

MINUTES



MEMORANDUM

**To:** Board Members  
**From:** Akinwale (x443)  
**Subject:** Minutes of May 10, 2017 Leases Implementation Board Meeting  
**Date:** May 22, 2017  
**cc:** Tosches

*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 3: Leases Implementation

Length of Discussion: 9:30 a.m to 10:45 a.m. EST

Attendance:

Board members present: Golden, Kroeker, Botosan, Monk, Schroeder, Siegel, and Smith

Board members absent: None

Staff in charge of topic: Kaestle

Other staff at Board table: Esposito, Faineteau, Bologna, and Akinwale

Outside participants: None

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

The staff provided the Board with an update on all inquiries and feedback received since the issuance of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The staff also highlighted the following key inquiries raised since the November 30, 2016 Board meeting.

**Tentative Board Decisions:**

*Pipeline Laterals*

Stakeholders inquired whether a pipeline lateral would be considered an identified asset under Topic 842 and, if so, how an entity would determine whether the customer has the right to control the use of that pipeline lateral throughout the period of use. The Board observed that the guidance in Topic 842 is clear that a pipeline lateral is an identified asset. Given that, a company's evaluation about whether a pipeline lateral is a lease should focus on (1) whether the customer has the right to obtain substantially all the economic benefits from use of the identified asset and (2) whether the customer has the right to direct the use of that identified asset. Contracts for the use of pipeline laterals can vary among and between entities and, therefore, require an assessment based on the relevant facts and circumstances.

The Board decided that no further standard-setting action was needed on pipeline laterals.

(Vote: 7-0)

*Easements*

Stakeholders inquired about whether easements would be within the scope of Topic 842 when currently accounted for as intangible assets. The Board observed that there is guidance in the Codification that refers to perpetual easements as acquired intangible assets and appreciates that guidance has resulted in more than one view on this question. In addition, it was not clear whether being within the scope of Topic 350, *Intangibles—Goodwill and Other*, or Topic 842 may produce different outcomes in certain fact patterns.

Given it may be reasonable to have more than one view on this question, the Board directed the staff to perform additional outreach with preparers, auditors, and users to:

1. Gather additional information about the types of easements relevant to this question
2. Identify practice issues that relate to scope of the Codification—specifically, determining how the Codification is applied to easements

3. Depending on the results of this research, identify recommendations, if necessary, to clarify the Codification in regards to scope, and whether transition guidance would be necessary.

(Vote: 7-0)

### *Transition*

The Board clarified its intent regarding the transition guidance in Topic 842 as follows:

Entities are required to adopt Topic 842 using a modified retrospective transition method, with the option to elect a package of practical expedients and the option to use a practical expedient about hindsight. The Board discussed the two objectives of this transition requirement.

1. The first objective was to enable entities to leverage their existing systems and processes related to Topic 840 for leases entered before the effective date of Topic 842 and that have not expired before the date of initial application. As discussed in paragraph BC389 of Update 2016-02, the Board aimed at reducing “the cost of transition for preparers, while still reflecting the primary improvement of the lessee accounting guidance at each reporting date presented in an entity’s comparative financial statements.” Because of the closer alignment between the guidance in Topic 840 and the new leases guidance (as compared with that in the 2013 Exposure Draft guidance), the Board did not believe that the benefits of a full retrospective transition justified the cost and complexity to preparers. The Board therefore mandated a modified retrospective transition, which limits situations in which an entity must apply the guidance in Topic 842 during the comparative periods presented and that would have required an entity to maintain two sets of accounting during those comparative periods (that is, one under Topic 840 and then one under Topic 842 once an entity adopts Topic 842), with the exception that lessees should recognize operating leases on balance sheet during the comparative periods presented (but based on amounts determined under Topic 840). However, to the extent that an entity does not elect the package of practical expedients in paragraph 842-10-65-1(f), lease classification changes generally will require an entity to account for a lease as if it had always been accounted for under Topic 842. An entity also may have to write off a portion of initial direct costs, whether lease classification changes or not, if it does not elect the package of practical expedients.

The transition provisions also generally enable entities to “run off” their existing leases for the remainder of the lease term (including in periods after the effective date), unless, on or after the effective date, either:

- a. The lease is modified and that modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8.

- b. For lessees only, the lease liability is remeasured in accordance with the subsequent measurement guidance in Subtopic 842-20.

If either of those events occurs, the lease should be accounted for in accordance with Topic 842 in its entirety from the effective date of the modification or from the remeasurement date.

- 2. The second objective was to limit optionality with respect to the various combinations of transition approaches that entities may elect in order to increase comparability for users. As discussed in paragraph BC393 of the Update, the Board aimed at limiting, “for users, the potential number of combinations of transition methods entities might elect.” For example, for these reasons, the Board decided to require that the practical expedients in paragraph 842-10-65-1(f) be elected as a package that will apply to all of an entity’s leases (that is, leases for which an entity is a lessee or a lessor). This is also why the Board decided not to permit entities to adopt the guidance in Topic 842 on a full retrospective approach.

The Board decided that no further standard-setting action was needed on transition.

(Vote: 7-0)

**General Announcements:** This Board directed the staff to perform additional research on easements.