MINUTES

To:	Board Members		
From:	Bennett (ext. 229)		
Subject:	Minutes of February 15, 2006 Board Meeting—Leveraged Lease Accounting	**Date:**	February 28, 2006
cc:	Smith, Bielstein, Petrone, MacDonald, Leisenring, Project Team (Beswick, Bennett), Golden, Polley, Sutay, Gabriele, Zeyher, Carney, Mahoney, Vernuccio, FASB Intranet		

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 January 31, 2006

Length of Discussion: 10:17 a.m. to 10:29 a.m.

Attendance:

Board members present:	FASB: Herz, Batavick, Crooch, Schipper, Seidman, Trott, and Young IASB: Leisenring
Board members absent:	None
Staff in charge of topic:	Beswick
Other staff at Board table:	L. Smith, Golden, and Bennett
Outside participants:	None

Summary of Decisions Reached:

At the February 15, 2006 Board meeting, the Board discussed the remaining issues concerning the proposed FASB Staff Position (FSP) FAS 13-a, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction." Specifically, the Board discussed issues related to:

1. Whether advance payments and deposits made to the IRS or other taxing authorities should be included in a leverage lease recalculation
2. Whether to require a threshold for determining when a change in timing should trigger a recalculation
3. Whether changes in state apportionment factors should be included as a trigger for recalculating a leveraged lease
4. Whether the effective date and transition for the proposed FSP should be modified to be consistent with the final Interpretation on uncertain tax positions.

The Board decided that:

1. Advance payments and deposits made to the IRS or other taxing authorities should not be considered actual cash flows in the recalculation of the leveraged lease.
2. The final FSP should not include a threshold for determining when a change in timing should trigger a recalculation.
3. Changes in state apportionment factors should not be considered a change in timing, but rather a change in net income. This will be noted in the basis for conclusions in the final FSP.
4. The effective date and transition should be modified to be consistent with the final Interpretation on uncertain tax positions.

Objective of Meeting:

The objective of the meeting was for the Board to redeliberate the remaining issues on the proposed FSP. This objective was met.

Matters Discussed and Decisions Reached:

1. Mr. Beswick began the meeting by stating that at the last Board meeting the Board had resolved the more significant conceptual issues on the leveraged lease project, and at this meeting the staff will seek to resolve the remaining known issues on the

project. He noted that after this meeting the staff will complete the drafting process and will begin preballoting once the final Interpretation on uncertain tax positions begins to preballot.

Accounting for Advance Payments and Deposits Made to Taxing Authorities

4. Mr. Beswick stated that the Board would address four issues. He proceeded with the first issue by stating that during the staff's follow-up with users and preparers, questions arose on how to account for advanced payments or deposits made with the IRS or other taxing authorities. He then presented the following two alternatives on whether advance payments and deposits made to the IRS or other taxing authorities should be considered actual cash flows in the recalculation of a leveraged lease:

   Alternative A: Advance payments and deposits made to the IRS or other taxing authorities should be included in the recalculation of the leveraged lease.

   Alternative B: Advance payments and deposits made to the IRS or other taxing authorities should not be included in the recalculation of the leveraged lease.

5. Mr. Beswick stated that the staff recommends Alternative B because the staff believes that these payments are made for reasons other than as part of the cash flows from a leveraged lease. Additionally, the staff believes that since the Board decided to exclude interest and penalties from the leveraged lease calculation, and since one of the primary reasons for making an advanced payment or deposit is to stop interest from accruing, it appears appropriate to exclude these types of cash flows from the leveraged lease recalculation.

6. The Board unanimously agreed with the staff recommendation. Ms. Seidman requested that the basis for conclusion in the final FSP include the same language that was used to present the staff recommendation.

Threshold Requirement for When to Recalculate a Leveraged Lease

7. Ms. Bennett presented the second issue by stating that at the March 2, 2005 Board meeting, the Board considered whether to include a threshold for determining when a change in timing should trigger a recalculation and concluded that the proposed FSP should not include such a threshold. However, some of the respondents in the

comment letters asked the Board to reconsider including a threshold in the final FSP. Ms. Bennett then proceeded to present the alternatives for this issue:

> Alternative A: The final FSP should not include a threshold for determining when a change in timing should trigger a recalculation.
>
> Alternative B: The final FSP should include a threshold for determining when a change in timing should trigger a recalculation.

8. Ms. Bennett stated that the staff recommends Alternative A because the staff believes that the determination of significance should be made on an entity-by-entity basis and any threshold assigned by the Board would be arbitrary. She further stated that the staff believes that for consistency purposes, a change or projected change in timing should not have a threshold because a change in net income does not have a threshold.

9. Mr. Crooch asked the staff if the respondents had any new arguments that would cause the Board to reconsider its previous decision. Mr. Beswick replied that there were no new arguments, rather, the respondents were trying to raise additional concerns in an attempt to get the Board to reconsider the project. As there were no new considerations, the Board unanimously agreed with the staff recommendation. Ms. Seidman requested that the staff's rationale for this issue be included in the final FSP.

Are Changes in State Apportionment Factors a Trigger to Recalculate a Leveraged Lease?

10. Mr. Beswick proceeded to the third issue by asking the Board if it believes that changes in state apportionment factors should be excluded as a trigger for recalculating a leveraged lease. He then presented the alternatives for this issue:

> Alternative A: The final FSP should exclude changes in state apportionment factors as a trigger for recalculating a leveraged lease and should be accounted for consistent with the alternative minimum tax credit in paragraph 10 of the proposed FSP.
>
> Alternative B: The final FSP should include changes in state apportionment factors as a trigger for recalculating a leveraged lease.

8. Mr. Beswick stated that the staff supports Alternative B because it believes that state apportionment factors are a significant component of the state tax rate and to exclude changes in state apportionment factors as a trigger for recalculating a leveraged lease would be inconsistent with the treatment of changes in state tax rates in FASB Statement No. 13, *Accounting for Leases*. Mr. Beswick further stated that preparers are currently making materiality determinations on when to recalculate a leveraged lease for changes in state tax rates and the staff believes that a similar determination could be made for changes in state apportionment factors.

9. The Board unanimously agreed with the staff's recommendation. Mr. Young asked the staff the reason for including this issue in this project. Mr. Beswick replied that some constituents believe that changes in state apportionment factors are changes in timing rather than changes in net income. By including this issue in this project, the staff is providing clarification regarding the requirements in existing literature.

10. Ms. Schipper asked the staff if the title of the proposed FSP should be changed so as not to mislead constituents because the current title only refers to timing and this issue does not pertain to timing. Ms. Seidman asked if this issue will be addressed in the standard section of the final FSP or in its basis for conclusion. The staff proposed that this issue be included in the basis for conclusion, which would allow the title to remain unchanged. The Board unanimously agreed with the staff's recommendation.

Effective Date and Transition

11. Ms. Bennett presented the fourth issue by stating that the proposed FSP initially required that the effective date and transition be consistent with the effective date and transition for the final Interpretation on uncertain tax positions because the recognition threshold in leveraged leases is linked to that final Interpretation. At the last Board meeting, the Board reaffirmed that the recognition threshold for tax benefits should be the same for the proposed FSP and the final Interpretation. Ms. Bennett asked if the Board wished to affirm the decision to modify the effective date and transition in the proposed FSP to be consistent with the final Interpretation.

12. Ms. Bennett stated that the staff recommends that the effective date and transition be consistent with the final Interpretation on uncertain tax positions. She further stated that if the Board affirms this decision, the transition would be in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections*, with any adjustment to net assets being recognized as an adjustment to the beginning balance of retained earnings in the period of adoption. Ms. Bennett concluded by stating that the final FSP would be effective as of the beginning of the first annual period beginning after December 15, 2006, and early application would be encouraged provided the entity has not publicly released its financial statements in the period of adoption. Additionally, the final FSP would continue to preclude retrospective restatement of any prior interim and annual periods.

13. Mr. Crooch asked the staff if there were any reasons that would cause the Board to reconsider aligning the effective date and transition for the proposed FSP with the final Interpretation on uncertain tax positions. As there were none, the Board unanimously agreed with the staff's recommendation.

Follow-up Items:

None

General Announcements:

None