

MINUTES



MEMORANDUM

To: Board Members
From: Leases Team
Subject: Minutes of April 14, 2021 Board Meeting on Leases (Topic 842): Targeted Improvements
Date: April 19, 2021
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: Discount Rate for Lessees That Are Not Public Business Entities

Basis for Discussion: Board Memo No. 32

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

Attendance:

Board members present: Jones, Kroeker, Botosan, Buesser, Cosper, Hunt, and Schroeder
Staff in charge of topic: Roberge
Other staff at Board table: Salo, Posta, Gwinn, Warger, Mancini, and Holmstead
Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of a proposed Accounting Standards Update to amend the risk-free discount rate accounting policy election for lessees that are not public business entities. The Board's technical plan calls for that document to be issued in June 2021.

Tentative Board Decisions:

The Board discussed the risk-free discount rate accounting policy election for lessees that are not public business entities in Topic 842, Leases. That election allows lessees that are not public business entities to use a risk-free rate as the discount rate for all leases. The Board made the following decisions.

The Board added a project to its technical agenda to amend the accounting policy election for lessees that are not public business entities to use a risk-free rate as the discount rate. **(Vote 6-1)**

Issue 1

The Board decided that a lessee that is not a public business entity may make the risk-free rate accounting policy election by class of underlying asset. **(Vote 7-0)**

The Board decided to require a lessee to disclose its election, including the asset class to which it has made the accounting policy election. **(Vote 7-0)**

Issue 2

The Board decided to retain a risk-free rate for the discount rate accounting policy election, rather than another specified rate, such as a corporate bond rate or the prime rate. **(Vote 6-1)**

Issue 3

The Board decided that a lessee using the discount rate accounting policy election should be required to use the rate implicit in the lease when it is readily determinable instead of the risk-free rate. **(Vote 7-0)**

Transition and Effective Date

1. For a lessee that is not a public business entity that has not adopted Topic 842 as of the issuance of a final Update, the Board decided that the transition and effective date provisions in paragraph 842-10-65-1 would apply. **(Vote 7-0)**
2. For a lessee that is not a public business entity that has adopted Topic 842 as of the issuance of a final Update, the Board decided to require the use of a modified retrospective transition method. That transition method would require a lessee to:
 - a. Remeasure affected lease liabilities and right-of-use assets for existing leases at the beginning of the period of adoption and record the cumulative effect of transition in retained earnings
 - b. Calculate the transition adjustment using the discount rate and remaining lease term as of the adoption date
 - c. Not otherwise remeasure or reclassify leases as a result of transition
 - d. Disclose the fact that the amendments have been adopted and the amount of the transition adjustment. **(Vote 7-0)**
3. For a lessee that is not a public business entity that has adopted Topic 842 as of the issuance of a final Update, the Board decided that the amendments should be effective for annual reporting periods beginning after December 15, 2021, including interim reporting periods beginning after December 15, 2022, with early application permitted. **(Vote 7-0)**

Cost-Benefit Analysis and Comment Period

The Board concluded that it has received sufficient information and analyses to make informed decisions on the issues presented and that, subject to what it learns through comment letters, the expected benefits of the amendments would justify the expected costs. **(Vote 7-0)**

The Board decided to provide a 30-day comment period for the proposed Accounting Standards 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: None