MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Leases Team		
Subject:	Minutes of July 20, 2011, Joint Board Meeting	**Date:**	July 22, 2011
cc:	FASB: Cosper, Bielstein, Lott, Proestakes, Stoklosa, Mechanick, Zeyher, Bauer, Cappiello, Donoghue, Helmus, Kersey, Paul, C. Smith, Brickman, Glotzer, Gabriele, Sutay, FASB Intranet, McGarity, Klimek; FASAC: Chookaszian, Posta, Guasp; GASB: Finden, Avis; IASB: Rees, Buchanan, Humphreys, Lian, Lion, Vatrenjak, Kim, Geisman, 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 191—Accounting for Variable Lease Payments – Variable lease payments that depend on an index or rate FASB Memo 192—Embedded Derivatives FASB Memo 193—Lessor Accounting
Length of Discussion:	6:15AM to 8:45AM EST 11:05AM to 12:30PM EST
Attendance:	
Board members present:	FASB: Buck, Golden, Linsmeier, Schroeder, Seidman, Seigel, Smith IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Engström, Finnegan,

	Gomes, Kalavacherla, König, McConnell, Ochi, Pacter, Scott, Smith, Zhang
Board members absent:	None
Staff in charge of topic:	FASB: Zeyher
	IASB: Humphreys
Other staff at Board table:	FASB: Stoklosa
	IASB: Rees, Buchanan, Vatrenjak
Staff participating via video:	FASB: Helmus, Bauer, Paul, Kersey
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 FASB and the IASB discussed lessor accounting, the accounting for lease payments that depend on an index or a rate, and the accounting for embedded derivatives in lease contracts.

Lessor Accounting

The Boards tentatively decided that a lessor should apply a "receivable and residual" accounting approach as follows:

1. The lessor would recognize a right to receive lease payments and a residual asset at the date of the commencement of the lease.
2. The lessor would initially measure the right to receive lease payments at the sum of the present value of the lease payments, discounted using the rate the lessor charges the lessee.
3. The lessor would initially measure the residual asset as an allocation of the carrying amount of the underlying asset and would subsequently

measure the residual asset by accreting it over the lease term using the rate the lessor charges the lessee.

4. If profit on the right-of-use asset transferred to the lessee is reasonably assured, the lessor would recognize that profit at the date of the commencement of the lease. The profit would be measured as the difference between (a) the carrying amount of the underlying asset and (b) the sum of the initial measurement of the right to receive lease payments and the residual asset.
5. If profit on the right-of-use asset transferred to the lessee is not reasonably assured, the lessor would recognize that profit over the lease term. In that case, the lessor would initially measure the residual asset as the difference between the carrying amount of the underlying asset and the right to receive lease payments. The lessor would subsequently accrete the residual asset, using a constant rate of return, to an amount equivalent to the underlying asset's carrying amount at the end of the lease term as if the underlying asset had been subject to depreciation.
6. If the right to receive lease payments is greater than the carrying amount of the underlying asset at the date of the commencement of the lease, the lessor would recognize, as a minimum, the difference between those two amounts as profit at that date.

The Boards also tentatively decided that the following should be excluded from the scope of the "receivable and residual" approach to lessor accounting:

1. Leases of investment property measured at fair value
2. Short-term leases.

For those excluded leases, a lessor should (1) continue to recognize and depreciate the underlying asset and (2) recognize lease income over the lease term on a systematic basis.

Lease Payments That Depend on an Index or a Rate

The Boards discussed the measurement of lease payments that depend on an index or a rate included in the lessee's liability to make lease payments and the lessor's right to receive lease payments and tentatively decided that:

1. Lease payments that depend on an index or a rate should be initially measured using the index or rate that exists at the date of commencement of the lease.
2. Lease payments that depend on an index or a rate should be reassessed using the index or rate that exists at the end of each reporting period.
3. Lessees should reflect changes in the measurement of lease payments that depend on an index or a rate (a) in net income to the extent that those

changes relate to the current reporting period and (b) as an adjustment to the right-of-use asset to the extent that those changes relate to future reporting periods.

The Boards will discuss at a future meeting how a lessor should reflect changes in the measurement of lease payments that depend on an index or a rate.

Embedded Derivatives in Lease Contracts

The Boards tentatively decided that an entity should assess whether a lease contract includes embedded derivatives that should be bifurcated and accounted for in accordance with applicable U.S. GAAP and IFRS guidance on derivatives.

General Announcements: None.