

**Notice for Recipients  
of This Proposed FASB Staff Position**

This proposed FASB Staff Position (FSP) would amend FASB Statement No. 157, *Fair Value Measurements*, to exclude FASB Statement No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions. This proposed FSP also makes conforming amendments to Statement 13.

The Board invites individuals and organizations to send written comments on all matters in this proposed FSP. Comments are requested from those who agree with the provisions of this proposed FSP as well as from those who do not. Comments are most helpful if they identify the issues or specific paragraph or group of paragraphs to which they relate and clearly explain the issue or question. Those who disagree with provisions of this proposed FSP are asked to describe their suggested alternatives, supported by specific reasoning.

The Board requests that constituents provide comments on the following:

1. What costs, if any, would be incurred to implement this proposed FSP?
2. Are the transition provisions of this proposed FSP appropriate?

Responses must be received in writing by January 4, 2008. Interested parties should submit their comments by email to [director@fasb.org](mailto:director@fasb.org), File Reference: Proposed FSP FAS 157-a. Those without email may send their comments to “Russell G. Golden, Director of Technical Application and Implementation Activities, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116, File Reference: Proposed FSP FAS 157-a.” Responses should not be sent by fax.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB website and included as part of the project record with other project materials.

## PROPOSED FASB STAFF POSITION

### No. FAS 157-a

**Title:** Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions

**Comment Deadline:** January 4, 2008

### Objective

1. This FASB Staff Position (FSP) amends FASB Statement No. 157, *Fair Value Measurements*, to exclude FASB Statement No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions.

### Background

2. The Exposure Draft preceding Statement 157 proposed a scope exception for Statement 13 and other accounting pronouncements that require fair value measurements for leasing transactions. At that time, the Board was concerned that applying the fair value measurement objective in the Exposure Draft to leasing transactions could have unintended consequences, requiring reconsideration of aspects of lease accounting that were beyond the scope of the Exposure Draft.

3. However, respondents to the Exposure Draft indicated that the fair value measurement objective for leasing transactions was generally consistent with the fair value measurement objective proposed by the Exposure Draft. Others in the leasing industry subsequently affirmed that view. Based on that input, the Board decided to include lease accounting pronouncements in the scope of Statement 157.

4. Subsequent to the issuance of Statement 157, which changed in some respects from the Exposure Draft, constituents have raised issues stemming from the interaction

between the fair value measurement objective in Statement 13 and the fair value measurement objective in Statement 157.

5. Constituents have noted that paragraph 5(c)(ii) of Statement 13 provides an example of the determination of fair value (an exit price) through the use of a transaction price (an entry price). Constituents also have raised issues about the application of the fair value measurement objective in Statement 157 to estimated residual values of leased property. These issues, as well as other issues related to the interaction between Statement 13 and Statement 157, would result in a change in lease accounting that requires considerations of lease classification criteria and measurements in leasing transactions that are beyond the scope of Statement 157 (for example, a change in lease classification for leases that would otherwise be accounted for as direct financing leases).

6. The Board acknowledges that the term *fair value* will be left in Statement 13 although it is defined differently than in Statement 157; however, the Board believes that lease accounting provisions and the longstanding valuation practices common within the leasing industry should not be changed by Statement 157 without a comprehensive reconsideration of the accounting for leasing transactions. The Board has on its agenda a project to comprehensively reconsider the guidance in Statement 13 together with its subsequent amendments and interpretations.

<p>All paragraphs in this FSP have equal authority. Paragraphs in bold set out the main principles.</p>
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## **FASB Staff Position**

### **Scope**

7. **Statement 157 does not apply under Statement 13 and its related interpretive accounting pronouncements that address leasing transactions.**

## Amendments to Statement 157

8. Statement 157 is amended as follows: [Added text is underlined and deleted text is ~~struck out.~~]

a. Paragraph 2(c) is added as follows:

This Statement does not apply under FASB Statement No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions.

b. Appendix D:

### REFERENCES TO APB AND FASB PRONOUNCEMENTS

D1. This appendix lists APB and FASB pronouncements existing at the date of this Statement that refer to fair value. Those pronouncements that are amended by this Statement are indicated by an asterisk. (See Appendix E.)

<u>Pronouncement</u>	<u>Title</u>
Opinion 18	The Equity Method of Accounting for Investments in Common Stock
Opinion 21*	Interest on Receivables and Payables
Opinion 28*	Interim Financial Reporting
Opinion 29*	Accounting for Nonmonetary Transactions
<del>Statement 13*</del>	<del>Accounting for Leases</del>
Statement 15*	Accounting by Debtors and Creditors for Troubled Debt Restructurings
Statement 19*	Financial Accounting and Reporting by Oil and Gas Producing Companies
<del>Statement 23</del>	<del>Inception of the Lease</del>

Statement 28	<del>Accounting for Sales with Leasebacks</del>
Statement 35*	Accounting and Reporting by Defined Benefit Pension Plans
Statement 45	Accounting for Franchise Fee Revenue
Statement 60*	Accounting and Reporting by Insurance Enterprises
Statement 61	Accounting for Title Plant
Statement 63*	Financial Reporting by Broadcasters
Statement 65*	Accounting for Certain Mortgage Banking Activities
Statement 66	Accounting for Sales of Real Estate
Statement 67*	Accounting for Costs and Initial Rental Operations of Real Estate Projects
Statement 68	Research and Development Arrangements
Statement 84	Induced Conversions of Convertible Debt
Statement 87*	Employers' Accounting for Pensions
<del>Statement 98</del>	<del>Accounting for Leases</del>
Statement 106*	Employers' Accounting for Postretirement Benefits Other Than Pensions
Statement 107*	Disclosures about Fair Value of Financial Instruments
Statement 114	Accounting by Creditors for Impairment of a Loan
Statement 115*	Accounting for Certain Investments in Debt and Equity Securities
Statement 116*	Accounting for Contributions Received and Contributions Made

Statement 124*	Accounting for Certain Investments Held by Not-for-Profit Organizations
Statement 126	Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities
Statement 133*	Accounting for Derivative Instruments and Hedging Activities
Statement 136*	Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others
Statement 138	Accounting for Certain Derivative Instruments and Certain Hedging Activities
Statement 140*	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
Statement 141*	Business Combinations
Statement 142*	Goodwill and Other Intangible Assets
Statement 143*	Accounting for Asset Retirement Obligations
Statement 144*	Accounting for the Impairment or Disposal of Long-Lived Assets
Statement 146*	Accounting for Costs Associated with Exit or Disposal Activities
Statement 149	Amendment of Statement 133 on Derivative Instruments and Hedging Activities
Statement 150*	Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity
Statement 153	Exchanges of Nonmonetary Assets

Statement 156*	Accounting for Servicing of Financial Assets
Interpretation 9	Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method
<del>Interpretation 23</del>	<del>Leases of Certain Property Owned by a Governmental Unit or Authority</del>
<del>Interpretation 24</del>	<del>Leases Involving Only Part of a Building</del>
Interpretation 45*	Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others
Interpretation 46 (revised December 2003)	Consolidation of Variable Interest Entities
Interpretation 47	Accounting for Conditional Asset Retirement Obligations
Technical Bulletin 84-1	Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement
Technical Bulletin 85-1	Accounting for the Receipt of Federal Home Loan Mortgage Corporation Participating Preferred Stock
Technical Bulletin 85-5	Issues Relating to Accounting for Business Combinations
Technical Bulletin 85-6	Accounting for a Purchase of Treasury Shares at a Price Significantly in Excess of the Current Market Price of the Shares and the Income Statement Classification of Costs Incurred in Defending against a Takeover Attempt
<del>Technical Bulletin 86-2</del>	<del>Accounting for an Interest in the Residual Value of a Leased Asset</del>

<del>Technical Bulletin 88-1</del>	<del>Issues Relating to Accounting for Leases-</del>
FSP FAS 115-1 and 124-1	The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments
FSP FAS 143-1	Accounting for Electronic Equipment Waste Obligations
FSP FAS 144-1	Determination of Cost Basis for Foreclosed Assets under FASB Statement No. 15 and the Measurement of Cumulative Losses Previously Recognized under Paragraph 37 of FASB Statement No. 144
FSP FAS 150-1	Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under FASB Statement No. 150
FSP FAS 150-2	Accounting for Mandatorily Redeemable Shares Requiring Redemption by Payment of an Amount that Differs from the Book Value of Those Shares under FASB Statement No. 150
FSP FAS 150-3	Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150
FSP FAS 150-4	Issuers' Accounting for Employee Stock Ownership Plans under FASB Statement No. 150
FSP FIN 45-2	Whether FASB Interpretation No. 45 Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value

FSP FIN 46(R)-2	Calculation of Expected Losses under FASB Interpretation No. 46 (R)
FSP FIN 46(R)-3	Evaluating Whether as a Group the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions about an Entity's Activities through Voting Rights or Similar Rights under FASB Interpretation No. 46 (R)
FSP FIN 46(R)-5	Implicit Variable Interests under FASB Interpretation No. 46(R)
FSP FIN 46(R)-6	Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)
FSP FTB 85-4-1	Accounting for Life Settlement Contracts by Third-Party Investors
FSP AAG INV-1 and SOP 94-4-1	Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans

### Amendments to Statement 13

9. Statement 13 is amended as follows:

a. Paragraph 5(c), as amended:

*Fair value of the leased property.* ~~The price that would be received to sell the property in an orderly transaction between market participants at the measurement date. Market participants are buyers and sellers that are independent of the reporting entity, that is, they are not related parties at the measurement date. The price for which the property could be sold in an arm's-length transaction between unrelated parties.~~ (See definition of related parties in leasing transactions in paragraph 5(a).) The following are examples of the determination of fair value:

- i. When the lessor is a manufacturer or dealer, the fair value of the property at the inception of the lease (as defined in paragraph 5(b)) will ordinarily be its normal selling price, reflecting any volume or trade discounts that may be applicable. However, the determination of fair value shall be made in light of market conditions prevailing at the time, which may indicate that the fair value of the property is less than the normal selling price and, in some instances, less than the cost of the property.
- ii. When the lessor is not a manufacturer or dealer, the fair value of the property at the inception of the lease will ordinarily be its cost, reflecting any volume or trade discounts that may be applicable. However, when there has been a significant lapse of time between the acquisition of the property by the lessor and the inception of the lease, the determination of fair value shall be made in light of market conditions prevailing at the inception of the lease, which may indicate that the fair value of the property is greater or less than its cost or carrying amount, if different. (See paragraph 6(b).)

### **Effective Date and Transition**

10. This FSP shall be effective upon the initial adoption of Statement 157. An enterprise that applied Statement 157 in a manner consistent with the provisions of this FSP would continue to apply the provisions of this FSP from the date of the initial adoption of Statement 157. However, an enterprise that did not apply Statement 157 in a manner consistent with the provisions of this FSP shall retrospectively apply the provisions in this FSP to the date of the initial adoption of Statement 157.

The provisions of this FSP need not be applied to immaterial items.
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