

MINUTES



Financial Accounting
Standards Board

To: Board Members

From: Leases Team

Subject: Minutes of February 17, 2011, Joint Board Meeting **Date:** February 22, 2011

cc: FASB: Cospers, Bielstein, Lott, Proestakes, Stoklosa, Mechanick, Zeyher, Helmus, Gonzales, Paul, Spreitzer, C. Smith, Brickman, Glotzer, Gabriele, Sutay, FASB Intranet, McGarity, Klimek; FASAC: Chookaszian, Posta, Guasp; GASB: Finden, Avis; IASB: Rees, Humphreys, Lian, Vatrenejak, Kim, Davidson

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 131—Principles relating to a definition of a lease
FASB Memo 132—Principles relating to the definition of a lease: specified asset
FASB Memo 133—Principles relating to the definition of a lease: right to control the use of an asset
FASB Memo 134—Types of leases – the case for the other-than-finance leases

Length of Discussion: 3:30AM to 6:15AM EST

Attendance:

Board members present: FASB: Golden, Linsmeier, Seidman, Seigel, Smith

IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, Gomes, Kalavacherla, König, McConnell, McGregor, Pacter, J. Smith, Yamada, Zhang

Staff in charge of topic: FASB: Zeyher

IASB: Humphreys

Other staff at Board table: IASB: Rees, Buchanan, Kim, Lian

FASB: Bauer

Staff participating by video: FASB: Stoklosa, Helmus, Paul

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 that document to be issued at the end of the second quarter of 2011.

Summary of Decisions Reached:

Types of Leases and the Definition of a Lease

The FASB and the IASB discussed types of leases and the definition of a lease and directed the staff to seek input through targeted outreach on the approaches detailed below. The purpose of the outreach is to:

1. Obtain a better understanding of the implications of any proposed changes to the *Leases Exposure Draft*
2. Understand whether a principle for identifying two types of leases for both lessees and lessors would provide more useful information
3. Test whether the proposed changes would provide a better basis on which to determine whether a contract contains a lease.

The feedback received will provide the Boards with input to help make final decisions at a future meeting about the definition of a lease and about types of leases.

Types of Leases

The Boards tentatively decided to identify a principle for identifying two types of leases for both lessees and lessors, with different profit and loss effects, as follows:

1. A *finance lease* with a profit or loss recognition pattern consistent with the proposals in the Exposure Draft
2. An *other-than-finance lease* with a profit or loss recognition pattern consistent with an operating lease under existing IFRSs/U.S. GAAP. (FASB: unanimous; IASB: unanimous)

The Boards tentatively decided to establish indicators to distinguish a finance lease from an other-than-finance lease (FASB: unanimous; IASB: unanimous).

The Boards asked the staff to use these tentative decisions to perform targeted outreach to determine if stakeholders' concerns about the profit and loss recognition pattern proposed in the Exposure Draft would be addressed.

Definition of a Lease

A lease is defined as a contract in which the right to use a specified asset is conveyed, for a period of time, in exchange for consideration. The *Leases* Exposure Draft included two principles relating to that definition to help to assess whether a contract contains a lease:

1. The fulfilment of the contract depends on providing a specified asset or assets.
2. The contract conveys the right to control the use of a specified asset for an agreed period of time.

At this meeting, the Boards discussed how those principles might be clarified to address comments received from respondents to the Exposure Draft and through other outreach activities.

Definition of specified asset

The Boards expressed support for defining a *specified asset* as an asset of a particular specification. The Boards also discussed an alternative approach that defines a *specified asset* as a uniquely identified or identifiable asset, which is closer to the application of current requirements in IFRSs and U.S. GAAP. The Boards will seek input on both of those approaches (FASB: unanimous; IASB: unanimous).

Assets that are incidental to the delivery of specified services

The Boards expressed support for specifying that a contract would not contain a lease if an asset is incidental to the delivery of specified services.

A portion of a larger asset

The Boards expressed support for clarifying that both physical and nonphysical portions of a larger asset can be specified assets. The Boards tentatively decided that such a clarification would be made only in conjunction with revising the definition of the right to control the use of an asset. This is to maintain consistency with how control is articulated in the revenue recognition Exposure Draft, *Revenue from Contracts with Customers*. The Boards also discussed an alternative approach of clarifying only that physically distinct portions of a larger asset can be specified assets. The Boards will seek input on both approaches (FASB: unanimous; IASB: unanimous).

Right to control the use of a specified asset

The Exposure Draft proposed that the right to control the use of an asset is conveyed if any one of three particular conditions is met. Comments received from respondents suggested that the third condition (set out in paragraph B4(c) of the *Leases* Exposure Draft) raised a number of questions about its application. Some respondents also questioned why *control* was defined differently in the *Leases* Exposure Draft than in other publications. The Boards expressed support for an approach that defines the right to control the use of an asset consistently with how control is articulated in the revenue recognition Exposure Draft. This approach would state that a customer has the right to control the use of a specified asset if it has the ability to direct the use, and receive the benefit from use, of the asset throughout the lease term. The Boards also discussed an alternative approach to retain the three conditions in paragraph B4 of the Exposure Draft but to clarify the principle underlying condition (c) of paragraph B4. The Boards will seek input on both approaches (FASB: unanimous; IASB: unanimous).