

MINUTES



MEMORANDUM

To: Board Members
From: Leases Team (Winkler x443)
Subject: Minutes of May 13, 2015 Board Meeting
Date: May 15, 2015
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 312–315: Cover Memo, Lessor Accounting Model—Collectibility, Lessor Type A Lease Modifications and Impairment of Lessor Type A Lease Assets, Accounting for the Purchase of a Leased Asset by the Lessee during the Lease Term

Length of Discussion: May 13, 2015—9:00AM to 9:30AM EST

Attendance:

Board members present: Golden, Kroeker, Buck, Schroeder, Linsmeier, Siegel
Board members absent: Smith
Staff in charge of topic: Zeyher
Other staff at Board table: Cospers, Esposito, Muir, Muehlbauer, Winkler, Gwizdala
Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The FASB continued redeliberating the proposals in the May 2013 Exposure Draft, *Leases*, specifically discussing the following topics:

1. Lessor accounting model—collectibility
2. Lessor Type A lease modifications
3. Impairment of lessor Type A lease assets
4. Accounting for the purchase of a leased asset by the lessee during the lease term.

Tentative Board Decisions:

Lessor Accounting Model—Collectibility

The Board decided to incorporate collectibility into the lessor accounting model by requiring the following:

1. All leases that do not, in effect, transfer control of the underlying asset to the lessee and for which collectibility of the lease payments is not probable should be classified and accounted for as Type B leases.
2. All leases that, in effect, transfer control of the underlying asset to the lessee should be assessed and accounted for in accordance with the collectibility guidance applicable to all sales of nonfinancial assets in Topic 606, Revenue from Contracts with Customers, and Topic 610, Other Income.

(FASB: 7-0)

Lessor Type A Lease Modifications

The Board decided that when a Type A lease is modified and that modification is not accounted for as a separate, new lease, the lessor should do the following:

1. If the modified lease is classified as a Type A lease, adjust the discount rate for the modified lease so that the initial net investment in the modified lease equals the carrying amount of the net investment in the original lease immediately before the effective date of the modification. However, if the original lease did not, in effect, transfer control of the underlying asset to the lessee, but the modified lease does, the lessor should adjust the discount rate for the modified lease so that the initial net investment in the modified lease equals the carrying amount of the net investment in the original lease, net of any deferred selling profit, immediately before the effective date of the modification.
2. If the modified lease is classified as a Type B lease, recognize the underlying asset at the carrying amount of the net investment in the original lease immediately before the effective date of the modification.

(FASB: 7-0)

Impairment of Lessor Type A Lease Assets

The Board decided to require a lessor to assess the lessor's entire net investment in the lease (that is, both its lease receivable and any unguaranteed residual asset) for impairment in accordance with Topic 310, Receivables. That is, the unguaranteed residual asset should not be assessed for impairment in accordance with Topic 360, Property, Plant, and Equipment.

(FASB: 7-0)

Accounting for the Purchase of a Leased Asset by the Lessee during the Lease Term

The Board decided that the guidance in paragraph 840-30-35-14 applicable to the purchase of an asset subject to a capital lease by the lessee during the lease term should be included in the final leases standard and should be applicable for all leases (that is, both Type A and Type B leases). Therefore, if a lessee purchases a leased asset during the lease term, any difference between the purchase price and the carrying amount of the lease liability should be recorded as an adjustment of the carrying amount of the asset. No gain or loss should be recognized.

(FASB: 7-0)

Next Steps

The staff has begun drafting a final leases standard based on the tentative decisions reached by the Board. Later in the drafting process, the Board will discuss any additional issues that arise during drafting, the benefits and costs of the new leases standard, and the effective date.

General Announcements: None.