

MINUTES



To: FASB Board Members
From: Leases Team (Paul x263)
Subject: January 6, 2011, Roundtable Minutes: Leases, Norwalk Morning Session
Date: June 28, 2011

Topic: Proposed Accounting Standards Update: *Leases*

Length of Discussion: 9:00 a.m. to 12:00 p.m.

Attendance:

Outside Participants

John Bober	ELFA
Jason Cuomo	Moody's
Aaron Dahlke	Aircastle Limited
Beth Gordon	Diamond Offshore Drilling, Inc.
Mayani Johnson	Verizon
Gary Kabureck	FEI CCR
Jenifer Minke-Girard	SEC
Sandra Ryan-Robinson	TransCanada
Robert Uhl	Deloitte Touche Tohmatsu Limited
Tom Wilkin	PWC
George Yungmann	NAREIT

FASB & IASB Participants

Leslie Seidman	FASB Chairman
Russ Golden	FASB Board Member
Tom Linsmeier	FASB Board Member
Marc Siegel	FASB Board Member
Larry Smith	FASB Board Member
Patrick Finnegan	IASB Board Member
Paul Pacter	IASB Board Member
Kevin Stoklosa	FASB Assistant Director
Danielle Zeyher	FASB Project Manager
Henry Rees	IASB Technical Principal

SCOPE

1. Participants noted that the definition of a lease is a key issue that warrants further thought, especially in differentiating services from leases.
2. Respondents from the auditing and leasing industries stated that, in their view, the underlying asset can be considered a delivery mechanism. For example, in the lease of a copier, the underlying machine is the delivery mechanism for the service of providing copies.
3. A participant from the leasing industry added that perhaps the conceptual focus should be on the underlying asset or whether the contract depends on that asset.
4. A respondent from the leasing industry noted that services, such as maintenance and security, under a lease of commercial real estate may not be viewed as services provided for the tenant. Rather, those may be services that are reimbursed by the tenant to the lessor.
5. A user stated that rarely does one have a right to use without taking physical control of the asset. Therefore, right to use and physical control are inherently linked.
6. Participants expressed concern over addressing the definition and scope of a lease only from the perspective of the lessee. A participant from the leasing industry stated that the definition and scope must work for both the lessee and the lessor sides. A participant from the auditing industry added that lessee and lessor accounting both revolve around the same definition of the asset.

LESSOR MODEL

7. Many participants, including those from the leasing, energy, and airline industries, noted that two models are appropriate to reflect the breadth of transactions entered into by lessors. However, there are remaining challenges related to the proposed guidance, including the interaction with revenue recognition, reducing complexity of and clarifying

the proposed guidance, and demonstrating an improvement over the current guidance for lessor accounting.

8. Respondents from the leasing industry and airline industry suggested that a distinction between the lessor models based on significant risks and benefits may not be appropriate. A distinction based on control was suggested as an improvement to the distinction based on significant risks and benefits.

LEASE TERM

9. A participant from the auditing industry stated that renewal options should be considered a separate unit of account from the lease and recognized separately.
10. Another participant from the auditing industry stated that options to renew the lease term do not meet the definition of a liability under the conceptual framework.
11. A user noted that there is a concern that contracts could be structured with renewal options when the intent is for a lease that lasts beyond the base term.
12. Several respondents discussed the possibility of a different threshold to reconcile with the conceptual framework. Participants from the auditing industry noted that the International Financial Reporting Standards (IFRS) language of *virtually certain* better reconciles with the conceptual framework. A participant from the leasing industry added that the threshold currently used in *FASB Accounting Standards Codification*® Topic 840, Leases, works well in practice.

VARIABLE PAYMENTS

13. Respondents from the energy and real estate industries expressed concerns that contingent rentals would be difficult to assess and the subjectivity involved would introduce undue volatility. A preparer from the airline industry agreed that the complexity of the proposed approach is a key issue.
14. A participant from the leasing industry noted the difficulty in applying the proposed guidance across a large portfolio of leases.

15. A respondent from the auditing industry proposed that the accounting for contingent payments be considered separately on a comprehensive basis and applied to leases.
16. A participant from the auditing industry noted that some measure must be taken to combat potential structuring of leases with zero fixed rentals. A participant from the leasing industry agreed and added that all types of variable payments must be considered and included in the scope or structuring using variable payments will be abused to avoid the scope. Another participant from the leasing industry countered that leases with wholly contingent rentals could be viewed as disguised minimum lease payments.

OTHER ISSUES

Lease Incentives

17. A participant from the auditing industry stated that there are other lease incentive issues that still need to be considered as part of the proposed guidance.

Two Lessee Models

18. Respondents from the energy and telecommunication industries noted that there are reasons other than financing for a lessee to enter into a lease contract, justifying the need for a second lessee model that properly reflects the economics of the transaction.
19. A respondent from the energy industry suggested the linked approach considered in the Discussion Paper, *Leases: Preliminary Views*, as the model that best reflects the economics for other-than-financing leases.