

MINUTES



MEMORANDUM

To: Board Members
From: Leases Team
Subject: Minutes of September 15, 2021
Board Meeting on Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities
Date: September 22, 2021
cc: Dawn Tosches

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 (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities

Basis for Discussion: FASB Memo No. 40, “Redeliberations Memo”

Length of Discussion: 9:00 a.m. to 9:33 a.m. EDT

Attendance:

Board members present: Jones, Kroeker, Botosan, Buesser, Cannon, Cosper, and Hunt

Staff in charge of topic: Roberge

Other staff at Board table: Salo, Debbeler, Posta, Warger, and Holmstead

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of a final Accounting Standards Update addressing the discount rate accounting policy election for lessees that are not public business entities under Topic 842, Leases. The Board's technical plan calls for that document to be issued in the fourth quarter of 2021.

Tentative Board Decisions:

The Board completed its redeliberations on proposed Accounting Standards Update, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, and made the following decisions.

Measurement and Disclosure

The Board affirmed the following decisions included in the proposed Update:

1. Allow a lessee that is not a public business entity to make the risk-free discount rate accounting policy election by class of underlying asset **(Vote: 7-0)**
2. Require a lessee to disclose its election, including the asset class to which it has made the accounting policy election **(Vote: 7-0)**
3. Retain a risk-free rate for the discount rate accounting policy election, rather than another specified rate, such as a corporate bond rate or the prime rate **(Vote: 7-0)**
4. Require a lessee that is not a public business entity to use the rate implicit in the lease when it is readily determinable instead of the risk-free rate, regardless of whether the lessee applies the risk-free rate election **(Vote: 7-0)**

Transition and Effective Date

The Board affirmed the following decisions included in the proposed Update:

1. For a lessee that is not a public business entity that has not adopted Topic 842 as of the issuance of a final Update, the Board decided that the transition and effective date provisions in paragraph 842-10-65-1 should apply. **(Vote: 7-0)**
2. For a lessee that is not a public business entity that has adopted Topic 842 as of the issuance of a final Update, the Board decided to require the use of a modified retrospective transition method. That transition method would require a lessee to:

- a. Remeasure affected lease liabilities for existing leases at the beginning of the period of adoption as an adjustment to right-of-use assets. However, if a right-of-use asset is reduced to zero or the adjustment would increase a previously impaired right-of-use asset, the offset should be recognized in retained earnings.
- b. Calculate the transition adjustment using the discount rate and remaining lease term as of the adoption date.
- c. Not otherwise remeasure or reclassify leases as a result of transition.
- d. Disclose the fact that the amendments have been adopted and the amount of the transition adjustment.

(Vote: 7-0)

3. For a lessee that is not a public business entity that has adopted Topic 842 as of the issuance of a final Update, the Board decided that the amendments should be effective for annual reporting periods beginning after December 15, 2021, including interim reporting periods beginning after December 15, 2022, with early application permitted. **(Vote: 7-0)**

Additional Transition Disclosure

For a lessee that is not a public business entity that has adopted Topic 842 as of the issuance of a final Update, the Board decided to require disclosure of the amount of the transition adjustment to lease liabilities and right-of-use assets as of the beginning of the year of adoption. **(Vote: 7-0)**

Weighted-Average Discount Rate Disclosure

The Board decided to not require a lessee that uses the risk-free rate accounting policy election to separately disclose a weighted-average discount rate for the risk-free rate and a weighted average for all other discount rates (the incremental borrowing rate and rate implicit in the lease). Rather, the Board decided to continue to require a lessee to disclose a single weighted-average discount rate for all leases. **(Vote: 7-0)**

Cost-Benefit Analysis

The Board concluded that it has received sufficient information and analysis to make an informed decision on the expected costs of the amendments and that the expected benefits of the amendments justify the expected costs. **(Vote: 7-0)**

Next Steps

The Board directed the staff to draft a final Accounting Standards Update for vote by written ballot. **(Vote: 7-0)**

General Announcements: None.