FASB FINANCIAL ACCOUNTING STANDARDS BOARD

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Leases Joint Public Roundtable Meeting
September 23, 2013

Norwalk

AGENDA

Welcome and introduction

We have arranged this roundtable meeting to listen to your views and to develop further our understanding of the issues you raise or alternatives you propose in your comment letters.

We would like to discuss the following topics:

- Topic 1: Lessee and lessor accounting models
- Topic 2: Measurement
- Topic 3: Scope
- Topic 4: Other aspects of the proposals

We will then allow some time for all participants to discuss closing comments at the end of the session.

Topic 1: Lessee and lessor accounting models

1. The Exposure Draft proposes that all entities would recognize assets and liabilities arising from a lease.

2. The Boards have proposed a dual accounting model for both lessee and lessor accounting in which the accounting will depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. For practical purposes, this assessment would often depend on the nature of the underlying asset.

Lessee accounting model

3. The Boards have concluded that a lease creates assets and liabilities for a lessee and, therefore, should be recognized on a lessee's balance sheet. According to the proposals, a lessee would recognize assets and liabilities for all leases of more than 12 months. A lessee would recognize a lease liability and a right-of-use asset representing its right to use the leased asset (the underlying asset) for the lease term.

4. The 2010 Leases Exposure Draft proposed that a single lessee accounting model, in which a lessee would recognize interest on the lease liability separately from amortization of the right-of-use asset for all leases. In response to concerns raised by respondents to the 2010 Exposure Draft and to better reflect the differing economics of different leases, the 2013 Exposure Draft proposes a dual approach to the recognition of expenses and cash flows.

5. For most leases of assets other than property (for example, equipment, aircraft, cars, trucks), a lessee would classify the lease as a Type A lease and would:

   (a) recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments; and
   (b) recognize interest on the lease liability separately from amortization of the right-of-use asset.

6. For most leases of property (i.e., land and/or a building or part of a building), a lessee would classify the lease as a Type B lease and would:

   (a) recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments; and
   (b) recognize a single lease cost, combining interest on the lease liability with amortization of the right-of-use asset, on a straight-line basis.

Lessor accounting model

7. For most leases of assets other than property, a lessor would classify the lease as a Type A lease and would:

   (a) derecognize the underlying asset and recognize a lease receivable and a residual asset (representing the rights the lessor retains relating to the underlying asset);
   (b) recognize interest income on both the lease receivable and the residual asset over the lease term; and
   (c) recognize any profit relating to the lease at the commencement date.

8. For most leases of property, a lessor would classify the lease as a Type B lease and would apply an approach similar to existing operating lease accounting in which the lessor would:

   (a) continue to recognize the underlying asset; and
   (b) recognize lease income over the lease term, typically on a straight-line basis.

Questions regarding lessee and lessor accounting models
1. The proposed dual approach adds complexity to the accounting model by requiring entities to classify their leases and possibly account for those leases in two different ways. Do you think that some leases are economically different from other leases? If so, do you believe that a dual lessee and lessor accounting approach results in benefits in improved financial reporting that outweigh the additional costs of having a dual approach? Why or why not?
2. If you agree that a dual accounting approach is appropriate, do you agree with the lessee accounting proposals, in which most real estate (property) leases would be reported differently from most other leases in a lessee's income statement and cash flow statement? If not, what would you suggest and why?
3. The Boards are of the view that the lessor accounting proposals will provide a more faithful depiction of how different types of leases are priced by lessors and, thus, provide better information about a lessor's leasing activities to users of financial statements. Do you agree with the lessor accounting proposals? If not, what would you propose and why?
4. Do you have any suggestions for changes the Boards can make to the proposals regarding the lessee and lessor accounting models that would help to simplify the proposals without significantly impacting the usefulness of the information for investors and analysts?

Topic 2: Measurement

9. A lessee and a lessor would measure assets and liabilities arising from a lease by including:

   (a) lease payments relating to the non-cancellable period of the lease, and

   (b) lease payments in optional periods only if the lessee has a significant economic incentive to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

10. The Boards have indicated that they view the 'significant economic incentive' threshold for including lease payments to be a somewhat similar threshold to 'reasonably certain' in IAS 17 *Leases* or 'reasonably assured' in Topic 840, Leases, of the FASB *Accounting Standards Codification*®. The Boards think that assessing whether a lessee has a significant economic incentive to exercise an option is objective because the lessee is required to have an *economic* incentive—the assessment is not based solely on, for example, management intent or past practice. The 2013 Exposure Draft includes more guidance than IAS 17 or Topic 840 about the factors to consider when determining the lease term.

11. Lease payments included in the measurement of lease assets and liabilities include fixed lease payments and variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), but exclude other variable lease payments unless those payments are in-substance fixed payments. The lessee and lessor would measure variable lease payments that depend on an index or a rate using the index or rate as at the commencement date.

12. A lessee and a lessor would also discount the lease payments included in the measurement of the assets and liabilities arising from a lease using the rate the lessor charges the lessee. However, if a lessee cannot readily determine the rate the lessor charges the lessee, the lessee would use its incremental borrowing rate.

13. A lessee and a lessor would reassess the measurement of lease assets and liabilities if there is a change in:

   (a) relevant factors that would result in a change in the lease term; or

   (b) the index or rate used to determine lease payments.

   A lessee and a lessor would also reassess the discount rate if there was a change in a reference interest rate and variable lease payments are determined using that rate.

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Questions regarding measurement	
5.	Do you agree with the Boards' proposals regarding the determination of the lease term? If not, what would you suggest and why? Should the lease term be reassessed after lease commencement?
6.	Do you agree with the Boards' proposals regarding the measurement of variable lease payments, including reassessment if there is a change in the index or rate used to determine lease payments? If not, what would you suggest and why?
7.	Do you agree with the Boards' proposals regarding the discount rate used to measure the assets and liabilities arising from a lease? Why or why not? Should the discount rate be reassessed after lease commencement?
8.	Do you have any suggestions for changes the Boards can make to the proposals regarding measurement that would help to simplify the proposals without significantly impacting the usefulness of the information for investors and analysts?

Topic 3: Scope

14. A lease is 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:

    (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.

15. A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

16. The guidance in the Exposure Draft relates only to the accounting for lease components of a contract. If a contract that contains a lease also contains nonlease components, an entity is required to separate the lease components from nonlease components unless a lessee is unable to obtain standalone observable prices for components of the contract.

Questions regarding scope
9. Do you agree with the proposals regarding the definition of a lease? If not, what would you suggest? Do you think any additional guidance is needed and, if so, what should that be?
10. Do you agree with the proposals regarding the separation of lease and nonlease components? If not, what would you suggest?
11. Do you have any suggestions for changes the Boards can make to the proposals regarding scope that would help to simplify the proposals without significantly impacting the usefulness of the information for investors and analysts?

Topic 4: Other aspects of the proposals

17. The Exposure Draft contains various other proposals, including proposals regarding transition, disclosure, and nonpublic entity reliefs (FASB only).

Questions regarding other aspects of the proposals
12. Do you have any specific concerns about the other proposals in the Exposure Draft, and in particular the proposals regarding transition, disclosure and nonpublic entity reliefs (FASB only)?
13. Do you have any suggestions for changes the Boards can make to the proposals regarding any other aspects that would help to simplify the proposals without significantly impacting the usefulness of the information for investors and analysts?

Closing comments

FASB/IASB Leases Project Public Roundtable Meeting

September 23, 2013
1:00 p.m. EDT – 4:00 p.m. EDT
FASB Offices
Norwalk, CT

Afternoon Session Participant List

Participants

Name	Organization	CL#	Title
Andrew Bender	GSG Financial	251	Chief Executive Officer
Sean Egan	iLease Management LLC	552	Managing Partner
Anita Elliott	Dollar General Corporation	129	Senior Vice President/Controller
Arthur Flashman	Boston Properties	346	Vice President, Principal Accounting Officer
Susan Grafton	Retail Industry Leaders Association	272	Member, Financial Leaders Council
Joe Horne	Exxon Mobil Corporation	392	Accounting Policy Manager
Mark Mahar	Ernst & Young	297	Partner
Robert Meyer	American Tower	389	Senior Vice President, Finance/Corporate Controller
Jenifer Minke-Girard	SEC	N/A	Senior Associate Chief Accountant
Richard Podos	Lance Capital LLC	DRAFT	Chief Executive Officer and President
Stephen Theriot	Vornado Realty Trust	350	Chief Financial Officer
Bob Uhl	Deloitte & Touche LLP	262	Partner
Peter Wan	Emprima	355	Managing Director

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Afternoon Session Participant List

FASB

Name	Title
Russ Golden	FASB Chairman
Jim Kroeker	FASB Vice Chairman
Daryl Buck	FASB Board Member
Marc Siegel	FASB Board Member
Larry Smith	FASB Board Member
Sue Cosper	Meeting Chair, FASB Technical Director and Chairman of Emerging Issues Task Force
Matt Esposito	FASB Assistant Director
Danielle Zeyher	FASB Project Manager
Scott Muir	FASB Practice Fellow
Lisa Muehlbauer	FASB Project Research Associate
Sydney Traub	FASB Postgraduate Technical Assistant
Steve Winick	FASB Postgraduate Technical Assistant

IASB

Name	Title
Jan Engström	IASB Board Member
Gary Kabureck	IASB Board Member
Patrina Buchanan	IASB Technical Principal
Sarah Geisman	IASB Technical Manager
Anna Heining	IASB Technical Associate