

MINUTES



Financial Accounting
Standards Board

To: Board Members

From: Leases Team

Subject: Minutes of June 1, 2011, Joint Board Meeting **Date:** June 2, 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 178—Residual Value Guarantees—Lessees

FASB Memo 179—Lessee Accounting

Length of Discussion: 10:50AM – 11:45AM EST

Attendance:

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

IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, Gomes, König, Pacter, Scott, Smith, Zhang

Board members participating via telephone:	McConnell, Kalavacherla
Board members participating via video:	McGregor, Yamada
Staff in charge of topic:	FASB: Zeyher IASB: Humphreys
Other staff at Board table:	FASB: Stoklosa, Bauer, Helmus, Gonzales, Cappiello, Spreitzer, Paul IASB: Rees, Buchanan, Vatrenjak, Lian, Kim, Geisman
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 in the third quarter of 2011.

Summary of Decisions Reached:

The IASB and the FASB continued their discussion on leases and discussed subsequent measurement issues relating to lessees, including foreign exchange differences, impairment, revaluation, and residual value guarantees.

Foreign Exchange Differences

The Boards discussed the accounting by lessees for leases denominated in a foreign currency. The Boards tentatively decided that foreign exchange differences related to the liability to make lease payments should be recognized in profit or loss, consistently with foreign exchange guidance in existing IFRSs and U.S. GAAP. (FASB: unanimous; IASB: 13 to 2)

Impairment

The Boards discussed impairment of the lessee's right-of-use asset. The Boards tentatively decided to affirm the proposal in the Leases Exposure Draft to refer to existing guidance in IFRSs and U.S. GAAP for impairment of the right-of-use asset. (FASB: unanimous; IASB: unanimous)

Revaluation (IASB only)

The IASB discussed revaluation of the lessee's right-of-use asset. The IASB tentatively decided to reaffirm the proposals in the Leases Exposure Draft allowing revaluation of the right-of-use asset. (IASB: unanimous)

Residual Value Guarantees

The Boards discussed the subsequent measurement of residual value guarantees by lessees (excluding guarantees provided by an unrelated third party) and tentatively decided that:

1. The amounts expected to be payable under residual value guarantees included in the measurement of the lessee's right-of-use asset should be amortized consistently with how other lease payments that are included in the measurement of a right-of-use asset are amortized. That is, amortization should be on a systematic basis from the date of commencement of the lease to the end of the lease term, or over the useful life of the underlying asset, if this is shorter. The method of amortization should reflect the pattern in which the economic benefits of the right-of-use asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method should be used. (FASB: unanimous; IASB: unanimous)
2. The amounts expected to be payable under residual value guarantees that are included in the measurement of the lessee's liability to make lease payments should be reassessed when events or circumstances indicate that there has been a significant change in the amounts expected to be payable under residual value guarantees. An entity would be required to consider all relevant factors to determine whether events or circumstances indicate that there has been a significant change. (FASB: unanimous; IASB: unanimous)
3. The amount of the change to the lessee's liability to make lease payments arising from changes in estimates of residual value guarantees should be recognized (a) in net income to the extent that those changes relate to current or prior periods and (b) as an adjustment to the right-of-use asset to the extent those changes relate to future periods. The allocation for changes in estimates of residual value guarantees should reflect the

pattern in which the economic benefits of the right-of-use asset will be consumed or were consumed. If that pattern cannot be reliably determined, an entity should allocate changes in estimates of residual value guarantees to future periods. (FASB: unanimous; IASB: 12 to 3)

General Announcements: None.