

MINUTES



MEMORANDUM

To: Board Members
From: Leases Team (Alqamoussi x263)
Subject: Minutes of June 18, 2014, Joint Board Meeting
Date: June 20, 2014
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 Memos 285–288: Cover Memo, Subleases, Lessee Balance Sheet Presentation, Cash Flow Presentation

Length of Discussion: June 18, 2014—7:30AM to 9:45AM EDT

Attendance:

Board members present: FASB: Golden, Kroeker, Buck, Linsmeier, Schroeder, Siegel, Smith
IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Engström, Finnegan, Gomes, Kabureck, Lloyd, McConnell, Ochi, Scott, Suh, Tokar, Zhang

Board members absent: None

Staff in charge of topic: FASB: Zeyher
IASB: Buchanan

Other staff at Board table: FASB: Cosper, Esposito, Muir, Muehlbauer, Winick, Alqamoussi
IASB: Shields, Rees, Geisman (in Norwalk), Heining, Ravelli, Donkersley

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The FASB and the IASB (the Boards) continued redeliberating the proposals in the May 2013 Exposure Draft, *Leases*, specifically discussing the following topics: (1) subleases, (2) lessee balance sheet presentation, and (3) cash flow presentation.

Tentative Board Decisions:

Subleases

The Boards decided that an intermediate lessor (that is, an entity that is both a lessee and a lessor of the same underlying asset) should account for a head lease and a sublease as two separate contracts (accounting for the head lease in accordance with the lessee accounting proposals and the sublease in accordance with the lessor accounting proposals), unless those contracts meet the contract combinations guidance adopted by the Boards at the April 2014 joint Board meeting.

(FASB: unanimous; IASB: unanimous)

The FASB decided that, when classifying a sublease, an intermediate lessor should determine the classification of the sublease with reference to the underlying asset (for example, the item of property, plant, and equipment that is the subject of the lease), rather than with reference to the right-of-use (ROU) asset arising from the head lease.

(FASB: 5 to 2)

The IASB decided that, when classifying a sublease, an intermediate lessor should determine the classification of the sublease with reference to the ROU asset arising from the head lease.

(IASB: unanimous)

The Boards decided that an intermediate lessor should not offset lease assets and lease liabilities arising from a head lease and a sublease that do not meet the respective IFRS and GAAP financial instruments requirements for offsetting.

(FASB: unanimous; IASB: unanimous)

The Boards decided that an intermediate lessor should not offset lease income and lease expense related to a head lease and a sublease, unless it recognizes sublease income as revenue and acts as an agent (assessed in accordance with

the “principal-agent” guidance in the recently published standard on revenue from contracts with customers).

(FASB: unanimous; IASB: unanimous)

Lessee Balance Sheet Presentation

The FASB decided that a lessee should either present as separate line items on the balance sheet or disclose in the notes Type A ROU assets (which are effectively purchases of the underlying asset) and Type B ROU assets. If a lessee does not present Type A ROU assets or Type B ROU assets as separate line items on the balance sheet, the lessee should disclose in the notes which line items in the balance sheet include Type A ROU assets and Type B ROU assets. A lessee is prohibited from presenting Type A ROU assets within the same line item as Type B ROU assets.

(Type A leases, FASB: unanimous; Type B leases, FASB: 5 to 2)

The IASB decided that a lessee should either present as a separate line item on the balance sheet or disclose in the notes ROU assets. If a lessee does not present ROU assets as a separate line item on the balance sheet, the lessee should present ROU assets within the same line item as the corresponding underlying assets would be presented if they were owned, and disclose in the notes which line item in the balance sheet includes ROU assets.

(IASB: unanimous)

The FASB decided that a lessee should either present as separate line items on the balance sheet or disclose in the notes Type A lease liabilities and Type B lease liabilities. If a lessee does not present Type A lease liabilities or Type B lease liabilities as separate line items on the balance sheet, the lessee should disclose in the notes which line items in the balance sheet include Type A lease liabilities and Type B lease liabilities. A lessee is prohibited from presenting Type A lease liabilities within the same line item as Type B lease liabilities.

(Type A leases, FASB: 6 to 1; Type B leases, FASB: unanimous)

The IASB decided that a lessee should either present as a separate line item on the balance sheet or disclose in the notes lease liabilities. If a lessee does not present lease liabilities as a separate line item on the balance sheet, the lessee should disclose in the notes which line item in the balance sheet includes lease liabilities.

(IASB: 14 to 2)

Cash Flow Presentation

The Boards decided to retain the guidance in the 2013 Exposure Draft requiring a lessor to classify cash receipts from leases within operating activities.

(FASB: unanimous; IASB: unanimous)

The FASB decided to retain the guidance in the 2013 Exposure Draft requiring a lessee to classify:

1. Cash payments for the principal portion of the lease liability arising from Type A leases within financing activities
2. Cash payments for the Interest portion of the lease liability arising from Type A leases within operating activities
3. Cash payments arising from Type B leases within operating activities.

(FASB: unanimous)

The IASB decided to retain the guidance in the 2013 Exposure Draft for Type A leases requiring a lessee to classify:

1. Cash payments for the principal portion of the lease liability within financing activities
2. Cash payments for the interest portion of the lease liability in accordance with the requirements relating to interest paid in IAS 7, *Statement of Cash Flows*.

(IASB: 11 to 5)

The IASB also decided to require a lessee to disclose a single figure for lease cash outflows elsewhere in the financial statements.

(IASB: unanimous)

Next Steps

The Boards will continue their joint redeliberations of the May 2013 Exposure Draft at a future Board meeting.

General Announcements:

None.