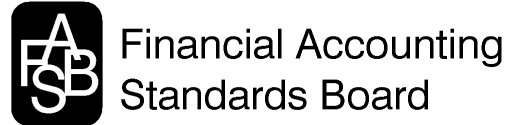


## MINUTES



**To:** Board Members

**From:** Leases Team (Martin, ext. 354)

**Subject:** Minutes of the January 14, 2009, Board Meeting: Project Scope, An Overview of Lessor Accounting, and Consideration of Sublessor Accounting

**Date:** January 20, 2009

**cc:** FASB: Bielstein, Golden, Lott, Stoklosa, Proestakes, Posta, Chookaszian, Zeyher, Nickell, Homant, C. Smith, Brickman, Hood, Sutay, Glotzer, Mechanick, Gabriele, Allen, Klimek, FASB Intranet; IASB: Leisenring, Francis, Knubley, Peerless, Kim

*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 a final Statement, Interpretation, or FASB Staff Position.*

Topic: Project Scope: An Overview of Lessor Accounting, and Consideration of Sublessor Accounting

Basis for Discussion: Memorandum #26 (IASB Agenda Paper 13)  
Memorandum #27 (IASB Agenda Paper 13A)  
Memorandum #28 (IASB Agenda Paper 13B)

Length of Discussion: 9:00 a.m. to 10:30 a.m.

Attendance:

Board members present: Herz, Linsmeier, Seidman, Siegel, and Smith

Board members absent: None

Staff in charge of topic: Zeyher

Other staff at Board table: Golden, Stoklosa, Nickell, Homant, and Martin

Outside participants: Knubley (IASB)

### Summary of Decisions Reached

The Board discussed whether arrangements that are in substance the acquisition of an asset should be in the scope of the leases project. The Board also discussed issues related to lessor accounting.

The Board decided that the scope of the project should include arrangements that are leases in form but, in substance, are acquisitions of the leased asset. Some Board members noted that distinguishing an in-substance purchase from a right-to-use lease could be important in determining the amount and timing of revenue recognition by lessors. The Board decided to discuss this issue in the proposed Discussion Paper and ask questions to solicit input from constituents.

The Board decided that successful development of a right-of-use accounting model by lessees requires that it also develop a right-of-use model that would apply to all lessors (including sublessors). Accordingly, the Board rejected suggestions to limit the project's initial scope to reporting by sublessors.

The Board discussed how a right-of-use model might be applied to lessors. The Board believes that a lessor would recognize an asset representing its right to receive payments during the lease term but did not decide whether a lessor should recognize a corresponding liability representing a performance obligation to permit use of the leased item over the lease term or derecognize the leased item. The Board also indicated the need to determine when (and how) revenue should be recognized including whether there are circumstances when a profit should be recognized upon delivery of the leased item.

The Board decided to include a discussion of lessor accounting issues in the proposed Discussion Paper.

Objective of the Meeting:

The objectives of the meeting were for the Board to (1) reconsider the scope of the leases project, (2) discuss the application of the right-of-use model to lessor accounting, and (3) consider sublessor accounting. The objectives of the meeting were met.

Matters Discussed and Decisions Reached:

**Issue 1: Reconsideration of Scope**

1. **Staff Recommendation:** The staff recommended that the scope of the project not be modified because the staff believes that if a lease is truly “the same as a purchase,” then it will be *priced* the same as a purchase. If that is the case, the accounting model in the proposed Discussion Paper should result in accounting that is the same as the accounting for a purchased asset.
2. **Board Vote:** The Board unanimously voted that the scope of the project should remain unchanged.
3. **Board Comments:** Mr. Linsmeier stated that an in-substance purchase is a lessor accounting issue and suggested that the staff expand the discussion of the application of the right-of-use model to lessors to include the analysis of the distinction between leasing arrangements that grant only the right of use for the underlying asset to the lessee versus those arrangements that substantially transfer the ownership of the underlying asset to the lessee.
4. Mr. Linsmeier further observed that distinguishing an in-substance purchase from a right-of-use lease could be important in determining the amount and timing of revenue recognition by lessors.
5. The Board agreed with Mr. Linsmeier and decided to include this issue in the proposed Discussion Paper, discuss why a distinction is important, and ask questions to solicit input from constituents.

## **Issue 2: Lessor Application of the Right-of-Use Model and Sublessor Accounting**

6. The staff presented the Board with an analysis of the application of a right-of-use model to lessor and sublessor accounting. The staff analyzed the contractual promises exchanged and the related rights and obligations arising in a leasing arrangement. The analysis presented was symmetrical to the analysis of the lessee's rights and obligations in a leasing arrangement in the staff draft of the proposed Discussion Paper.
7. **Staff Recommendation:** The staff recommended not developing a right-of-use model for sublessors only. Some staff members believe that accounting for sublessors and lessors is critical to the success of a new leasing standard. Accordingly, those staff members recommended that the Boards defer the issuance of the proposed Discussion Paper until accounting for lessors and sublessors is addressed. An alternative staff view recommended not deferring the issuance of the proposed Discussion Paper and including the description of sublessor accounting problems and discussion of possible additional guidance in the Paper.
8. **Board Vote:** The Board decided that successful development of a right-of-use accounting model for lessees requires development of a right-of-use model that would apply to all lessors (including sublessors). Accordingly, the Board unanimously voted to instruct the staff not to develop a sublessor-only accounting model and to include a discussion of lessor accounting issues in the proposed Discussion Paper.
9. The Board also discussed how a right-of-use model might be applied to lessors. The Board believes that a lessor would recognize an asset representing its right to receive payments during the lease term, but did not decide whether a lessor should recognize a corresponding liability representing a performance obligation to permit use of the leased item over the lease term or derecognize the leased item. The Board also indicated the need to determine when (and how) revenue should

be recognized, including whether there are circumstances under which a profit should be recognized upon delivery of the leased item.

10. **Board Comments:** Mr. Herz noted that while it is important to include a discussion of lessor accounting in the proposed Discussion Paper, such a discussion would not necessarily include a detailed analysis of the lessor model. The proposed Discussion Paper should present lessor accounting issues, explain their implications and importance, and solicit feedback from the constituents on the lessor accounting issues.
11. Mr. Smith clarified that the inclusion of the discussion of lessor accounting issues in the proposed Discussion Paper does not indicate a change in the scope of the project. In future meetings, the Board will determine whether the final standard will include guidance on lessor accounting.
12. Mr. Linsmeier suggested that development of the guidance on revenue recognition issues related to lessor accounting should be included in the revenue recognition project.
13. Ms. Seidman stated that introducing new rules for lessee-only accounting would provide opportunities for transaction structuring. As such, it would be desirable to issue new guidance for both lessor and lessee accounting at the same time.
14. Ms. Seidman also suggested that implications of the view expressed by some Board members that the lessor should recognize a liability representing a performance obligation to permit use of the leased item over the lease term should be analyzed in conjunction with the Board's previously reached decision that a lessee should recognize a liability representing an unconditional obligation to make rental payments during the term of the lease.
15. Mr. Linsmeier suggested that there should be more thought given as to whether there is a purchase by the lessee and, therefore, whether there is a sale by the lessor and, consequently, whether there is a gain or loss to be recognized by the lessor.

16. Mr. Leisenring added that there is a concern as to how revenue would be recognized when a right-of-use model is applied to lessor accounting and whether there would be situations other than an in-substance purchase in which profit would be recognized.
17. Mr. Leisenring also pointed out that under a right-of-use model, the lessee does not have a liability to return the leased item because the lessee does not have the leased item (the underlying). It has the right to use the underlying. He thinks the analysis needs to distinguish between the right-of-use model and the underlying.
18. Mr. Stoklosa thought the lease arrangement could be analyzed by accounting for the contract separate from the underlying. That is, the lease is a forward contract with each party recording its receivable and payable gross. The lessee would record its right-of-use asset and its liability to make payments. The lessor would record its receivable and performance obligation.
19. The Board acknowledged there were many situations that need to be analyzed against different lessor models to understand the implications of the various models. The Board thinks looking at the lessor issues will help to build a better foundation for the lessee model.

Follow-up Items:

None.

General Announcements:

None.