MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Leases Team		
Subject:	Minutes of October 19, 2011, Joint Board Meeting	**Date:**	October 26, 2011
cc:	Sutay		

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic:	Leases
Basis for Discussion:	FASB Memo 205—Lessor accounting—variable lease payments and measurement of residual asset
	FASB Memo 206—Fair value requirement for lease receivables and transfers of lease receivables
	FASB Memo 207—Presentation: lessor statement of comprehensive income
	FASB Memo 210—Lessor accounting
	FASB Memo 211—Lessee transition
	FASB Memo 212—Lessor transition
	FASB Memo 213—Transition—reliefs and disclosure
	FASB Memo 214—Transition—other considerations

Length of Discussion:	9:30AM – 12:30PM; 1:30PM – 4:00PM; 5:15PM – 6:15PM EST

Attendance:

Board members present:	FASB: Buck, Golden, Linsmeier, Schroeder, Seidman, Seigel, Smith
	IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Engström, Finnegan, Gomes, Kalavacherla, König, McConnell, Ochi, Pacter, Scott, Smith, Zhang
Board members absent:	None
Staff in charge of topic:	FASB: Zeyher
	IASB: Buchanan
Other staff at Board table:	FASB: Stoklosa, Bauer, Walsh, Helmus, Paul, Kersey
	IASB: Rees, Lion
Staff participating via video:	Lian, Geisman, Vatrenjak
Outside participants:	None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of an Exposure Draft addressing leases.

The Board's technical plan calls for that document to be issued in the first quarter of 2012.

Summary of Decisions Reached:

Leases

Lessor Accounting

The FASB and the IASB tentatively decided that a lessor's lease of investment property would not be within the scope of the receivable and residual approach. Instead, for such leases the lessor should continue to recognize the underlying asset and recognize lease income over the lease term.

The Boards discussed the receivable and residual approach and tentatively decided that for all lease contracts within the scope of that approach, a lessor should:

1. Initially measure the right to receive lease payments at the present value of the lease payments, discounted using the rate the lessor charges the lessee, and subsequently measure at amortized cost applying an effective interest method.
2. Initially measure the residual asset as an allocation of the carrying amount of the underlying asset. The initial measurement of the residual asset comprises two amounts: (a) the gross residual asset, measured at the present value of the estimated residual value at the end of the lease term discounted using the rate the lessor charges the lessee and (b) the deferred profit, measured as the difference between the gross residual asset and the allocation of the carrying amount of the underlying asset.
3. Subsequently measure the gross residual asset by accreting to the estimated residual value at the end of the lease term using the rate the lessor charges the lessee. The lessor would not recognize any of the deferred profit in profit or loss until the residual asset is sold or re-leased.
4. Present the gross residual asset and the deferred profit together as a net residual asset.

The Boards also tentatively decided that there should be no distinction between when profit is or is not reasonably assured in accounting for a lease contract by a lessor.

(FASB: 6 to 1; IASB: 8 to 7)

Variable Lease Payments

The Boards discussed the subsequent measurement of a lessor's residual asset when the lease contract includes variable lease payments that are not recognized as a part of the lease receivable at lease commencement.

The Boards tentatively decided that:

1. If the rate the lessor charges the lessee does not reflect an expectation of variable lease payments, the lessor would not make any adjustments to the residual asset with respect to variable lease payments.
2. If the rate the lessor charges the lessee reflects an expectation of variable lease payments, the lessor would adjust the residual asset on the basis of its expectation of variable lease payments by recognizing a portion of the cost of the residual asset as an expense when variable lease payments are recognized in profit or loss. Any difference between actual and expected variable lease payments would not result in any further adjustment to the residual asset with respect to variable lease payments.

(FASB: unanimous; IASB: 11 to 4)

Transfer/Securitization of Lease Receivables

The Boards discussed the measurement of lease receivables held for the purpose of sale and the derecognition guidance to be applied when lease receivables are transferred or sold.

The Boards tentatively decided that a lessor:

1. Should not measure a lease receivable at fair value, even if part or all of that receivable is held for the purpose of sale. (FASB: 5 to 2; IASB: 14 to 1)
2. Should apply existing derecognition requirements (in IFRS 9, *Financial Instruments,* or *FASB Accounting Standards Codification*® Topic 860, Transfers and Servicing) to lease receivables, but allocate the carrying amount of a lease receivable on the basis of its fair value excluding any option elements and variable lease payments that are not transferred. (FASB: unanimous; IASB: unanimous)
3. Should apply the disclosure requirements in IFRS 7, *Financial Instruments: Disclosures,* and Topic 860 for transferred lease receivables. (FASB: unanimous; IASB: unanimous)

Lessor Presentation

The Boards discussed presentation requirements for lessors in the statement of comprehensive income. The Boards tentatively decided that a lessor should present:

1. The accretion of the residual asset as interest income. (FASB: unanimous; IASB: unanimous)
2. The amortization of initial direct costs as an offset to interest income. (FASB: unanimous; IASB: unanimous)
3. Lease income and lease expense (for example, revenue and cost of sales) in the statement of comprehensive income either in separate line items (gross) or in a single line item (net), on the basis of which presentation best reflects the lessor's business model. (FASB: unanimous; IASB: 13 to 2)

The Boards also tentatively decided that a lessor should separately identify income and expenses arising from leases by either separate presentation in the statement of comprehensive income or disclosure in the notes to the financial statements. If disclosed, the notes should reference the line item in which the income is presented. (FASB: unanimous; IASB: unanimous)

Transition

The Boards discussed transition requirements and transition disclosures for lessees and lessors.

Lessees

The Boards tentatively decided that for capital/finance leases existing at the beginning of the earliest comparative period presented, a lessee would not be required to make any adjustments to the carrying amount of lease assets and lease liabilities and should reclassify those lease assets and lease liabilities as right-of-use assets and liabilities to make lease payments.

(FASB: 4 to 3; IASB: 13 to 2)

The Boards tentatively decided that for operating leases existing at the beginning of the earliest comparative period presented, a lessee should:

1. Recognize liabilities to make lease payments at transition measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of the effective date for each portfolio of leases with reasonably similar characteristics. The incremental borrowing rate for each portfolio of leases should consider the lessee's total leverage, including leases in other portfolios. (FASB: unanimous; IASB: unanimous)
2. Recognize right-of-use assets equal to the proportion of the liability to make lease payments at lease commencement calculated on the basis of the remaining lease payments.
3. Record to retained earnings any difference between the liabilities to make lease payments and the right-of-use assets at transition.

(FASB: 6 to 1; IASB: 13 to 2)

The Boards also tentatively decided that when lease payments are uneven over the lease term, a lessee should adjust the right-of-use asset recognized at the beginning of the earliest comparative period presented by the amount of any recognized prepaid or accrued lease payments.

(FASB: unanimous; IASB: unanimous)

Lessors

The Boards tentatively decided that for finance/sales-type and direct finance leases existing at the beginning of the earliest comparative period presented, a lessor would not be required to make adjustments to the carrying amount of the assets associated with those leases.

(FASB: unanimous; IASB: unanimous)

For operating leases existing at the beginning of the earliest comparative period presented, the Boards tentatively decided that a lessor should:

1. Recognize a right to receive lease payments, measured at the present value of the remaining lease payments, discounted using the rate charged in the lease determined at the date of commencement of the lease, subject to any adjustments required to reflect impairment.
2. Recognize a residual asset consistent with the initial measurement of the residual asset under the receivable and residual approach, using information available at the beginning of the earliest comparative period presented.
3. Derecognize the underlying asset.

(FASB: 6 to 1; IASB: 13 to 2)

The Boards also tentatively decided that when lease payments are uneven over the lease term, a lessor should adjust the cost basis in the underlying asset that is derecognized at the date of the earliest comparative period presented by the amount of any recognized prepaid or accrued lease payments.

(FASB: unanimous; IASB: unanimous)

Lessees and Lessors

To ease the potential burden of applying the final standard in the first year of application, the Boards tentatively decided that lessees and lessors may elect the following reliefs:

1. An entity is not required to evaluate initial direct costs for contracts that began before the effective date.
2. An entity may use hindsight in comparative reporting periods including the determination of whether or not a contract is or contains a lease.

(FASB: 5 to 2; IASB: 13 to 2)

The Boards also tentatively decided that lessees and lessors should provide transition disclosures consistent with Topic 250, Accounting Changes and Error Corrections, and IAS 8, *Accounting Policies, Changes in Estimates and Errors,* without the disclosure of the effect of the change on income from continuing operations, net income, any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted. Additionally, if an entity elects any of the available reliefs, the entity should disclose which reliefs it elected.

(FASB: unanimous; IASB: unanimous)

Notwithstanding all of the above tentative decisions on transition, the Boards tentatively decided that a lessee or lessor could choose to apply the requirements in the new leases standard retrospectively in accordance with Topic 250 or IAS 8.

(FASB: unanimous; IASB: unanimous)

General Announcements: None.