

MINUTES



**To:** Board Members  
**From:** Leases Team (Gillard x 273)  
**Subject:** Minutes of September 20, 2012,  
Joint Board Meeting (via videoconference) **Date:** September 24, 2012  
**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 246—Cover Memo  
FASB Memo 247—Sweep issue—sale and leaseback transactions  
FASB Memo 248—Sweep issues: SLE Approach and Lease Classification

Length of Discussion: September 20, 2012 9:15AM—10:45AM EDT

Attendance:

Board members present: FASB: Seidman, Buck, Golden, Linsmeier, Schroeder, Siegel, Smith  
IASB: Hoogervorst, Mackintosh (in Norwalk), Cooper, Danjou, Edelmann, Engstrom, Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Suh, Zhang

Board members absent:	FASB: None IASB: Finnegan
Staff in charge of topic:	FASB: Zeyher  IASB: Buchanan
Other staff at Board table:	FASB: Stoklosa, Walsh, Bauer, Muehlbauer, Cranmer, Gillard  IASB: Rees, Berchowicz, Vatrenejak, Heining
Staff participating via video:	N/A
Outside participants:	None

### **Type of Document and Timing Based on the Technical Plan:**

The Boards met to discuss questions about their tentative decisions on sale and leaseback transitions, the single lease expense approach, and deciding which lease approach should be applied.

The Board's technical plan calls for a revised Leases Exposure Draft to be issued in the first quarter of 2013.

### **Summary of Decisions Reached:**

The FASB and the IASB discussed questions that have been raised about the Boards' tentative decisions regarding sale and leaseback transactions; issues on how a lessee would account for leases under the single lease expense (SLE) approach; and issues on determining which lease approach should be applied.

#### *Sale and Leaseback Transactions*

The Boards discussed how the revenue recognition guidance being developed by the Boards should be applied in the context of sale and leaseback transactions. The Boards tentatively decided to clarify the following:

1. When determining whether a sale has occurred in a sale and leaseback transaction, an entity should apply the guidance developed in the revenue recognition project to the entire transaction.
2. The existence of the leaseback does not, in isolation, prevent the transaction from being accounted for as a sale and a leaseback.
3. However, if the leaseback is such that the seller/lessee has the ability to direct the use of, and obtain substantially all of the remaining benefits

from, the asset, a sale has not occurred. For the purposes of a sale and leaseback transaction, the seller/lessee is assumed to have the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset if:

- a. The lease term is for the major part of the economic life of the underlying asset; or
  - b. The present value of the minimum lease payments accounts for substantially all of the fair value of the underlying asset.
4. If there are multiple lease components in the transaction, the assessment should be performed for each lease component separately.
  5. If an entity concludes that a sale has not occurred in accordance with the revenue recognition guidance, the entire transaction should be accounted for as a financing arrangement. The wording in the revised Leases Exposure Draft will be aligned with the wording in the revenue recognition guidance in this respect.

(FASB *Unanimous*; IASB: *Unanimous*)

*SLE Approach—Accounting after Impairment of the ROU Asset*

The Boards discussed the accounting after an impairment of the right-of-use (ROU) asset under the SLE approach, noting that the current tentative decision is to refer to existing impairment guidance in IFRSs and U.S. GAAP when assessing the ROU asset for impairment.

The Boards tentatively decided that when the ROU asset is impaired, the lessee should continue to recognize the remaining lease expense in each period on a straight-line basis. However, the total lease expense recognized in any period should not be lower than the amount of the periodic unwinding of the discount on the lease liability. When the ROU is fully impaired, this would result in the lessee recognizing the remaining lease expense in an amount equal to the periodic unwinding of the discount on the lease liability (ie, the remaining lease expense would no longer be recognized on a straight-line basis). The lessee should present lease expense recognized in the remaining periods in accordance with the decisions reached under the SLE approach.

(When ROU Asset Fully Impaired: FASB: *Unanimous*; IASB: *Unanimous*)

(When ROU Asset Partially Impaired: FASB: *4 to 3*; IASB: *9 to 5*)

*SLE Approach—Lease Expense Recognition Pattern*

The Boards tentatively decided that, under the SLE approach, a lessee should be required to recognize total lease expense on a straight-line basis.

(FASB: *4 to 3*; IASB: *11 to 3*)

*Lease Approach—Date of Assessment*

The Boards discussed the timing of assessing which lease approach to apply and tentatively decided that an entity should determine the lease approach at lease commencement only.

(FASB: 5 to 2; IASB: *Unanimous*)

*Lease Approach—Which Asset to Evaluate in a Sublease*

The Boards tentatively decided that, for the purpose of assessing which lease approach to apply, a lessor and a lessee should evaluate the lease with reference to the underlying asset (not the ROU asset) to determine the appropriate accounting approach to apply to the sublease.

(FASB: 6 to 1; IASB: 9 to 5)

*Next Steps*

There are a few remaining FASB-only issues to be addressed, and then the staff will draft the revised Leases Exposure Draft. The plan is to publish the Exposure Draft in the first quarter of 2013.

**General Announcements:** None.