

MINUTES



MEMORANDUM

To: Board Members
From: FASB Staff
Subject: Minutes of July 29, 2020 Board Meeting—Agenda Prioritization
Date: August 4, 2020
cc: Stacey 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: Agenda Prioritization

Basis for Discussion:

Cover Memo

FASB Memo No. 25 – Leases: Targeted Improvements

FASB Memo No. 25A – Transition Disclosures under Topic 842

FASB Memo No. 25B – Sales-Type Leases with Substantial Variable Lease Payments

FASB Memo No. 25C – Remeasurement of Lease Payments Based on a Reference Index or Rate

FASB Memo No. 25D – Reduction of Scope in a Lease Contract

FASB Memo No. 1 – Effect of Underwriter Restrictions on Fair Value Measurements

FASB Memo No. 1 – Benchmark Interest Rates for Fair Value Hedges

FASB Memo No. 1 – Fair Value Hedge Accounting for Fixed-Rate Call Option Monetization Strategies

FASB Memo No. 1 – Customer Account Disclosures

FASB Memo No. 1 – Permit an Entity to Elect as Its Functional Currency the Parent's Reporting Currency for All Its Foreign Subsidiaries

FASB Memo No. 1 – Including the Current Portion of Fixed Assets as an Element of Working Capital

Length of Discussion: 8:00 to 10:26 a.m. EDT

Attendance:

Board Members present:	Jones, Kroeker, Botosan, Buesser, Cospers, Hunt, Schroeder
Staff in charge of topic:	Cahill, Cryderman, Gabello, Roberge, Um
Other staff at Board table:	Casas, Chambwe, Gwinn, Hitchcock, Mancini, Phua, Posta, Tice, Warger, Yates, Zobrist
Outside Participants:	None

Type of Document and Timing on the Technical Plan:

The Board met to discuss issues relating to Agenda Prioritization. Please see the current technical plan for information about project timelines.

Tentative Board Decisions:

The Board decided to add a targeted improvements project for Topic 842, Leases, to its technical agenda to address the following issues:

1. Sales-type leases with substantial variable lease payments
2. Remeasurement of lease payments based on reference index or rate
3. Reduction of scope in a lease contract.

(Vote: 7-0)

The Board decided not to consider the issue on transition disclosures under Topic 842 as part of that project. See below for further tentative Board decisions on the Leases—Targeted Improvements project. **(Vote: 7-0)**

The Board decided to add a project to its technical agenda to address the effect of underwriter restrictions on fair value measurements. **(Vote 7-0)**

The Board decided not to add this project to the EITF's agenda and instead to retain the project as a Board project. **(Vote 4-3)**

The Board also decided to add a project to its research agenda to evaluate the effects of other types of sale restrictions on fair value measurements. **(Vote: 7-0)**

As part of the Board's existing project monitoring reference rate reform initiatives, the Board decided to consider developing a principle for benchmark interest rates eligible for fair value hedge accounting. **(Vote: 6-1)**

The Board decided not to add the following potential projects to its agenda:

1. Fair value hedge accounting for fixed-rate call option monetization strategies (The Board decided to instead consider whether to address that issue as part of the Hedge Accounting—Phase 2 research project.) **(Vote: 7-0)**
2. Customer account disclosures **(Vote: 6-1)**
3. Permit an entity to elect as its functional currency the parent's reporting currency for all its foreign subsidiaries **(Vote: 7-0)**
4. Including the current portion of fixed assets as an element of working capital. **(Vote: 7-0)**

Leases—Targeted Improvements

As noted above, the Board decided to add a project to its technical agenda to address the following issues:

1. *Sales-type leases with substantial variable lease payments.* A lessor would be required to classify a lease with lease payments that are predominantly variable as an operating lease. **(Vote: 7-0)**
2. *Remeasurement of lease payments based on a reference index or rate.* Lessees would have an option to remeasure lease liabilities upon a change in a reference index or rate affecting future lease payments. Lessees that elected to apply that option would be required to disclose that fact and to apply that option as an entity-wide election. **(Vote: 7-0)**
3. *Reduction of scope in a lease contract.* When a separate lease component within a contract is terminated and the economics of the remaining lease components remain substantially the same as before the partial termination of that contract, an entity (lessee or lessor) would not apply modification accounting to the remaining lease components. **(Vote: 7-0)**

Transition

The Board decided that entities that have not adopted Topic 842 as of the effective date of a final Update would follow the transition requirements of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*.

The Board decided that entities that have adopted Topic 842 as of the effective date of a final Update would be permitted to apply the amendments resulting from each of the three issues either retrospectively (with earliest period beginning at the original effective date of Topic 842 for that entity) or prospectively.

1. For the first issue (sales-type leases with substantial variable lease payments), prospective application would be for new leases entered into after the effective date or modifications of existing leases that are accounted for as separate leases or new leases after the effective date.
2. For the second and third issues (remeasurement of lease payments based on a reference index or rate and reduction of scope in a lease contract), the Board decided that prospective application would be for leases existing at the effective date and new leases entered into after the effective date.

The Board decided that early adoption of the amendments resulting from each of the three issues would be permitted but no earlier than adoption of Topic 842. **(Vote: 7-0)**

Analysis of Costs and Benefits

The Board concluded that it has received sufficient information and analysis to make an informed decision on the perceived costs of the changes and, subject to

what it learns in the comment letter process, that the expected benefits would justify the expected costs of the amendments in the proposed Update. **(Vote: 7-0)**

Comment Period of the Proposed Update

The Board decided to provide a 45-day comment period for the proposed Update. **(Vote: 7-0)**

Next Steps

The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot. **(Vote: 7-0)**

General Announcements:

The staff provided an update on actions taken and the plan for continuing the FASB's post-implementation review (PIR) process for the following standards that are currently under review:

1. Leases—The staff has responded to more than 270 technical inquiries, and the Board has issued five Updates aimed at improving and simplifying Topic 842, Leases. At its July 29, 2020 meeting, the Board discussed four issues and decided to add three of those to a targeted improvements project as part of its ongoing PIR efforts. A virtual roundtable will be held on September 18, 2020, to discuss broad implementation issues, including those that would apply to private companies, to determine whether the Board needs to take further action.
2. Current Expected Credit Losses (CECL)—The staff has conducted four public meetings and issued 23 educational papers through the CECL Transition Resource Group (TRG). The staff also has conducted outreach with various types of stakeholders. The Board has issued five Updates aimed at improving Topic 326, Financial Instruments—Credit Losses. Additionally, the Board deferred the effective date of Topic 326 for public business entities that do not meet the definition of a U.S. Securities and Exchange Commission (SEC) filer, private companies, and not-for-profit organizations. The staff has issued two staff Q&As: [Whether the Weighted-Average Remaining Maturity Method is an Acceptable Method to Estimate Expected Credit Losses](#), and [Developing an Estimate of Expected Credit Losses on Financial Assets](#). Currently, the staff is monitoring the adoption of CECL by public companies by listening to earnings calls, reading 10-Qs, collecting data, and speaking to investors. The staff plans to hold a roundtable in the first half of 2021.

3. Revenue Recognition—The revenue recognition TRG has responded to 100 submissions, resulting in 60 TRG papers. The Board issued two Updates to defer the effective date of Topic 606, Revenue from Contracts with Customers, and four Updates to clarify or simplify the standard. Most recently, the Board added [Revenue Recognition—Practical Expedient for Private Company Franchisors](#) to the technical agenda.

The staff has announced the launch of a dedicated PIR webpage on the FASB website for all items related to PIR. This page is located at www.fasb.org/PIR.