

MINUTES



MEMORANDUM

To: Board Members
From: Hoyer
Subject: Minutes of March 28, 2018 Leases Implementation Board Meeting
Date: April 3, 2018
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—Targeted Improvements

Basis for Discussion: FASB Memo 10: Cover Memo
FASB Memo 10A: Targeted Improvements – Separating Components of a Contract – Comment Letter Feedback Summary
FASB Memo 10B: Targeted Improvements – Separating Components of a Contract – Other Issues
FASB Memo 10C: Other Implementation Requests

Length of Discussion: 11:00 a.m. to 12:15 p.m. EDT

Attendance:

Board members present: Golden, Kroeker, Botosan, Hunt, Schroeder (phone), and Siegel

Board members absent: Monk

Staff in charge of topic: Roberge

Other staff at Board table: Kuhaneck, Faineteau, Park, Bologna, LaFrano, and Hoyer

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss feedback received on its proposed Accounting Standards Update, *Leases (Topic 842): Targeted Improvements*, specific to the proposed practical expedient related to the requirement for lessors to separate lease and nonlease components. The practical expedient in the proposed Update stated:

842-10-15-42A As a practical expedient, a lessor may, as an accounting policy election, by class of underlying asset, choose to not separate nonlease components from lease components and, instead, to account for each separate lease component and the nonlease components associated with that lease component as a single lease component if both of the following are met:

- a. The timing and pattern of revenue recognition for the lease component and nonlease components associated with that lease component are the same. [Criterion A]
- b. The combined single lease component is classified as an operating lease in accordance with paragraphs 842-10-25-2 through 25-3. [Criterion B]

The Board also met to discuss other implementation issues raised by stakeholders. Specifically, the Board discussed accounting for certain lessor costs, such as sales taxes and property taxes and insurance.

Tentative Board Decisions:

Leases—Targeted Improvements to Topic 842

The Board decided:

1. To amend Criterion A to require the timing and pattern of *transfer* for the lease component and nonlease component(s) associated with that lease component to be the same (instead of the timing and pattern of *revenue recognition*, as proposed). [Vote: 6-0; 1 Board member abstained]
2. To amend Criterion B to require an assessment of the lease component (instead of the combined component, as proposed). Criterion B will require the lease component, if accounted for separately, to be classified as an operating lease in accordance with paragraphs 842-10-25-2 through 25-3. [Vote: 5-1; 1 Board member abstained]
3. For arrangements that qualify for the practical expedient, a lessor will account for the combined component as a single performance obligation in accordance with Topic 606, Revenue from Contracts with Customers, when the nonlease component(s) associated with the lease component is the *predominant* component of the combined component. Otherwise, the lessor

would account for the combined component as an operating lease in accordance with Topic 842. [Vote: 5-1; 1 Board member abstained]

The Board directed the staff to include language in the final Update clarifying that the existence of nonlease components that are not eligible for the practical expedient does not preclude an entity from electing the practical expedient for the lease component and nonlease component(s) that qualify for the practical expedient. [Vote: 5-1; 1 Board member abstained]

Transition Guidance and Effective Date

The Board decided:

1. An entity electing the practical expedient must apply the expedient to all existing lease transactions that qualify for the expedient at the date elected. [Vote: 5-1; 1 Board member abstained]
2. Except for early adopters of Topic 842, the effective date and transition requirements for the final amendments should be the same as the effective date and transition requirements of Topic 842. [Vote: 5-1; 1 Board member abstained]
3. The lessor practical expedient may be elected by early adopters of Topic 842 either (a) in the first reporting period following the issuance of a final Update containing the practical expedient or (b) at the original effective date of Topic 842 for that entity. Early adopters electing the lessor practical expedient are permitted to apply the practical expedient either retrospectively or prospectively. [Vote: 6-0; 1 Board member abstained]

Analysis of Costs and Benefits

The Board concluded that it has received sufficient information and analysis to make an informed decision on the issues presented and that the expected benefits of the amendments justify the expected costs. [Vote: 5-1; 1 Board member abstained]

Next Steps

The Board directed the staff to draft a final Accounting Standards Update for vote by written ballot. The final Update will reflect decisions reached at this meeting, in addition to the decisions reached at the Board's March 7, 2018 meeting on the proposed additional (and optional) transition method for adoption of Topic 842. [Vote: 5-1; 1 Board member abstained]

Leases—Implementation Requests

The Board agreed with the staff recommendation to permit lessors to analogize to:

1. The guidance in paragraph 606-10-32-2A that allows an entity to make an accounting policy election to exclude from the transaction price sales taxes imposed on and concurrent with a specific revenue-producing transaction that are collected by the entity from a customer. [Vote: 7-0]
2. The reasoning included in paragraph BC38(c) of the basis for conclusions in Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, and exclude certain lessor costs from variable consideration in the lease contract when those lessor costs are paid by the lessee and the uncertainty in the amount paid is not expected to ultimately be resolved. [Vote: 7-0]

The Board decided to add a separate project to its technical agenda to add specific guidance of the Codification to address these two issues. [Vote: 7-0]

Next Steps

The Board directed the staff to begin drafting proposed amendments for external review to bring back to the Board for discussion. [Vote: 7-0]

General Announcements: None.