

MINUTES



MEMORANDUM

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

Topic: Leases
Basis for Discussion: FASB Memos 298–299: Cover Memo, Definition of a Lease
Length of Discussion: October 22, 2014—9:00AM to 10:30AM EDT
Attendance:

Board members present: FASB: Golden, Kroeker, Buck, Linsmeier, Schroeder, Siegel, Smith
IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Finnegan, Gomes, Kabureck, Lloyd, Ochi, Scott, Suh, Tokar, Zhang

Board members absent: None

Staff in charge of topic: FASB: Zeyher
IASB: Buchanan

Other staff at Board table: FASB: Cospers, Esposito, Muir, Muehlbauer, Alqamoussi, Winkler
IASB: Shields, Rees, Geisman, 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 definition of a lease.

Tentative Board Decisions:

Definition of a Lease

The Boards decided that a lease should be defined as “a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” An entity would determine whether a contract contains a lease by assessing whether:

1. The use of an identified asset is either explicitly or implicitly specified. A contract would not involve the use of an identified asset if a supplier has the substantive right to substitute the asset used to fulfill the contract. A supplier would have the substantive right to substitute an asset if:
 - a. It has the practical ability to substitute the asset; and
 - b. It can benefit from exercising that right of substitution.
2. The customer controls the use of the identified asset. A contract conveys the right to control the use of an identified asset if, throughout the period of use, the customer has the right to:
 - a. Direct the use of the identified asset; and
 - b. Obtain substantially all of the economic benefits from directing the use of the identified asset.

The Boards decided that a customer has the right to direct the use of an identified asset whenever it has the right to direct how and for what purpose the asset is used, including the right to change how and for what purpose the asset is used, throughout the period of use. If neither the customer nor the supplier controls how and for what purpose the asset is used throughout the period of use, the customer is considered to have the right to direct the use of the identified asset in either of the following circumstances:

1. The customer has the right to operate the asset or to direct others to operate the asset in a manner that it determines (with the supplier having no right to change those operating instructions); or
2. The customer designed the asset, or caused the asset to be designed, in a way that predetermines during the period of use:
 - a. How and for what purpose the asset will be used; or
 - b. How the asset will be operated.

In addition, the Boards decided that a supplier’s protective rights over the identified asset typically define the scope of the customer’s use of the asset, but

do not, in isolation, prevent the customer from having the right to direct the use of the asset.

(FASB: unanimous; IASB: unanimous)

The Boards did not reach a decision about whether a contract contains a lease only when the customer has the ability to derive the benefits from directing the use of an identified asset on its own or together with other readily available resources. The Boards instructed the staff to consider feedback from Board members and to bring the issue back to a future Board meeting.

Next Steps

The Boards will continue their redeliberations at a future Board meeting.

General Announcements:

None.