	3.100	3.198	2.124	3.210	3.699	2.163	-0.111	-2.807	0.005
ROA	0.046	0.052	0.045	0.044	0.052	0.042	0.002	12.989	0.000
ROE	0.148	0.226	0.133	0.139	0.232	0.127	0.009	9.013	0.000
EPS	3.910	6.472	3.264	3.750	6.485	3.088	0.160	6.697	0.000
CFO/Rev	0.152	0.119	0.117	0.166	0.120	0.136	-0.014	-17.938	0.000

Table 9 presents the results by industry. The results show that the estimated change in the ratios under IFRS 16 is significant for most industries, particularly for Aviation, Healthcare, Retail, Electrical, and Services. The results in Table 9, therefore, confirm Hypothesis B2 that the change in firms' ratios

with IFRS 16 varies significantly across different industries. These results corroborate the findings in the literature (CFA, 2019; KPMG, 2021; PricewaterhouseCoopers, 2016) that estimated worse financial ratios under IFRS 16 in the initial years of the lease contracts.

Table 9- Variations in the ratios under IFRS 16 by industry

	Dependent variables				
	D/E	RoA	RoE	EPS	CFO/Rev
const	0.009*** (0.002)	0.000 *** (0.000)	-0.002 *** (0,000)	-0.021 *** (0,005)	0.008 *** (0.001)
Aviation	0.014 ** (0.006)	-0.002 *** (0.000)	-0.006 *** (0.001)	-0.025 ** (0,010)	0.015 *** (0.004)
Healthcare	0.114 (0.069 *)	-0.003 ** (0.002)	-0.021 * (0.012)	-0.081 ** (0.040)	0.016 ** (0.008)
Wholesale	0.011 * (0.006)	-0.001 *** (0,000)	-0.004 *** (0.001)	-0.062 *** (0.018)	0.000 (0.002)
Retail	0.223 *** (0.057)	-0.006 *** (0.001)	-0.024 (0.004)	-0.158 *** (0.034)	0.020 *** (0.003)
Construction	-0.005 * (0.002)	0.000 * (0,000)	0.000 (0.001)	0.006 (0.007)	-0.001 (0.002)
Electricals	-0.005 ** (0.002)	0,000 *** (0,000)	0.001 ** (0.000)	0.012 ** (0.006)	-0.004 ** (0.002)
HotRest.	0.824 (0.604)	-0.008 *** (0.002)	-0.031 *** (0.009)	-0.285 *** (0.101)	0.021 *** (0.005)
Manufacturing	0.004 (0.003)	0.000 *** (0.000)	-0.001 * (0.000)	0.001 (0.006)	-0,001 (0.001)
Mining	-0.002 (0.004)	-0.001 (0.001)	-0.002 (0.002)	-0.037 (0.033)	0.004 (0.004)
Services	0.049 *** (0.016)	-0.001 *** (0.000)	-0.003 *** (0.001)	-0.032 *** (0.011)	0.006 *** (0.002)
Transport.	0.125 (0.085)	-0.001 *** (0.000)	-0.019 (0.014)	-0.027 (0.019)	0.001 (0.002)
Observations	466	466	466	466	466
R ² Adjusted	0.106	0,502	0,200	0,211	0.288
F statistic	6.147 ***	31.422 ***	11.650 ***	9.136 ***	12.655 ***

Note: * p-value < 0.1; **p-value < 0.05; ***p-value < 0.01. Robust standard errors are presented between parentheses

We next analyzed the value relevance of the estimated accounting effects under IFRS 16, to test Hypothesis B3. We estimate three cross-section models and the results are in Table 10. The models consider the 447 observations from the first fiscal year after Topic 842. We first present the results of the basic value relevance model, in model 1 (Equation (2)), validating it to our sample.

In model 2 (Equation (6)), EPS is the earnings per share under Topic 842, while varEPS is the variation between the simulated EPS under IFRS 16 and the actual EPS under Topic 842. Both variables have positive and

statistically significant coefficients, which indicate that variations in the EPS under IFRS 16 would be value-relevant for the market. Therefore, the market seems to have incorporated the expectation of reduced earnings brought about by the IASB single earnings recognition approach, even though the FASB followed a different approach. A possible explanation for this result is that rating agencies (and possibly other sophisticated users) have incorporated changes in the US lessees' income statements to consider a single model of lease expenses as in IFRS 16, allowing market prices to incorporate this information.

Table 10 - Value Relevance of IFRS 16

	Dependant variable: ln(Price)		
	Model 1	Model 2	Model 3
Const	2.979 *** (0.065)	3.042 *** (0.667)	2.514 (0.139)
BVS	0,006 *** (0.002)	0.006 *** (0.002)	0.007 *** (0.002)
EPS	0,150 *** (0.134)	0.152 *** (0.014)	0.150 *** (0.136)
VarEPS		0.612 *** (0.232)	-3.238 *** (0.636)
varEPS x Aviat.			4.489 *** (0.801)
VarEPS x Healthcare			3.184 *** (0.879)
VarEPS x Wholesale			3.745 *** (0.805)
VarEPS x Retail			3.658 *** (0.787)
varEPS x Constru.			0.884 (1.673)
varEPS x Eletric.			2.112 (3,804)
varEPS x HotRest.			2.129 (1.494)
varEPS x Manufact.			5.372 *** (0.823)
VarEPS x Mining			4.272 *** (0.910)
varEPS x Serv.			5.156 *** (0.902)
varEPS x Transp.			1.722 ** (0.695)
Industry fixed effects	No	No	Yes
Observations	447	447	447
R ² Adjusted	0.394	0.404	0.469
F statistic	156.575 ***	101.673 ***	27.791 ***

Note: * p-value < 0.1; **p-value < 0.05; ***p-value < 0.01. Robust standard errors are presented between parentheses.

Finally, in model 3 (Equation (7)) of Table 10, we interact the estimated changes in EPS under IFRS 16 (varEPS) with the industry dummies. As in model 2, model 3 shows that BVS (0.007), EPS (0.150), and varEPS (-3.238) are statistically significant at 1%. Due to the interactions, varEPS must be interpreted by industry (the coefficients of the industry dummies were omitted for the sake of space). The interactions are significant for almost all industries, except for Construction, Electricals, and Hotels & Restaurants. The partial effect of varEPS for the Aviation industry is 1.251, which is higher than the general partial effect of 0.612 in model 2. For the Wholesale and Retail industries, the effect is 0.507 and 0.420, respectively. The partial effect of the Manufacturing industry was also strong, at 2,134, as were those of Mining (1,034) and

Services (1,198). The Healthcare and Transportation industries had a partial negative effect, that is, the signs were contrary to the ones we expected (-0.054 and -1.516).

The results of the variations in EPS by industry, therefore, are mixed. While the partial effect is positive for some industries, it is negative for others, which may be the result of biases in the value relevance model, since the varEPS variable is always negative. However, as the partial effect for several industries is significant (and positive, as we expected from the logic of the model), Hypothesis B3 is not confirmed, since the variation in EPS is, indeed, relevant for several of the industries we studied.

5 Concluding remarks

This research aimed to investigate the economic and financial effects of the new 2019 lease standards for US lessee firms, comparing with the potential effects of IFRS 16 to explore the economic reasons that led the FASB and IASB to diverge concerning the standard. We analyzed the financial statements of 500 US firms for the periods before adopting (2018) and after adopting (2019) the new FASB (Topic 842) and IASB (IFRS 16) lease accounting standards.

First, comparing Topic 840 and Topic 842, we found that the recognition of right-of-use assets and the respective liabilities of operating leases led to increases in firms' assets and liabilities, increasing leverage and decreasing profitability, as expected. Second, comparing Topic 842 and IFRS 16, we found that if the FASB had adopted the same criteria for lease expenses required by the IASB, there would be an average increase in leverage and cash flow from operations and a decrease in profitability. The value relevance analysis indicated that the decrease in earnings is relevant for the stock market, but not for all industries. The market incorporated the expectation of a decrease in earnings had the US adopted IFRS 16, which can be possibly explained by rating agencies and other sophisticated users considering in their analysis the single criterion for recognizing operating and finance leases also for the income statement.

Therefore, the results show that, as predicted by the FASB in BC49, the adoption of IFRS 16 in the United States would imply poorer results for lessee firms in the early years of the operating lease agreements, but better results in subsequent years, when compared to Topic 842. These analyses are consistent with the hypothesis that the FASB not adopting IFRS 16 would be linked to an attempt to avoid poorer results for US firms, which would negatively impact the stock market.

The main contribution of this work is focusing on the US environment for studying the implications of lease regulations, while most of the recent studies have focused on the IFRS world (Quach & Tu, 2020; Spånberger & Rista, 2020; Svensson & Nordenskjöld, 2020). Second, this work contributes to the literature that studies the differences between the FASB and the IASB by exploring economic reasons, complementing the studies that have focused on the hierarchy of power that exists between the bodies (Hail et al., 2009; Ong, 2017) and on lobbying (Cariano et al., 2017; Rey et al., 2020). Finally, it is important to highlight the detailed manual work in analyzing the Notes to the Financial Statements of the firms under the SEC, which allowed us to estimate what would be the effects on the financial statements if these firms had been under IASB jurisdiction.

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