MINUTES

To:	FASB Board Members		
From:	Leases Team (Paul x263)		
Subject:	January 5, 2011, Roundtables Minutes: Leases (Nonpublic Entities), Chicago Afternoon Session	**Date:**	June 28, 2011

<u>Topic</u>: Proposed Accounting Standards Update: *Leases*

<u>Length of Discussion</u>: 1:00 p.m. to 4:00 p.m.

<u>Attendance</u>:

Outside Participants

George Beckwith	National Gypsum and FEI Committee on Private Company Standards
Rachel Cortez	Moody's Investor Services
Marc Delametter	QuikTrip Corporation
Carole Faig	Ernst & Young and Healtchare Financial Management Association
Greg Griffin	CapinCrouse LLP
John Hepp	Grant Thornton, LLP
John Kroll	University of Chicago and National Association of College and University Business Officers
MaryAnn Lawrence	Key Bank and Private Company Financial Reporting Committee
Gary LoMonaco	Forsythe Technology, Inc.
Craig McKnight	Phoenix Children's Hospital
Barbara Potts	Ascension Health
Luke Lukens	Chicago Freight Car Leasing Co.
Jeffery Watson	Blackman Kallick and Illinois CPA Society

FASB & IASB Participants

Russ Golden	FASB Board Member
Tom Linsmeier	FASB Board Member
Patrick Finnegan	IASB Board Member

Paul Pacter	IASB Board Member
Kevin Stoklosa	FASB Assistant Director
Jeff Mechanick	FASB Assistant Director
Ronald Bossio	FASB Senior Project Manager
Danielle Zeyher	FASB Project Manager
Patricia Donoghue	FASB Project Manager
Kristin Bauer	FASB Practice Fellow
Laura Spreitzer	FASB Postgraduate Technical Assistant
David Humphreys	IASB Practice Fellow

SCOPE

1. Participants from the manufacturing, auditing, and leasing industries noted the complexity of separating embedded services from lease contracts. A participant from the leasing industry noted that competitors will separate those services differently.

2. A participant from the manufacturing industry suggested that services may be distinguished from leases because a service requires a performance obligation other than the passage of time.

3. Respondents from the oil and gas and manufacturing industries noted the broadness of the scope of the proposed guidance and were concerned that contracts that are primarily for service will be included as leases.

4. A user noted that operating leases are already incorporated into credit quality analyses, but agreed with proposed guidance that increases transparency.

5. A participant from the auditing industry noted that structuring of contracts as service contracts has already started and expressed concern that another *bright line* will be created between service and lease contracts under the proposed guidance.

6. A participant from academia suggested that real estate held for investment should not be included in the scope of the proposed guidance and should be measured at fair value.

LESSOR MODEL

7. A participant from the manufacturing industry agreed with the proposed guidance that the lessor has both a receivable and an obligation to perform. A participant from the leasing industry countered and noted that the proposed guidance is overinflating the balance sheet for transactions entered into by the lessor.

8. Participants from the auditing and manufacturing industries noted that the proposed lessor accounting model is not consistent with related accounting treatments for revenue recognition and impairment.

9. Respondents from the leasing and information technology industries and a user noted that the accounting for transactions entered into by the lessor is not problematic. However, a user and a respondent from the leasing industry agreed that if the guidance for lessee accounting is changed, then lessor accounting should be considered.

LEASE TERM

10. A participant from the oil and gas industry expressed concern over the clarity of the proposed definition of lease term.

11. A participant from the manufacturing industry supported reassessment under the proposed guidance when there is a significant change to the lease agreement that could lead to a significant change in the asset or liability.

12. A respondent from the manufacturing industry noted the difficulties in applying the threshold of *more likely than not* to related-party lease agreements.

13. A user suggested removing the use of the proposed probability-weighted outcome approach for measuring the lease term.

14. Users noted that the approaches they currently use to estimate rental payments for operating leases, such as the multiplier method, provide much simpler estimates than what the proposed guidance would provide.

15. Respondents from the auditing industry suggested the noncancellable lease term used under current guidance as an alternative treatment and stated that the proposed guidance introduces too much subjectivity.

VARIABLE PAYMENTS

16. A participant from the manufacturing industry noted that bargain purchase options and residual value agreements are very similar, but bargain purchase options are not included in the proposed guidance for lease payments.

17. A respondent from the auditing industry expressed concern over the pattern of expense recognition for variable payments.

18. A user noted that contingent rental payments are ignored in hisanalysis, while another user noted his use of the multiplier method to consider contingent rental payments.

19. Participants from the manufacturing and healthcare industries disagreed with a suggestion of the need for separate accounting treatment for private entities.

OTHER ISSUES

Not-for-Profit Entities

20. A participant from the accounting industry noted that donated space with a fair value of zero would not result in a right-of-use asset on the balance sheet, but would be disclosed in the footnotes. That participant suggested excluding space donated to not-for-profit entities from the proposed guidance.

Impact on Income Statement Metrics

21. Participants from the leasing, auditing, and healthcare industries noted the significant effect of the proposed guidance on earnings before interest, tax, depreciation, and amortization (EBITDA) and a metric used by healthcare not-for-profit entities, earnings before interest, depreciation, and amortization.

22. A respondent from the auditing industry noted that the use of the effective interest method under the proposed guidance would increase the amount of expense recognized at the inception of a lease, causing expense recognition to diverge from the actual cash flows.