

MINUTES



**To:** Board Members  
**From:** Leases Team  
**Subject:** Minutes of November 1, 2011, Joint Board Meeting  
**Date:** November 7, 2011  
**cc:** Sutay

*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 208—Lessor Disclosures  
FASB Memo 214—Transition—Other Considerations  
FASB Memo 215—Transition—Sale and Leaseback

**Length of Discussion:** 9:00AM – 10:30AM 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, Smith, Zhang

Board members absent: None

Staff in charge of topic: FASB: Zeyher

	IASB: Buchanan
Other staff at Board table:	FASB: Stoklosa, Bauer, Walsh, Paul, Kersey
Staff participating via video:	Rees, Lion, Lian, Geisman, Vatrenejak
Outside participants:	None

**Type of Document and Timing Based on the Technical Plan:**

The Board met to discuss issues relating to the development of an Exposure Draft addressing leases.

The Board's technical plan calls for that document to be issued in the first quarter of 2012.

**Summary of Decisions Reached:**

The FASB and the IASB discussed the disclosure requirements for lessors that account for leases under the receivable and residual approach. The Boards tentatively decided to require disclosure of the following.

1. A table of all lease-related income items that were recognized in the reporting period, disaggregated into (a) profit, recognized at lease commencement (split into revenue and cost of sales, if that is how the lessor has presented the amounts in the statement of comprehensive income); (b) interest income on the lease receivable; (c) interest income on the residual asset; (d) variable lease income; and (e) short-term lease income. *(FASB: unanimous; IASB: unanimous)*
2. Information about the basis and terms on which variable lease payments are determined as required in paragraph 73(a)(ii) of the 2010 Exposure Draft. *(FASB: unanimous; IASB: unanimous)*
3. Information about the existence and terms of options, including for renewal and termination required in paragraph 73(a)(iii) of the 2010 Exposure Draft. *(FASB: unanimous; IASB: unanimous)*
4. A qualitative description of purchase options in leasing arrangements, including information about the extent to which the entity is subject to such agreements. *(FASB: 6 to 1; IASB: 10 to 4)*

5. A reconciliation of the opening and closing balance of the right to receive lease payments and residual assets. (*FASB: unanimous; IASB: unanimous*)
6. A maturity analysis of the undiscounted cash flows that are included in the right to receive lease payments. (*FASB: unanimous; IASB: 12 to 2*) The maturity analysis should show, at a minimum, the undiscounted cash flows to be received in each of the first five years after the reporting date and a total of the amounts for the years thereafter. (*FASB: unanimous; IASB: unanimous*) The analysis should reconcile to the right to receive lease payments. The Boards noted a potential redundancy with disclosures proposed in other active projects and agreed to avoid redundancy wherever possible.
7. In addition to the disclosure about residual asset risk and residual value guarantees proposed in the 2010 Exposure Draft, information about how the entity manages its exposure to the underlying asset, including (a) its risk management strategy in this respect; (b) the carrying amount of the residual asset that is covered by residual value guarantees; and (c) whether the lessor has any other means of reducing its exposure to residual asset risk (for example, buyback agreements with the manufacturer from whom the lessor purchased the underlying asset; options to put the underlying asset back to the manufacturer). (*FASB: 6 to 1; IASB 11 to 3*)

Additionally, the Boards tentatively decided that a lessor is *not* required to disclose the following:

1. The initial direct costs incurred in the period (*FASB: unanimous; IASB: 12 to 2*)
2. The weighted average or range of discount rates used to calculate the right to receive lease payments (*FASB: 4 to 3; IASB: 10 to 4*)
3. The fair value of the right to receive lease payments or the residual asset. (*FASB: 4 to 3; IASB: 10 to 4*)

#### *Sale/Leaseback and Other Transition Considerations*

The Boards discussed sale and leaseback transactions and other transition considerations for the proposed leases guidance.

The Boards reached the following tentative decisions regarding transition accounting for sale and leaseback transactions entered into prior to the effective date. (*FASB: unanimous; IASB: unanimous*)

1. For a sale and leaseback transaction that resulted in capital lease (U.S. GAAP) or finance lease (IFRSs) classification, a seller/lessee would not reevaluate the sale recognition conclusion previously reached, would not remeasure lease assets and lease liabilities previously recognized on the statement of financial position, and would continue to amortize any deferred gain or loss on sale over the lease term in the statement of comprehensive income.
2. For a sale and leaseback transaction that resulted in operating lease classification or the sale recognition criteria previously were not met, a seller/lessee would reevaluate the sale conclusion based on the criteria for transfer of control of an asset in the proposed revenue standard. If the criteria were met, a seller/lessee would measure lease assets and lease liabilities in accordance with the Boards' previous tentative decisions regarding transition for leases that are currently classified as operating leases and would recognize any deferred gain or loss in opening retained earnings upon transition to the new leases guidance.
3. Alternatively, a seller/lessee may elect to apply the requirements in the proposed leases standard retrospectively.

The Boards tentatively decided that no transition guidance was necessary for short-term leases, investment property measured at fair value, subleases, useful lives of leasehold improvements, build-to-suit leases, and in-substance purchases and sales. The Boards plan to consider whether transition guidance is necessary for secured borrowings and investment property not measured at fair value at a future meeting. *(FASB: unanimous; IASB: unanimous)*

The FASB confirmed its previous tentative decision regarding the scope of the proposed leases standard for arrangements that currently are within the scope of EITF Issue No. 01-8, *Determining Whether an Arrangement Contains a Lease*. The transition exception in Issue 01-8 would no longer be available. Consequently, an entity would be required to account for a lease in an arrangement that contains a lease based on the facts and circumstances existing at the effective date of the new leases standard, even when it previously applied the transition exception in Issue 01-8. *(FASB: unanimous; IASB: unanimous)*

**General Announcements:** None.