MINUTES

To:	Board Members		
From:	Goodman (ext. 295)		
Subject:	Minutes of March 02, 2005 Board Meeting	**Date:**	March 9, 2005
cc:	Smith, Bielstein, Petrone, Leisenring, Project Team (Sogoloff, Goodman), Golden, Swift, Polley, Gabriele, Thompson, Income Tax Project Team (Cassel, Thomas, Posta, Kispert, Duke), Sutay, Intranet (e-mail)		

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 or Interpretation.

Topic: Leveraged lease accounting

Basis for Discussion: Board memorandum dated February 17, 2005

Length of Discussion: 1:45 p.m. to 2:15 p.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schipper, Seidman, Trott, and Young

Board members absent: None

Staff in charge of topic: Sogoloff

Other staff at Board table: L. Smith, Golden, and Goodman

Outside participants: None

<u>Summary of Decisions Reached</u>:

The Board discussed several issues related to transactions that are classified as leveraged leases under the provisions of FASB Statement No. 13, *Accounting for Leases*.

The Board decided that:

- The scope of the guidance should include all leveraged leases.

- The types of changes in the timing of the realization of tax benefits should be those directly related to the leveraged lease (for example, excluding alternative minimum tax (AMT) and net operating loss (NOL) carryforwards). The Board did not change the guidance for AMT in Issue 10 of EITF Issue No. 87-8, "Tax Reform Act of 1986: Issues Related to the Alternative Minimum Tax."

- A threshold should not be incorporated into the guidance for determining whether a recalculation should be performed for a change in the timing of the realization of tax benefits.

- A change in timing of the realization of tax benefits from a leveraged lease will require a recalculation of that leveraged lease.

- A reevaluation of the lease classification for a leveraged lease should be performed when a recalculation of that leveraged lease is performed.

- The guidance will be issued as an FASB Staff Position.

- An entity should recognize the cumulative effect of initially applying this guidance as a change in accounting principle as described in paragraph 20 of APB Opinion No. 20, *Accounting Changes*.

- The guidance will be effective for fiscal years ending after December 15, 2005.

Objective of Meeting:

The objective of the Board meeting was for the Board to determine the scope, threshold, form, transition method, and effective date for the guidance and to affirm previous decisions reached by the Board.

Matters Discussed and Decisions Reached:

1. Mr. Sogoloff began the meeting by stating the Board's tentative decisions at the November 10, 2004 meeting—that a change in the timing alone of tax benefits expected to be realized from a leveraged lease should result in a recalculation of the leveraged lease as described in paragraph 46 of Statement 13 and should result in a reevaluation of the lease classification for that lease.
2. Mr. Sogoloff then introduced the scope issue by stating that although LILOs (lease-in/lease-out) and SILOs (sale-in/lease-out) are currently the transactions that will likely be most significantly affected by this guidance, the staff recommends that the scope include all leveraged leases.
3. Ms. Seidman and Mr. Crooch noted that since LILO and SILO transactions are not differentiated from other leveraged leases in Statement 13, the scope should include all leveraged leases.
4. The Board decided that the scope of the guidance should include all leveraged leases.
5. The Board decided that only changes in important assumptions that are directly related to the leveraged lease that change the timing of the tax benefits expected to be realized should require a recalculation.
6. Mr. Trott requested clarification that this treatment would be consistent with the existing guidance in Issue 87-8.
7. Messrs. Sogoloff and Golden confirmed that this guidance would be consistent with Issue 87-8.
8. Mr. Sogoloff introduced the threshold issue by presenting the following three views:

a. View A: no threshold

b. View B: a threshold based on 10 percent of the income recognized to date on the leveraged lease

c. View C: a threshold based on 10 percent of the income expected to be recognized over the lease term.

9. Mr. Sogoloff stated that the staff recommends View A because it believes that establishing a precise threshold is not practicable because determining what will be material to a set of financial statements depends, to a great extent, on individual circumstances.

10. The Board agreed with the staff's recommendation that the guidance should not include a threshold.

11. Mr. Batavick noted that from a cost-benefit perspective, not having a threshold would likely not impact preparers because they would still need to perform the recalculation to determine whether they meet the threshold.

12. Ms. Seidman raised a concern that any change in timing might be considered material because leveraged lease transactions are so significant.

13. Mr. Golden added that materiality differs on a case-by-case basis and that a quantitative threshold may result in reporting that is not representationally faithful. He suggested that materiality be determined based on the difference between the net investment prior to the recalculation and the net investment after the recalculation as opposed to the leveraged lease transaction as a whole.

14. Mr. Herz stated that he would not be in favor of adding a threshold because it would add a bright line.

15. Mr. Sogoloff noted that since the Board decided not to incorporate a threshold into the guidance, it would not need to decide whether to incorporate a similar threshold for a change in the amount of estimated net income.

16. The Board affirmed its previous decision that a change in the timing of the realization of tax benefits from a leveraged lease should require a recalculation of the leveraged lease.

17. Mr. Trott supported regular reevaluation of the classification of a leveraged lease throughout the life of the lease because of the particular accounting for leveraged leases. He stated that he believes that a leveraged lease should continue to meet all the criteria in paragraph 42 of Statement 13 throughout its life in order to qualify for leveraged lease accounting.

18. Mr. Herz added that the deviation in accounting for leveraged leases is intended to reflect the nature and timing of the cash flows, and if those cash flows change, then the lease classification should be reevaluated.

19. The Board decided that a reevaluation of the classification of a leveraged lease should be required when a recalculation of that leveraged lease is performed.

20. The Board determined that this guidance should (a) be in the form of an FASB Staff Position, (b) include a basis for conclusions, and (c) include a 60-day comment period.

21. Mr. Trott asked the staff to seek assistance from the Equipment Leasing Association, the American Bankers Association, and other groups to ensure constituent awareness of the proposed changes to accounting for leveraged leases.

22. Ms. Schipper asked whether the guidance might be issued as an Interpretation, given the inclusion of a basis for conclusions and 60-day comment period.

23. Mr. Smith responded that given the narrowness of the guidance (that is, essentially an amendment to paragraph 46 of Statement 13), the staff prefers an FSP as the most expeditious form of guidance.

24. Mr. Sogoloff introduced the transition method issue by presenting the following three views:

    a. View A: prospective treatment
    b. View B: retroactive restatement
    c. View C: cumulative effect as a change in accounting principle.

25. Mr. Sogoloff noted that the staff recommends View C because (a) prospective application would result in inconsistent treatment between entities that have settled

with the Internal Revenue Service and those that have not and (b) the cost of retroactive application would outweigh the benefits.

26. Mr. Trott stated that initially he was in favor of retroactive restatement but realized there was an issue of looking back using hindsight to determine when the change in timing actually occurred. He stated that he is in favor of View C.

27. The Board decided that an entity should recognize the cumulative effect of initially applying this guidance as a change in accounting principle as described in paragraph 20 of APB Opinion No. 20, *Accounting Changes*.

28. Mr. Sogoloff introduced the effective date issue by presenting the following three views:

    a. View A: guidance shall be effective for the first reporting period beginning after the date the guidance is finalized.

    b. View B: guidance shall be effective for fiscal years beginning after December 15, 2005.

    c. View C: guidance shall be effective for fiscal years ending after December 15, 2005.

29. The Board decided that this guidance should be effective for fiscal years ending after December 15, 2005 (December 31, 2005, for calendar-year-end enterprises).

30. Ms. Seidman requested clarification that the cumulative effect would be recognized as of December 31, 2005, for calendar-year-end enterprises.

31. Mr. Golden confirmed that the income statement impact of the cumulative effect would be recognized as of December 31, 2005, and that the income statement impact resulting from the new run of the leveraged lease would be recognized beginning in 2006.

Follow-up Items:

None

General Announcements:

None