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**International
Accounting Standards
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

INFORMATION FOR OBSERVERS

Board Meeting: 19 January 2009, London

Project: LEASE ACCOUNTING

Subject: Summary of January FASB Leases Meeting (Agenda Paper 13C)

Introduction

1. The purpose of this memo is to describe to the IASB the results of the January 14, 2009 FASB meeting along with the FASB's rationale for their decisions. Should the IASB reach different decisions, there will be a joint Board meeting on Thursday, January 22 to discuss the next steps for the issuance of the proposed leases DP.

FASB Discussions

2. At the January 14 Board meeting, the FASB discussed whether arrangements that are in substance the acquisition of an asset should be in the scope of the leases project. These arrangements are currently in the scope of Statement 13 and IAS 17. The FASB also discussed issues related to lessor accounting (and the guidance for sublessors).

Scope (for arrangements that are leases in form but in substance are acquisitions of assets)

3. The FASB decided that the scope of the project should not be changed. They acknowledged that it would be difficult to define an “in-substance purchase” and there would be questions on where to “draw the line” to distinguish in substance purchases from right-of-use assets. The FASB did not think this was an issue for lessees, but rather more of a lessor issue.
4. Some FASB members noted that distinguishing an in-substance purchase from a right-of-use lease could be important in determining the amount and timing of revenue recognition by lessors. For example, whether there should be a day-one profit for certain lease arrangements or whether all revenue would be recognized over the lease term.
5. The FASB decided to discuss this issue in the proposed DP and ask questions to solicit input from constituents.

Subleases

6. The FASB decided that successful development of a right-of-use accounting model by lessees requires that it also develop a right-of-use model that would apply to all lessors (including sublessors). Accordingly, the FASB rejected suggestions to limit the project’s initial scope to reporting by sublessors. For example, the FASB did not want to apply current standards (Statement 13 and IAS 17) to sublessors because they did not want to carry over that guidance into a new lessee accounting standard.

Right-of-Use Model for Lessors

7. The FASB discussed how a right-of-use model might be applied to lessors. The FASB believes that a lessor would recognize an asset representing its right to receive payments during the lease term but did not decide whether a lessor should recognize a corresponding liability representing a performance obligation to permit use of the leased item over the lease term or derecognize the leased item. The FASB also indicated the need to determine when (and how) revenue should be recognized, including whether there should be a day-one profit in certain circumstances.

8. The FASB thought it was important to think about a lessor's performance obligation to permit use of the leased item over the lease term in conjunction with the Board's previously reached decision that a lessee should recognize a liability representing an unconditional obligation to make rental payments upon delivery of the leased item, and an asset representing the right to use the leased item.
9. The FASB decided to include a discussion of lessor accounting issues in the proposed DP. They did not necessarily want a detailed analysis of the lessor model included in the DP. The DP should present lessor accounting issues, explain their implications and importance, and solicit feedback from constituents.
10. The FASB noted that inclusion of lessor accounting issues in the proposed DP does not imply (nor does it preclude) that the final leases standard will address both lessee and lessor accounting. That decision will be made at a later time.

Summary

11. The FASB believes that without broad consideration of lessor accounting issues, it will be impossible to complete a standard on the accounting for lessees. It is also their belief that including lessor accounting issues in the proposed DP will result in issuing a lease standard for lessees sooner than if there were no discussion regarding the lessor in the DP.
12. The FASB thinks it is important for constituents to be able to consider both sides of the contract in order to provide constructive feedback on the lessee model. The FASB thinks the feedback will be better if the lessor issues are addressed, at least at a high level, at the same time as lessee issues.
13. The FASB staff can provide additional resources to work through the lessor accounting issues during the comment period (in addition to working on the lessee accounting issues that remain open).
14. The FASB does not believe that a final standard can be completed by 2011 without the inclusion of lessor issues described in the proposed DP. The FASB also believes that the proposed DP needs to have a discussion of lessor accounting issues in order to obtain a lasting, high-quality standard for lessees.

Next Steps

15. As indicated, the FASB would like to include some discussion of lessor accounting in the proposed DP. The FASB staff does not think including this additional information will hold up the issuance of the DP for more than a few weeks.
16. The FASB is already a few weeks behind the IASB as the FASB has not yet reviewed a preballot draft of the proposed DP; however, the turn-around time for reviewing drafts is generally quicker for the FASB. Therefore, the staff believes the Boards can get to the same place rather quickly.
17. If the Boards agree to include some discussion of lessor accounting in a joint DP, the staff will ask the FASB to authorize them to proceed to ballot draft.
18. If the IASB does not agree to include some discussion of lessor accounting in a joint DP, the Boards will need to decide on the next steps for the issuance of the DP.