

MINUTES



MEMORANDUM

To: Board Members

From: Leases Team

Subject: Minutes of February 15, 2023 Board Meeting on Leases (Topic 842): Common Control Arrangements

Date: February 22, 2023

cc: Dawn 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 (Topic 842): Common Control Arrangements

Basis for Discussion:

FASB Memo No. 4, "Leases—Common Control" and February 15, 2023 Board Meeting Handout

Length of Discussion: 9:00 a.m. to 9:45 a.m. EST

Attendance:

Board members present: Jones, Kroeker, Botosan, Buesser, Cosper, Hunt, and Cannon

Staff in charge of topic: Roberge

Other staff at Board table: Salo, Debbeler, Manders, Berryman, Suber, and Brown

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of a final Accounting Standards Update addressing the application of Topic 842, Leases, for common control arrangements. The Board's technical plan calls for that document to be issued by the end of March 2023.

Tentative Board Decisions:

The Board redeliberated the proposed Accounting Standards Update, *Leases (Topic 842): Common Control Arrangements*, and made the following decisions.

Issue 1: Terms and Conditions to Be Considered for Applying Topic 842 to Common Control Arrangements (Vote: 7-0)

For arrangements between entities under common control, the Board affirmed its decision to provide entities within the scope of paragraph 842-10-65-1(b) (that is, entities that are not public business entities, not-for-profit bond obligors, or employee benefit plans that file or furnish financial statements with or to the U.S. Securities and Exchange Commission) with a practical expedient to use written terms and conditions for:

1. Determining whether a lease exists and, if so,
2. The classification and accounting for that lease.

The practical expedient may be applied on an arrangement-by-arrangement basis. An entity applying the practical expedient is not required to determine whether those written terms and conditions are legally enforceable. If no written terms and conditions exist, an entity is required to apply Topic 842 on the basis of the legally enforceable terms of the arrangement.

Transition—Issue 1 (Vote: 7-0)

The Board decided that an entity adopting the practical expedient concurrently with its adoption of Topic 842 is required to adopt the practical expedient using the same transition method elected to adopt Topic 842. For all other entities, the Board decided that the practical expedient may be adopted either:

1. Prospectively to all leases that commence on or after the date of adoption of the final Accounting Standards Update
2. Retrospectively to the beginning of the earliest period presented in accordance with Topic 842 for all arrangements that exist at the date of adoption of the final Update. The amendments would not be applicable for arrangements no longer in place at the date of adoption of the final Update.

The Board affirmed its decision that an entity is permitted to document any existing unwritten terms and conditions of a common control arrangement before the date on which the entity's first interim (if applicable) or annual financial statements are available to be issued in accordance with the practical expedient.

The Board decided that an entity electing the transition practical expedients in paragraph 842-10-65-1(f) and (g) is not required to apply those transition expedients to common control arrangements for which the practical expedient for Issue 1 is being applied.

Issue 2: Accounting for Leasehold Improvements Associated with Common Control Leases (Vote: 4-3)

The Board decided that, for all entities, leasehold improvements associated with common control leases are required to be:

1. Amortized by the lessee over the useful life of the leasehold improvements to the common control group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the underlying asset through a lease with another entity not within the same common control group, the amortization period may not exceed the lease term associated with the lessor's lease with the other entity.
2. Accounted for as a transfer between entities under common control through an adjustment to equity (or net assets for not-for-profit entities) if, and when, the lessee no longer controls the use of the underlying asset.

The Board affirmed its decision that those leasehold improvements are subject to the impairment guidance in paragraph 360-10-40-4.

The Board also affirmed its decision that a lessee should disclose information about leases in which the useful life of the leasehold improvements to the common control group is longer than the lease term.

Transition—Issue 2 (Vote: 7-0)

The Board decided that an entity adopting the amendments concurrently with its adoption of Topic 842 may follow the same transition method elected to adopt Topic 842 or may use either of the prospective transition approaches listed below.

For all other entities, the Board decided that the amendments may be adopted using one of the following:

1. Prospectively to all new leasehold improvements recognized on or after the date an entity first applies the amendments.
2. Prospectively to all new and existing leasehold improvements recognized on or after the date that the entity first applies the amendments. The unamortized balance of existing leasehold improvements is required to be amortized over their remaining useful life to the common control group determined at that date.
3. Retrospectively to the beginning of the period in which the entity first applied Topic 842 for leasehold improvements that exist at the date the amendments are adopted. Any leasehold improvements that otherwise would not have been amortized or impaired are required to be recognized through a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the fiscal year of adoption of Topic 842.

Effective Date (Vote: 7-0)

The Board decided that the amendments will be effective for all entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal periods. The Board also decided that early adoption is permitted.

Analysis of Costs and Benefits **(Vote: 4-3)**

The Board concluded that it has received sufficient information and analysis to make an informed decision on the expected costs of the amendments and that the expected benefits of those amendments would justify the expected costs.

Next Steps **(Vote: 4-3)**

The Board directed the staff to draft an Accounting Standards Update for vote by written ballot.

General Announcements: None.