

MINUTES



To: FASB Board Members
From: Leases Team (Paul x263)
Subject: January 5, 2011, Roundtables Minutes: Leases, Chicago Morning Session
Date: June 28, 2011

Topic: Proposed Accounting Standards Update: *Leases*

Length of Discussion: 9:00 a.m. to 12:00 p.m.

Attendance:

Outside Participants

Steven Adams	DIRECTV
James Dolinar	Crowe Horwath LLP
Jeffrey Ellis	IMA Financial Reporting Committee
Katie Emmel	International Decision Systems
David Foster	Ally Financial, Inc.
John Hepp	Grant Thornton LLP
Bob Laux	Microsoft Corporation
Richard Leichleiter	Kindred Healthcare, Inc.
Lauralee Martin	Jones Lang LaSalle
Richard Peterson	Financial Reporting Advisors, LLC
Roy Rendino	NCREIF
Edward Roski, Jr.	Majestic Realty Company
George Wilfert	PCAOB

FASB & IASB Participants

Russ Golden	FASB Board Member
Tom Linsmeier	FASB Board Member
Patrick Finnegan	IASB Board Member
Paul Pacter	IASB Board Member
Danielle Zeyher	FASB Project Manager
Kristin Bauer	FASB Practice Fellow
Laura Spreitzer	FASB Postgraduate Technical Assistant
David Humphreys	IASB Practice Fellow

SCOPE

1. Participants from the healthcare and accounting industries expressed concern over the clarity of the scope and definition of a lease. Specific concerns related to fixed vs. variable price per unit of output contracts, specification and substitution of assets, pro rata interest in an asset, and control of an asset.
2. A respondent from the cable television industry noted that under the proposed guidance, contracts for the primary intent of providing a service may be included in the scope, possibly incorrectly. The respondent also noted that those contracts that include payment terms based on output should be included in the scope of service contract accounting under all situations.
3. A participant from the real estate industry noted that clarity is needed on the distinction between service and lease contracts to properly distinguish the respective elements on the income statement.
4. A participant from the software industry noted that transactions in which it is remote that the control of the asset will return to the lessor should be excluded from the scope of the proposed guidance.

LESSOR MODEL

5. Many participants, including those from the real estate, professional services, and cable television industries, expressed concerns with the clarity of the criteria distinguishing the derecognition approach from the performance obligation approach and the consistency of the proposed guidance with the revenue recognition project.
6. Several participants from the real estate, accounting, and leasing industries expressed concern with the proposed performance obligation approach of accounting for transactions entered into by the lessor, stating that the lessor has no liability. Participants from the real estate and auditing industries noted that the performance obligation approach is not appropriate for real estate leases and suggested the proposed derecognition approach and

fair value measurement for investment property and other long-lived assets as alternative treatments for real estate.

7. Participants from the leasing and professional services industries suggested that the accounting treatment under current guidance for transactions entered into by the lessor is appropriate.

LEASE TERM

8. Participants from the real estate, professional services, and software industries stressed that lease term renewal options do not meet the definition of a liability, are not considered in the pricing of lease agreements in practice, and do not represent claims on cash flows but, rather, are an accommodation for flexibility provided by the lessor to the lessee.
9. Respondents from the real estate and software industries stated that measuring and reassessing renewal options under the proposed guidance is too subjective and impractical and that the cost of doing so may outweigh the benefit.
10. Respondents from the real estate and professional services industries noted that the decision to exercise a renewal option is made at the end of the original lease term and that economic concerns are not the only factors considered in the decision. However, a respondent from the real estate industry stated that renewal options should be measured and included when exercise of the options is reasonably assured due to economic compulsion or the uniqueness of the underlying asset.
11. Participants from the auditing and healthcare industries expressed concern over the pattern of expense recognition under the proposed guidance, stating that fluctuations due to the effective interest method and reassessment don't reflect the economics of a lease agreement.
12. A participant from the software industry agreed with the proposed guidance for renewal options and contingent rental payments.

13. Participants from the professional services and accounting industries suggested that a higher threshold, such as *reasonably assured*, is more appropriate than the proposed threshold of *more likely than not*.

VARIABLE PAYMENTS

14. Participants from the real estate and leasing industries noted the difficulty and cost of initial and subsequent measurement of contingent rental payments at the individual contract level and suggested that measurement at the portfolio level is more realistic.
15. A participant from the auditing industry noted that all variable payments are not the same and that some may not represent an obligation.
16. A participant from the accounting industry noted that it is more appropriate and simpler to include the entire amount of a residual value guarantee in the definition of lease payments.
17. Participants from the auditing and professional services industries stated that there should be symmetry between the accounting treatment for lessees and lessors and consistency with the revenue recognition project.

OTHER ISSUES

Effective Date

18. Participants from the real estate and leasing industries noted the need for sufficient lead time to implement new guidance and update software systems.

Non-U.S. Generally Accepted Accounting Principles (GAAP) Disclosure

19. A respondent from the healthcare industry noted that capitalizing leases under the proposed guidance would decrease comparability between companies in the same industry and lead to an increase in non-GAAP disclosure. That increase in non-GAAP disclosure would serve to decrease the usefulness of GAAP metrics such as earnings per share and net income.

Sale-Leaseback Agreements

20. Participants from the accounting industry suggested that sale-leaseback transactions need to be addressed in the guidance, and one participant suggested a model based on control.

Related-Party Lease Agreements

21. A participant from the professional services industry noted the magnitude of lease arrangements between related parties in private industry and suggested the need for guidance on those transactions.

Bargain Purchase Options

22. A respondent from the professional services industry noted that distinguishing a renewal option from a bargain purchase option can be difficult and suggested that bargain purchase options be included in the definition of lease payments.