MINUTES

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members		
From:	Leases Team (Alqamoussi x263)		
Subject:	Minutes of May 22, 2014, Joint Board Meeting	**Date:**	May 27, 2014
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.

<u>Topic</u>:	Leases
<u>Basis for Discussion</u>:	FASB Memos 281–284: Cover Memo, Definition of a Lease, Seperating Lease and Nonlease Components, Initial Direct Costs
<u>Length of Discussion</u>:	May 22, 2014—8:00AM to 11:00AM EDT

<u>Attendance</u>:

Board members present:	FASB: Golden, Kroeker, Buck, Linsmeier, Schroeder, Siegel, Smith IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Engström, Finnegan, Gomes, Kabureck, Lloyd, McConnell, Ochi, Scott, Suh, Tokar, Zhang
Board members absent:	None
Staff in charge of topic:	FASB: Zeyher IASB: Buchanan
Other staff at Board table:	FASB: Cosper, Esposito, Muir, Muehlbauer, Winick, Alqamoussi IASB: Shields, Rees, Heining, Ravelli, Donkersley

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The FASB and the IASB (the Boards) continued redeliberating the proposals in the May 2013 Exposure Draft, *Leases*, specifically discussing the following topics: (1) definition of a lease, (2) separating lease and nonlease components, and (3) initial direct costs.

Tentative Board Decisions:

Definition of a Lease

The Boards directed the staff to provide them with drafting and examples for their review on the basis of the staff recommendations that demonstrate how the proposed definition would be applied.

The staff recommended the following:

1. Retain the principles in the 2013 Exposure Draft supporting the definition of a lease that require an entity to determine whether a contract contains a lease by assessing whether:

   a. Fulfillment of the contract depends on the use of an identified asset; and
   b. The contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration (that is, the customer has the ability both to direct the use of the identified asset and to derive the economic benefits from use of that asset during the period of use).

2. Clarify the following regarding whether fulfillment of the contract depends on the use of an identified asset:

   a. Fulfillment depends on the use of an identified asset when the supplier has no practical ability to substitute an alternative asset or the supplier would not benefit from substituting an asset; and
   b. A customer should presume that fulfillment of the contract depends on the use of an identified asset if it is impractical for the customer to determine either (1) whether the supplier has the practical ability to substitute an alternative asset or (2) whether the supplier would benefit from the substitution.

3. Regarding the right to control the use of an identified asset:

   a. Provide additional guidance on how to determine which decisions most significantly affect the economic benefits to be derived from use of the identified asset and which party to the contract has the ability to most significantly affect those economic benefits, particularly when the supplier and the customer both have decision-making rights; and

b. Remove the guidance that was proposed in the 2013 Exposure Draft on assets that are incidental to the delivery of services.

[FASB: *Unanimous*, IASB: *Unanimous*]

Separating Lease and Nonlease Components

The Boards decided to retain guidance similar to that proposed in the 2013 Exposure Draft for both lessees and lessors on identifying separate lease components.

[FASB: *Unanimous*, IASB: *12-4*]

The Boards decided to retain guidance similar to that proposed in the 2013 Exposure Draft for lessors on separating lease components from nonlease components and allocating consideration in the contract to those components. That is, a lessor should apply the guidance in the forthcoming revenue recognition standard on allocating the transaction price to separate performance obligations. A lessor also should reallocate the consideration in a contract when there is a contract modification that is not accounted for as a separate, new contract.

[FASB: *Unanimous*, IASB: *Unanimous*]

The Boards decided to change the proposals in the 2013 Exposure Draft for lessees regarding separating lease components from nonlease components and allocating consideration in a contract to those components as follows:

1. A lessee should separate lease components from nonlease components unless it applies the accounting policy election discussed below.

2. A lessee should allocate the consideration in a contract to the lease and nonlease components on a relative standalone price basis. Activities (or costs of the lessor) that do not transfer a good or service to the lessee are not components in a contract. A lessee also should reallocate the consideration in a contract when (a) there is a reassessment of either the lease term or a lessee's purchase option or (b) there is a contract modification that is not accounted for as a separate, new contract.

3. A lessee should use observable standalone prices, if available, and otherwise it would use estimates of the standalone price for lease and nonlease components (maximizing the use of observable information).

[FASB: *Unanimous*, IASB: *15-1*]

The Boards decided to permit a lessee, as an accounting policy election by class of underlying asset, to not separate lease components from nonlease components. Instead, a lessee should account for lease and nonlease components together as a single lease component.

[FASB: *4-3*, IASB: *10-6*]

Initial Direct Costs

The Boards decided that only incremental costs should qualify as initial direct costs.

[FASB: *Unanimous*, IASB: *15-1*]

The Boards decided that initial direct costs should include only incremental costs that an entity would not have incurred if the lease had not been obtained (executed) (for example, commissions or payments made to existing tenants to obtain the lease).

[FASB: *Unanimous*, IASB: *10-6*]

The Boards decided that both lessees and lessors should apply the same definition of initial direct costs.

[FASB: *Unanimous*, IASB: *15-1*]

The Boards decided the following regarding the accounting for initial direct costs:

1. A lessor in a Type A lease (except those who recognize selling profit at lease commencement) should include initial direct costs in the initial measurement of the lease receivable by taking account of those costs in determining the rate implicit in the lease. A lessor who recognizes selling profit at lease commencement should recognize initial direct costs associated with a Type A lease as an expense at lease commencement.

2. A lessor in a Type B lease should recognize initial direct costs as an expense over the lease term on the same basis as lease income.

3. A lessee should include initial direct costs in the initial measurement of the right-of-use asset and amortize those costs over the lease term.

[FASB: *Unanimous*, IASB: *15-1*]

Next Steps

The Boards will continue their joint redeliberations of the May 2013 Exposure Draft at a future Board meeting.

General Announcements:

None.