

June 13, 2009; September 21, 2009

*SSAP No. 19—Furniture, Fixtures, and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee, Depreciation of Property and Amortization of Leasehold Improvements*

*SSAP No. 20—Nonadmitted Assets*

*SSAP No. 22—Leases*

*SSAP No. 29—Prepaid Expenses*

1. EITF 08-3 clarifies how a lessee shall account for a maintenance deposit under an arrangement accounted for as a lease. Particularly, this guidance addresses the issue when maintenance deposits paid by a lessee under an arrangement accounted for as a lease are refunded only if the lessee performs specified maintenance activities. Guidance included within paragraphs 2 and 4 of EITF 08-3 identifies such maintenance arrangements and the accounting issue as follows:

2. Under certain equipment lease agreements, a lessee is legally or contractually responsible for repair and maintenance of the leased asset throughout the lease term. Additionally, certain lease agreements include provisions requiring the lessee to make deposits to the lessor in order to financially protect the lessor in the event the lessee does not properly maintain the leased asset.
4. In some cases, the total cost of cumulative maintenance events over the term of the lease is less than the cumulative deposits, resulting in excess amounts on deposit at the expiration of the lease. In those cases, some lease agreements provide that the lessor is entitled to retain such excess amounts; whereas other agreements specifically provide that, at the expiration of the lease agreement, such excess amounts are returned to the lessee (refundable maintenance deposit). Refundable maintenance deposits are accounted for as a deposit but diversity has developed on the accounting for maintenance deposits that may not be refunded (if the lessee does not perform the specified maintenance activities).

2. Guidance in paragraphs 8 and 9 of EITF 08-3 identifies that maintenance deposits shall be accounted for as a deposit asset. Furthermore, lessees shall continue to evaluate whether it is probable that an amount on deposit will be returned to reimburse the costs of the maintenance activities incurred by the lessee. When an amount on deposit is less than probable of being returned, it shall be recognized as additional expense. When the underlying maintenance is performed, the maintenance costs shall be expensed or capitalized in accordance with the lessee's maintenance accounting policy.

3. Guidance is included within *SSAP No. 20—Nonadmitted Assets* (SSAP No. 20), pursuant to the Statement of Concepts, that specifically