

MINUTES



Financial Accounting
Standards Board

To: Board Members

From: Leases Team

Subject: Minutes of March 21, 2011, Joint
Board Meeting

Date: March 28, 2011

cc: FASB: Cospers, Bielstein, Lott, Proestakes, Stoklosa, Mechanick, Zeyher, Bauer, 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, Geisman, Davidson, Buchanan

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 146—Inception versus commencement

FASB Memo 145—Initial direct costs

FASB Memo 152—Determination of the discount rate in a lease

Length of Discussion: 3:20PM to 5:10PM EST

Attendance:

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

IASB: Tweedie, Cooper, Danjou, Engström,
Finnegan, Gomes, Kalavacherla, König,

McGregor, Pacter, Scott, Smith, Yamada,
Zhang

Board members
participating via video: IASB: McConnell

Staff in charge of topic: FASB: Zeyher

IASB: Humphreys

Other staff at Board table: FASB: Bauer, Gonzales, Spreitzer

Staff participating
via video: IASB: Buchanan

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 final 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:

The IASB and the FASB discussed three issues related to initial measurement: inception versus commencement, initial direct costs, and discount rate.

Inception versus Commencement

The Boards discussed the accounting for elements of a lease contract at the date of inception versus the date of commencement from both the lessee's and lessor's perspective.

The Boards tentatively decided that the leases standard would:

1. Require a lessee and a lessor to recognize and initially measure lease assets and lease liabilities (and derecognize any corresponding assets and liabilities) at the date of commencement of the lease. (FASB: unanimous; IASB: unanimous)
2. Require a lessee and a lessor to use a discount rate calculated at the date of commencement when initially measuring lease assets and lease liabilities. (FASB: 4 to 3; IASB: 11 to 4)

3. Include application guidance on the accounting for costs incurred by the lessee before the date of commencement of a lease. (FASB: unanimous; IASB: unanimous)
4. Include application guidance on the accounting for lease payments made by the lessee before the date of commencement of a lease. (FASB: unanimous; IASB: unanimous)
5. Include application guidance on the accounting for incentives provided by the lessor to the lessee. This would clarify that a lessee will deduct all lease incentives from the initial measurement of the right-of-use asset. (FASB: 6 to 1; IASB: 13 to 2)

The Boards also discussed the accounting for a lease contract between the date of inception and the date of commencement of a lease when the contract meets the definition of an onerous contract. The IASB affirmed the leases Exposure Draft proposal to exclude from the scope of the leases standard leases between the date of inception and the date of commencement if they meet the definition of an onerous contract. Such leases would be accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, until the date of commencement. The FASB also indicated support for applying Topic 450, *Contingencies*, to those contracts that meet the definition of an onerous contract before the date of commencement but noted that this issue would be reviewed when the Board considers impairment at a future meeting.

Initial Direct Costs

The Boards discussed the definition of initial direct costs and the accounting by lessees and lessors for initial direct costs.

The Boards tentatively defined initial direct costs as follows:

Costs that are directly attributable to negotiating and arranging a lease that would not have been incurred had the lease transaction not been made.

(For lessees: FASB: unanimous; IASB: unanimous—for lessors: FASB: unanimous; IASB: 9 to 6)

The Boards affirmed the decision in the leases Exposure Draft that lessees and lessors should capitalize initial direct costs by adding them to the carrying amount of the right-of-use asset and the right to receive lease payments, respectively. (FASB: 6 to 1; IASB: 14 to 1)

Discount Rate

The Boards discussed how lessees and lessors would determine the discount rate to use to initially measure lease payments at present value.

The Boards tentatively affirmed the proposals in the leases Exposure Draft, but clarified the following: (FASB: unanimous; IASB: unanimous)

1. The lessee would use the rate the lessor charges the lessee when that rate is available; otherwise the lessee would use its incremental borrowing rate.
2. The lessor would use the rate the lessor charges the lessee.
3. The rate the lessor charges the lessee could be the lessee's incremental borrowing rate, the rate implicit in the lease, or, for property leases, the yield on the property. When more than one indicator of the rate that the lessor charges the lessee is available, the rate implicit in the lease should be used.

The Boards also tentatively decided to provide application guidance for the determination of the discount rate when considering the use of a group discount rate and determining the yield on property. (FASB: unanimous; IASB: unanimous)

General Announcements: None.