

MINUTES



To: FASB Board Members

From: Leases Team (Phillips, x443)

Subject: Minutes of the March 22, 2010
Board Meeting: Leases

Date: April 22, 2010

cc: FASB: Golden, Bielstein, Lott, Proestakes, Stoklosa, Mechanick, Zeyher, Helmus, Homant, Gonzales, Phillips, Woo, C. Smith, Brickman, Hood, Glotzer, Gabriele, Sutay, FASB Intranet, McGarity, Klimek
FASAC: Chookaszian, Posta, Guasp; GASB: Finden, Avis; IASB: Leisenring, Francis, Knubley, Lian, Vatrenejak, 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 an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Leases

Basis for Discussion: FASB Memo No. 79—Accounting for Arrangements with Service and Lease Components

Length of Discussion: 10:00 AM to 12:00 PM (EDT)

Attendance:

Board members present: FASB: Herz, Linsmeier, Seidman, Siegel, and L. Smith

IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, Garnet, Gélard, Gomes, Kalavacherla, Leisenring, McConnell, McGregor, Smith, Yamada, Zhang

Board members absent: None

Staff in charge of topic: FASB: Zeyher
IASB: Knubley

Other staff at Board table: IASB: Francis, Lian, and Kim

Staff participating via videoconference: FASB: Stoklosa, Helmus, Homant, Gonzales, Phillips, and Woo

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of a proposed Accounting Standards Update addressing leases.

The Board's technical plan calls for the document to be issued in August 2010.

Summary of Decisions Reached:

The Boards discussed how to account for arrangements that contain both service components and lease components.

At this meeting, the Boards tentatively decided that:

1. Both lessors and lessees would be required to evaluate whether the lease payments should be allocated between service and lease components, considering all concurrently negotiated contracts with a third party.
2. A lessor would be subject to the revenue recognition requirements regarding the identification of separate performance obligations within an arrangement. That is, if the service component is not considered distinct, total payments under the arrangement should be accounted for as the lease. If the service component is considered distinct, total payments under the arrangement should be allocated between the service and lease components using the same principles as those proposed in the revenue recognition project.
3. The lessee's identification of distinct components within an arrangement and measurement of the allocation between distinct service and lease components within an arrangement would be based on the same principles used by the lessor. The Boards noted that if the proposed revenue recognition guidance is incorporated into the proposed new leases guidance, some language changes would be necessary.
4. If the lessor or lessee is unable to allocate the total payments among the service and lease components of an arrangement, the entire arrangement should be considered and accounted for as a lease.

5. If the total payments under an arrangement that contains both lease and service components change after the inception of the lease (e.g., term options or contingent rentals), an entity would first determine whether the entire change is directly attributable to either the lease or the service component. If it is unable to do so, then the change in total consideration should be allocated on a pro rata basis to the various contract components in the same proportion as determined at contract inception.
6. Lessees and lessors would be required to bifurcate all arrangements that contain both service and lease components and apply the transition requirements to the lease components on the transition date. That is, there would be no special transitional provisions for existing arrangements. (FASB: unanimous; IASB: unanimous)

The Boards discussed how to account for arrangements that contain both service components and lease components.

General Announcements: None