

Board Meeting Handout
Agenda Prioritization—Transfers and Servicing
September 16, 2026

Meeting Purpose

1. The purpose of the September 16, 2026 Board meeting is for the Board to discuss stakeholder feedback received on Topic 860, Transfers and Servicing, in response to the January 2025 Invitation to Comment, *Agenda Consultation* (2025 ITC).

Questions for the Board

1. Does the Board want to add a project to its technical agenda on Topic 860?
2. If the answer to Question 1 is yes, which of the following should be included in the project's scope?
 - a. Participating interests
 - b. Securities-for-securities lending.
3. Does the Board have any other feedback on the project's scope and objective?

Overview of Topic 860

2. Topic 860 establishes the accounting framework for transfers of financial assets, including the conditions that an entity must evaluate to determine whether derecognition is appropriate. Under this framework, a transfer is accounted for as a sale, and the financial asset is derecognized, only if the transferor has surrendered control over the transferred financial asset. If control has not been surrendered, the transfer is accounted for as a secured borrowing, with the financial asset remaining on the transferor's balance sheet.
3. Topic 860 addresses not only the transferor's accounting but also the corresponding accounting by the transferee. With limited exceptions (for example, securities-for-securities lending), Topic 860's derecognition model is intended to yield symmetrical financial reporting results. Therefore, a transfer that satisfies the conditions for sale accounting results in the transferor derecognizing the asset with a corresponding recognition by the transferee.

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

2025 ITC

4. In January 2025, the staff issued the 2025 ITC to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB. The 2025 ITC provided the following description for Topic 860 and included a question for respondents:

Transfers and Servicing of Financial Assets

Topic 860, Transfers and Servicing, provides guidance on whether a transfer of financial assets should be accounted for as a sale or as a secured borrowing as well as the related accounting. Stakeholders provided feedback that the guidance in Topic 860 may in some cases result in unintuitive outcomes that do not reflect the economics of a transaction and indicated that diversity in practice may exist. For example, stakeholders have identified issues with the application of the guidance and questioned the continued relevance of outcomes related to participating interests in certain circumstances and certain securities lending transactions. Stakeholders indicated that these issues could be addressed as targeted improvements to Topic 860.

Question 23: If the FASB were to pursue a project to consider improvements to Topic 860, what issues or transactions should it address? For those issues, please explain the challenges encountered in practice when applying the current guidance and what improvements should be considered.

5. Twenty-one stakeholders provided feedback on this topic since the 2025 ITC was issued. Some of those stakeholders—primarily those in the banking industry—identified transfers and servicing of financial assets as a top priority, others were neutral on priority, and a few indicated that this topic is a low priority for the Board to address. Most of those stakeholders focused on improvements to the guidance on participating interests and securities-for-securities lending transactions.
6. The staff also conducted supplemental outreach with practitioners and preparers to better understand their views on this area. That outreach was focused on those areas of Topic 860 that were most frequently identified by 2025 ITC respondents as needing improvement. Consistent with the 2025 ITC feedback, outreach participants were mixed on whether the Board should prioritize a project on transfers and servicing. Some participants supported adding a project, while others said that the topic should not be a standard-setting priority, even though certain aspects of the guidance could be improved.
7. The rest of this handout focuses on the accounting for participating interests and securities-for-securities lending transactions.

Participating Interests

Background

8. A transfer of a portion of a financial asset that does not meet the characteristics of a participating interest is not eligible for sale accounting and must be accounted for as a secured borrowing with a pledge of collateral by the transferor and the transferee.
9. Paragraph 860-10-40-6A defines a participating interest as follows:

A participating interest has all of the following characteristics:

- a. From the date of the transfer, it represents a proportionate (pro rata) ownership interest in an entire financial asset. The percentage of ownership interests held by the transferor in the entire financial asset may vary over time, while the entire financial asset remains outstanding as long as the resulting portions held by the transferor (including any participating interest retained by the transferor, its consolidated affiliates included in the financial statements being presented, or its agents) and the transferee(s) meet the other characteristics of a participating interest. For example, if the transferor's interest in an entire financial asset changes because it subsequently sells another interest in the entire financial asset, the interest held initially and subsequently by the transferor must meet the definition of a participating interest.
- b. From the date of the transfer, all cash flows received from the entire financial asset are divided proportionately among the participating interest holders (including any interest retained by the transferor, its consolidated affiliates included in the financial statements being presented, or its agents) in an amount equal to their share of ownership. An allocation of specified cash flows is not an allowed characteristic of a participating interest unless each cash flow is proportionately allocated to the participating interest holders. In determining proportionate cash flows:
 1. Cash flows allocated as compensation for services performed, if any, shall not be included provided those cash flows meet both of the following conditions:
 - i. They are not subordinate to the proportionate cash flows of the participating interest.
 - ii. They are not significantly above an amount that would fairly compensate a substitute service provider, should one be required, which includes the profit that would be demanded in the marketplace.
 2. Any cash flows received by the transferor as proceeds of the transfer of the participating interest shall be excluded provided that the transfer does not result in the transferor receiving an ownership interest in the financial asset that permits it to receive disproportionate cash flows.
- c. The priority of cash flows has all of the following characteristics:
 1. The rights of each participating interest holder (including the transferor in its role as a participating interest holder) have the same priority.

2. No participating interest holder's interest is subordinated to the interest of another participating interest holder.
3. The priority does not change in the event of bankruptcy or other receivership of the transferor, the original debtor, or any other participating interest holder.
4. Participating interest holders have no recourse to the transferor (or its consolidated affiliates included in the financial statements being presented or its agents) or to each other, other than any of the following:
 - i. Standard representations and warranties
 - ii. Ongoing contractual obligations to service the entire financial asset and administer the transfer contract
 - iii. Contractual obligations to share in any set-off benefits received by any participating interest holder.

That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder. For example, if a participating interest holder also is the servicer of the entire financial asset and receives cash in its role as servicer, that arrangement would not violate this requirement.

- d. No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

A set-off right is not an impediment to meeting the participating interest definition. For implementation guidance on the application of the term participating interest, see paragraphs 860-10-55-17I through 55-17N.

Stakeholder Feedback and Potential Paths Forward

10. Stakeholders broadly agreed that there is diversity in practice in how aspects of the participating interest guidance are applied, and most said that standard setting to reduce this diversity would improve generally accepted accounting principles (GAAP).
11. Stakeholders differed on the appropriate solution. While some stakeholders recommended that the Board eliminate the participating interest guidance, other stakeholders did not support eliminating that guidance but said that targeted improvements could help address the diversity in practice. Most stakeholders that preferred elimination said that targeted improvements would be an acceptable alternative if the Board does not eliminate the guidance. (See paragraphs 156–158 of the [Agenda Consultation Board meeting handout](#) from the October 8, 2025, meeting for additional details.)
12. On the basis of stakeholder feedback, the Board will consider the following potential paths forward:
 - a. *A1—Eliminate the participating interest guidance.* This approach would eliminate the participating interest guidance and require entities to evaluate transfers of portions of financial assets under the derecognition criteria in paragraph 860-10-40-5.

- b. *A2—Make targeted improvements to the participating interest guidance.* This approach would retain the participating interest guidance and explore targeted improvements to reduce diversity in practice.

Securities-for-Securities Lending

Background

- 13. Securities lending is the practice of lending financial assets to another party. Broker-dealers and other financial institutions commonly enter into securities lending transactions to obtain specific securities needed to cover short positions or customer failures to deliver securities sold. The securities lender (the transferor) generally requires the securities borrower (the transferee) to provide collateral (referred to in this handout as “the borrower-delivered collateral”), which may be cash, standby letters of credit, or other securities and typically exceeds the value of the lent securities (the transferred financial asset).
- 14. Securities lending transactions typically include agreements that both entitle and obligate the transferor to repurchase or redeem the transferred securities before maturity. As a result, the vast majority of securities lending arrangements do not meet the effective control criterion in paragraph 860-10-40-5 and are accounted for as secured borrowings.

Stakeholder Feedback and Potential Paths Forward

- 15. Stakeholders’ feedback on this area was focused on the accounting for noncash borrower-delivered collateral in securities-for-securities lending under the secured borrowing framework.
- 16. Stakeholders generally agreed that the accounting for securities-for-securities lending transactions is consistently applied, although the outcomes can be unintuitive because the same asset (noncash borrower-delivered collateral) is recognized by two entities. Stakeholders also noted that asymmetry exists between the transferor and transferee’s accounting. While some stakeholders supported changes in this area, other stakeholders said that changes were not needed. (See paragraphs 159–160 of the Agenda Consultation Board meeting handout from the October 8, 2025, meeting for additional details.)
- 17. On the basis of stakeholder feedback, the Board will consider the following potential paths forward:
 - a. *B1—Eliminate the requirement for a transferor to recognize noncash borrower-delivered collateral as proceeds of a secured borrowing.* Under this approach, the transferor would not recognize noncash borrower-delivered collateral received as proceeds of a secured borrowing or an obligation to return that collateral but would be required to provide appropriate disclosure of the noncash borrower-delivered collateral received.

- b. *B2—Require both entities to apply transferor and transferee accounting.* Under this approach, both entities to the arrangement would apply both transferor accounting and transferee accounting to reflect that both parties transfer and receive a financial asset.
- c. *B3—Require the transferee to reclassify the security sent to the transferor in its balance sheet.* Under this approach, the transferee would reclassify the noncash borrower-delivered collateral as securities receivable under a securities borrowing agreement.

Analysis of Agenda Criteria

- 18. The Board will evaluate a potential project based on the following agenda-decision criteria:
 - a. Is there an identifiable and sufficiently pervasive need to improve GAAP?
 - b. Are there technically feasible solutions, and are the expected benefits of those solutions likely to justify the expected costs of change?
 - c. Does the issue have an identifiable scope?

Board Meeting Handout
Accounting for Derivatives
September 16, 2026

Meeting Purpose

1. The Board will discuss stakeholder feedback received in response to the 2025 Invitation to Comment, *Agenda Consultation*, related to the accounting for derivatives. The discussion will focus on key issues raised by stakeholders across several derivative accounting topics. The Board will determine whether additional research and analysis should be performed and, if so, which issues warrant further consideration.

Questions for the Board

1. Do Board members have any questions or comments on the feedback received or the staff's analysis?
2. Do Board members agree with the staff's recommendation not to add a project related to embedded derivatives (Issue B1 and Issue B2), the definition of a derivative (Issue C1), or the other issues (Issue D) at this time?
3. Are there any areas, including derivative contract modifications (Issue A) and the normal purchases and normal sales scope exception (Issue C2), that Board members would like the staff to explore further?

Overview of Current Guidance

2. Topic 815 provides guidance on which financial instruments are accounted for as derivatives and how those derivatives are accounted. A derivative instrument is a financial instrument or other contract with all of the following characteristics: (a) an underlying and either a notional amount or payment provision (or both), (b) no or a smaller initial net investment, and (c) net settlement. Under Topic 815, derivatives are measured at fair value, with changes in fair value recognized in earnings.
3. An instrument that does not meet the definition of a derivative in its entirety may contain contractual terms or features that affect the cash flows, value, or other exchanges required by the terms of the instrument in a manner similar to a derivative. Those contractual terms or features are referred to as embedded derivatives. Embedded derivatives that meet the bifurcation requirements are accounted for separately from their host contract as if they were freestanding derivatives. Accordingly, those embedded derivatives are measured at fair value, with changes in fair value recognized in earnings.

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

2025 ITC Feedback

4. Questions 19 and 20 of the 2025 ITC asked the following:

Question 19: Regarding derivative accounting, what other challenges (beyond those that would be addressed in the 2024 proposed Update on derivative scope refinement), if any, do you encounter in practice? Please explain.

Question 20: There is currently a project on the research agenda that includes the accounting for derivative contract modifications. If the FASB were to prioritize a project on derivative modifications, what approach should be applied to assess and account for the modification of a derivative? Please explain.

5. In response to Questions 19 and 20 of the 2025 ITC, stakeholders identified challenges across several areas of derivative accounting. The following sections summarize feedback on (a) accounting for derivative contract modifications (Issue A), (b) embedded derivatives, including the overall bifurcation requirements, the four-step decision sequence for call and put options embedded in debt instruments, and issues arising from certain insurance and reinsurance arrangements (Issue B), (c) the definition of a derivative and the normal purchases and normal sales scope exception (Issues C1 and C2, respectively), and (d) other derivative accounting topics raised by stakeholders (Issue D).

Issue A: Derivative Contract Modifications

6. Topic 815 does not provide specific guidance on how to account for modifications of derivative contracts. In the absence of such guidance, stakeholders stated that current practice generally treats any change in the timing or amount of contractual cash flows as the termination of an existing derivative and issuance of a new derivative. That conclusion requires that an entity reassess whether the new contract meets the definition of a derivative and, if not, whether an embedded derivative must be bifurcated from the host contract. Stakeholders noted that (a) the new derivative may be a hybrid instrument because its initial fair value represents an initial net investment, (b) the new derivative could have a financing element that affects how it is reported on the statement of cash flows, and (c) entities have difficulties re-designating hedge accounting. Stakeholders noted that the reassessment can result in an unintuitive outcome in which a contract that is legally a single derivative contract is accounted for as a hybrid instrument consisting of a debt host and an embedded derivative.
7. Stakeholders indicated that derivative contract modifications occur across various derivative products and may become more prevalent during periods of changing interest rates. Some stakeholders stated that treating every modification as a termination, regardless of its significance, can result in accounting that does not reflect the economics of a contract that continues to operate as a single derivative.

Issue B: Embedded Derivatives

8. Stakeholders stated that applying the embedded derivative guidance in Subtopic 815-15 can be complex, time intensive, and costly and often requires significant judgment. Those challenges have

become more prevalent as private companies increasingly enter into complex financing arrangements. Some stakeholders also noted that investors may find it difficult to understand when an embedded derivative is required to be bifurcated from its host contract.

9. Stakeholders identified three areas of concern.
 - a. Issue B1 relates to determining whether an embedded derivative is clearly and closely related to a host contract that is neither debt nor equity, such as a purchase contract, because Subtopic 815-15 provides limited guidance for those host contracts.
 - b. Issue B2 relates to applying the four-step decision sequence in paragraphs 815-15-25-41 through 25-43 to determine whether call and put options embedded in debt instruments are clearly and closely related to the debt host.
 - c. Issue B3 relates to embedded derivative issues arising from certain insurance and reinsurance arrangements, including determining the scope of an embedded derivative in certain indexed insurance products and identifying embedded derivatives in certain reinsurance arrangements.

Issue C: Definition of a Derivative and Scope Exception

Issue C1: Definition of a Derivative

10. Stakeholders noted challenges in applying certain aspects of the definition of a derivative in Subtopic 815-10. Examples of that feedback include the following:
 - a. The “occurrence or nonoccurrence of a specified event” aspect of the underlying criterion can cause a broad range of option-based cash flows to meet the definition of a derivative.
 - b. Applying the initial net investment criterion to contracts that contain payment provisions rather than notional amounts can be challenging and may result in diversity in practice.
 - c. Significant fees paid in connection with a derivative novation may cause the novated contract to fail the initial net investment criterion and be accounted for as a hybrid instrument.
 - d. Excluding certain payments associated with a novation from the initial net investment assessment could facilitate the transfer of derivative contracts and simplify the related accounting.

Issue C2: Normal Purchases and Normal Sales Scope Exception

11. One stakeholder provided feedback on the application of the normal purchases and normal sales scope exception to certain long-term retail power purchase agreements entered into by large electricity consumers. The stakeholder indicated that some retail power purchase agreements may meet the definition of a derivative and that application of the existing normal purchases and normal sales guidance is challenging because of contractual features such as minimum volume commitments, uncertainty in future electricity demand, and periodic net settlements of excess electricity. That

stakeholder noted that accounting for those contracts as derivatives may result in significant valuation complexity and earnings volatility and may not reflect the economics of transactions entered into to secure electricity for use in operations rather than to speculate on changes in electricity prices.

Issue D: Other Feedback

12. In addition to the 2025 ITC feedback described in Issues A through C above, the following areas were also brought up in the feedback:
 - a. Accounting for certain written options
 - b. Application of the financial guarantee scope exception
 - c. Definition of *readily convertible to cash*
 - d. Application of offsetting guidance and certain derivative disclosures.

Board Meeting Handout
Agenda Consultation—Leases
September 16, 2026

Meeting Purpose

1. The purpose of the Board meeting is to summarize issues raised by stakeholders related to lease accounting through (a) the 2025 Invitation to Comment, *Agenda Consultation (2025 ITC)*, (b) agenda requests, and (c) Codification improvement suggestions. The staff will ask the Board whether it would like to add a project or projects to its technical agenda related to:
 1. Issue A: Lease Payments in the Form of Equity
 2. Issue B: Lessor Accounting Issues—Commencement Date
 3. Issue C: Purchase of an Underlying Asset during a Lease Term
 4. Issue D: Sale and Leaseback Accounting
 5. Issue E: Master Glossary Definitions of Lending Activities and Loan Origination Fees.

Questions for the Board

1. Does the Board have questions on the content presented in this handout?
2. Does the Board want to add a project or projects on Issues A–D? If yes, what feedback does the Board have on the objective and scope of the project(s)?
3. Does the Board want to address Issue E as part of the Codification Improvements project?

Issue A: Lease Payments in the Form of Equity

Overview of the 2025 ITC

2. The 2025 ITC provided a description of the issue on lease payments in the form of equity as well as a question for respondents, as follows:

Lease Payments in the Form of Equity

Stakeholders stated that lease agreements in which the lessee agrees to pay the lessor by transferring noncash consideration in the form of a share-based payment over the term of the lease are becoming more prevalent. Stakeholders noted that there are questions on how share-based payments should be recognized and

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

measured as lease payments. In addition, stakeholders questioned how to apply the lease modification guidance in Topic 842, Leases, to changes in share-based lease payments.

Question 33: What is the prevalence of these types of lease transactions? Is incremental accounting guidance needed to specify how share-based lease payments should be recognized and measured (both initially and subsequently)? Please explain.

3. As noted in the October 2025 Board Memo on the Agenda Consultation project, the following feedback was received on Question 33 in the 2025 ITC:
 - a. Fifteen stakeholders directly responded to Question 33 or provided general feedback on the accounting for leases. Many stakeholders noted that lease payments in the form of equity is a low priority, and many other stakeholders noted that they are neutral on the priority. No stakeholders identified lease payments in the form of equity as a top priority.
 - b. Most stakeholders (including those that identified the topic as a low or neutral priority) noted that lease payments in the form of equity are not pervasive, while a few stakeholders noted that this is an emerging transaction. Some stakeholders (including those that identified the topic as a low or neutral priority) stated that there is no significant diversity in practice or there are no significant practice issues.
 - c. Stakeholders provided feedback from both a lessee and a lessor perspective. For example, from a lessor perspective, one stakeholder noted that current guidance in Topic 606, Revenue from Contracts with Customers, is sufficient to determine the appropriate accounting treatment. From a lessee perspective, a few stakeholders indicated that the current guidance in Topic 842, Leases, and Topic 718, Compensation—Stock Compensation, is sufficient to determine the appropriate accounting treatment.
 - d. If the Board were to address this topic from a lessor perspective, stakeholders provided the following potential solutions to clarify how share-based lease payments should be recognized and measured:
 1. Align the accounting for share-based lease payments with the amendments related to share-based payments from a customer included in Accounting Standards Update No. 2025-07, *Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract*.
 2. Align the accounting for share-based lease payments with the guidance on noncash consideration in Topic 606 by requiring payments to be initially measured at the grant-date fair value with no subsequent remeasurement.

3. Align aspects of Topic 606 and Topic 842, such as the estimation and allocation guidance for variable payments.
- e. If the Board were to address this topic from a lessee perspective, several stakeholders noted that the Board may need to consider whether to address additional application questions, including the interaction between Topic 718 and Topic 842. Examples include the timing of a grant's measurement (such as grant date under Topic 718 versus commencement date of the lease under Topic 842) or the remeasurement requirements (such as when a lease is not modified but the lessee must remeasure the lease for other reasons under Topic 842).

Issue B: Lessor Accounting Issues—Commencement Date

Overview of the 2025 ITC

4. In connection with the 2025 ITC, respondents were asked whether there are any financial accounting and reporting topics beyond those in the 2025 ITC that should be a top priority for the Board to address. One respondent identified two narrow lessor accounting topics as potential areas of improvement for the Board to consider, noting that the issues may be best addressed by the Emerging Issues Task Force (EITF). Those issues include:
 - a. Determining the lease commencement date for a lessor
 - b. Accounting for lease modifications from a lessor perspective.

Determining the Lease Commencement Date for a Lessor

5. The first issue that the respondent identified relates to the determination of the lease commencement date for a lessor and the related timing of lease revenue recognition for operating leases. The respondent noted that an issue arises in practice in certain real estate leasing arrangements in which the lessor makes the building available for use to allow the lessee to perform renovations. Under current guidance, the lease commencement date is the date the asset is made available for use, although lease payments may not begin until after renovations are complete. If collectibility of the lease payments is probable at lease commencement date, the lessor should begin recognizing income and a corresponding rent receivable, which increases each month until lease payments begin. The respondent stated that this accounting may not represent the economics of the lease arrangement because the lessee does not benefit from the lease until the renovations are complete.
6. The respondent noted that although the guidance allows lease income to be recognized on a straight-line basis or a basis that better represents the pattern in which the benefit is expected to be derived, in practice, lessors rarely do so in these scenarios.
7. The respondent suggested that the FASB or the EITF consider either (a) modifying the definition of lease commencement date for lessors or (b) providing more implementation guidance on when it

would be acceptable to apply another systematic and rational method of recognizing lease income. The respondent did not provide any suggestions on how the definition of lease commencement date for lessors should be modified.

Lessor Lease Modifications

8. The second lessor accounting issue that the respondent identified relates to the accounting for certain lease modifications. The respondent described a fact pattern in which a lessor initially leases part of a floor of a building to a tenant and then modifies the lease to allow for the use of the remaining portion of the floor. The additional space requires significant repair before it is usable. The lessee hires contractors to begin repairs, and lease payments commence at the earlier of the date that the repairs are completed or a specific date, which could be a different reporting period. The respondent noted that in this fact pattern, the guidance may require the lessor to begin recognizing lease income under the modified lease on a straight-line basis on the lease modification date. The respondent stated that this accounting may not reflect the economics of the lease arrangement because the lessee does not obtain the benefits of the additional leased space or begin making lease payments until the repairs are completed.

Issue C: Purchase of an Underlying Asset during a Lease Term

Overview of Agenda Request

9. In September 2025, the FASB staff received an [agenda request](#) from a preparer asking that the Board reconsider the guidance in Topic 842 on the purchase of an underlying asset during a lease term. The request focuses on scenarios in which the underlying asset is nondepreciable land.
10. The agenda request highlighted that current guidance does not differentiate between the purchase of depreciable assets (such as buildings or equipment) and nondepreciable assets (land). As a result, when land is purchased during the lease term, the guidance requires the lessee to incorporate the right-of-use asset and lease liability into the cost basis of the acquired land. The agenda request noted that this accounting outcome may reduce the recorded cost basis of land below its fair market value, even when the purchase price reflects an arm's-length transaction.
11. The agenda request stated that this outcome does not reflect the economic substance of the transaction and may reduce transparency in the financial statements. Specifically, the agenda request noted that both the prior recognition of straight-line lease expense in excess of cash payments and the subsequent reduction of the land's cost basis can make economically favorable transactions appear unfavorable from an accounting perspective.
12. The agenda request suggested that the Board consider clarifying the guidance to require purchases of nondepreciable underlying assets, such as land, to be treated as separate transactions measured

at fair value, with any remaining difference between the right-of-use asset and the lease liability recognized in earnings upon purchase.

Issue D: Sale and Leaseback Accounting

Overview of Agenda Request

13. In January 2020, the FASB staff received an [agenda request](#) from six accounting firms requesting clarification on the application of the sale and leaseback guidance in Subtopic 842-40, Leases—Sale and Leaseback Transactions. Specifically, this agenda request asked that the Board consider providing clarification on the following:
 - a. *Question 1:* The date at which classification should be determined for purposes of assessing whether the transaction qualifies as a sale under Subtopic 842-40
 - b. *Question 2:* The date at which the leaseback classification should be determined for purposes of accounting for the leaseback when the transaction initially does not qualify as a sale under Subtopic 842-40.
14. The agenda request stated that there are multiple views that could be supportable under Topic 842 for each of those issues and suggested that the Board consider clarifying the guidance.
15. The agenda request provided the following example fact pattern for analysis of both issues:

On January 1, 2020, Entity A sells a building to Entity B at its fair value of \$10 million and concurrently enters into a lease agreement on the building for 20 years. January 1, 2020 is the “contractual commencement date.”

At the end of year 15 in the lease (i.e. December 31, 2024), Entity A has an option to repurchase the building for a fixed price. The repurchase option precludes sale accounting at the contractual commencement date. At the contractual commencement date, Entity A is not reasonably certain to exercise the repurchase option.

The leaseback also contains two 10-year renewal options. Rent for the first renewal period would be at the then-current market rate, and rent for the second renewal period would increase by five percent relative to the first renewal period. At the contractual commencement date, Entity A is not reasonably certain to exercise either renewal option.

At the contractual commencement date, the building’s remaining economic life is forty years.

At the contractual commencement date other than the fixed price repurchase option there are no other terms of the arrangement that would preclude the transaction from being accounted for as a sale-leaseback. If a classification assessment was performed at January 1, 2020, the lease would be classified as an operating lease by Entity A (e.g., the lease term of 20 years is not a major part of the building’s remaining useful life and the purchase option is not reasonably certain of exercise).

At the end of year thirteen (i.e. December 31, 2032), Entity A completes a significant acquisition. On that date, if Entity A was required to apply the guidance in ASC 842-10-25-1, 842-10-35-1 and 842-10-55-28, this event would qualify as a lease term and classification reassessment event, in which Entity A would determine that it is reasonably certain to exercise both of the 10-year renewal options in the lease (and continues to not be reasonably certain to exercise the purchase option). If a classification assessment was performed at December 31, 2032, the lease would be classified as a finance lease by Entity A and a sales-type lease by Entity B (however, there is no view below, or of which we are in aware in practice currently, under which Entity B would perform a reassessment as of this date).

On December 31, 2034, the option to repurchase the building expires unexercised.

The contract has not been modified at any point from inception to that date.

16. In this example, Entity A (the seller-lessee) transfers ownership of a building to Entity B (the buyer-lessor) and then Entity B leases the building back to Entity A. In the fact pattern, a repurchase option that expires during the lease term, rather than at the end of the lease term, precludes the transaction from being accounted for as a sale and leaseback; instead, the transaction is accounted for as a financing transaction.
17. In the example provided, a purchase option (which precluded sale accounting) expires unexercised. The lease classification questions outlined in the agenda request are related to the reporting period in which sale accounting is achieved.

Question 1: Classification Date—Assessing Whether the Transaction Qualifies as a Sale

18. The first issue relates to the date that leaseback classification should be determined for assessing whether the transaction qualifies as a sale under the sale-leaseback guidance in the scenario provided. The agenda request identified four possible views for the lease classification date for purposes of assessing whether the transaction qualifies as a sale under the guidance, as follows:
 - a. *View A:* The contractual commencement date
 - b. *View B:* The latter of (1) the contractual commencement date and (2) the date that the last lease classification reassessment event occurs
 - c. *View C:* The contractual commencement date unless the lease was determined to be a finance or sales-type lease at contractual commencement date, in which case the date of the last lease classification reassessment would be used
 - d. *View D:* The date that the sale criteria in paragraphs 842-40-25-1 and 842-40-25-3 are met.

Question 2: Classification Date—When the Transaction Does Not Qualify as a Sale

19. The second issue relates to the date at which leaseback classification should be determined for purposes of accounting for the leaseback, assuming that the transaction initially does not qualify as a sale. The agenda request identified three possible views for the lease classification date for determining the accounting for the leaseback when the transaction does not initially qualify as a sale under Subtopic 842-40, as follows.
- a. *View A:* The contractual commencement date
 - b. *View B:* The latter of (1) the contractual commencement date and (2) the date that the last lease classification reassessment event occurs
 - c. *View C:* The date that the sale criteria in paragraphs 842-40-25-1 and 840-40-25-3 are met.

Issue E: Master Glossary Definitions of Lending Activities and Loan Origination Fees

Background

20. The staff received Codification feedback related to the reference of “leasing activities” and “leasing transactions” within the Master Glossary definitions of the terms *lending activities* and *loan origination fees*, respectively.

Overview and Current Guidance

21. The Master Glossary defines the term *lending activities* as follows:

Lending, committing to lend, refinancing or restructuring loans, arranging standby letters of credit, syndicating loans, and *leasing activities* are lending activities.
[Emphasis added.]

22. The Master Glossary defines the term *loan origination fees* as follows:

Origination fees consist of all of the following:

- a. Fees that are being charged to the borrower as prepaid interest or to reduce the loan's nominal interest rate, such as interest buy-downs (explicit yield adjustments)
- b. Fees to reimburse the lender for origination activities
- c. Other fees charged to the borrower that relate directly to making the loan (for example, fees that are paid to the lender as compensation for granting a complex loan or agreeing to lend quickly)
- d. Fees that are not conditional on a loan being granted by the lender that receives the fee but are, in substance, implicit yield adjustments because a loan is granted at rates or terms that would not have otherwise been considered absent the fee (for example, certain syndication fees addressed in paragraph 310-20-25-19)

- e. Fees charged to the borrower in connection with the process of originating, refinancing, or restructuring a loan. This term includes, but is not limited to, points, management, arrangement, placement, application, underwriting, and other fees pursuant to a lending or *leasing transaction* and also includes syndication and participation fees to the extent they are associated with the portion of the loan retained by the lender. [Emphasis added.]
23. The submitter noted that the references to “leasing activities” and “leasing transaction” in these definitions could result in certain fees being subject to both the guidance in Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs, and the guidance in Subtopic 842-30, Leases—Lessor. For example, a fee charged by a lessor to a lessee at lease inception could meet the definition of both a loan origination fee in accordance with Topic 310 and a lease payment in accordance with Topic 842. The accounting outcome could be different under each of these Topics. Paragraph 842-10-30-5 prescribes what constitutes lease payments from the perspective of a lessee and a lessor:

At the **commencement date**, the **lease payments** shall consist of the following payments relating to the use of the **underlying asset** during the lease term:

- a. *Fixed payments*, including in substance fixed payments, less any lease incentives paid or payable to the **lessee** (see paragraphs 842-10-55-30 through 55-31). [Emphasis added.]
 - b. **Variable lease payments** that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate at the commencement date.
 - c. The exercise price of an option to purchase the underlying asset if the lessee is reasonably certain to exercise that option (assessed considering the factors in paragraph 842-10-55-26).
 - d. Payments for **penalties** for terminating the **lease** if the lease term (as determined in accordance with paragraph 842-10-30-1) reflects the lessee exercising an option to terminate the lease.
 - e. Fees paid by the lessee to the owners of a special-purpose entity for structuring the transaction. However, such fees shall not be included in the **fair value** of the underlying asset for purposes of applying paragraph 842-10-25-2(d).
 - f. For a lessee only, amounts **probable** of being owed by the lessee under **residual value guarantees** (see paragraphs 842-10-55-34 through 55-36).
24. Under Subtopic 310-20, loan origination fees should be deferred and recognized over the life of the loan as an adjustment of yield (interest income). The recognition of lease payments for a lessor under Subtopic 842-30 depends on the classification of the lease.
- a. For operating leases, paragraph 842-30-25-11 states that lease payments should be recognized in profit or loss over the lease term on a straight-line basis unless another systematic and rational basis better represents the pattern in which benefit is expected to be derived.
 - b. For both sales-type leases and direct financing leases, a lessor measures its net investment in a lease on an amortized cost basis subsequent to initially recording the lease.

1. For sales-type leases, any selling profit or loss and initial direct costs are recognized at the commencement date, and the only income statement effect during the lease term is the recognition of interest income on the lease receivable and accretion on the unguaranteed residual asset.
 2. For direct financing leases, selling profit and initial direct costs are recognized over the lease term.
25. The scope of Subtopics 310-20 and 842-30 do not reference one another and there is no indication about which Subtopic should take precedence when both could be applicable. In the submitter's view, the Board intended for Topic 842 to be a comprehensive model for all leasing activities, and, therefore, the submitter suggested that the references to "leasing activities" and "leasing transaction" within the Master Glossary terms may have been an oversight when the Board was considering confirming amendments to the Codification related to leases. The submitter recommended that the Board consider updating the Master Glossary definitions of the terms *lending activities* and *loan origination fees* to remove the references to "leasing activities" and "leasing transaction," respectively.