

FASB Sets Lease Accounting Change Effective Dates

On November 11, 2015, the Financial Accounting Standards Board (FASB) decided upon the effective date for the long awaited and much debated new lease accounting standard requiring companies to recognize leases on their balance sheets. The effective date for public companies will be in fiscal years (including interim periods within those years) beginning after December 15, 2018. The effective date for private companies will be for annual periods after December 15, 2019. Upon issuance of the final standard, which is expected to be early 2016, FASB allows for early adoption which some companies will do to meet SEC requirements.

WHY THE CHANGE?

We believe that this change will provide investors, lenders and other users of financial statements a more accurate picture of the long term financial obligations of the companies to which they provide capital,” said FASB Chairman Russell G. Golden. Currently, leases are reflected as a footnote on the balance sheet. Most office leases are treated as “Operating Leases” (compared to “Capital Leases”) and are reported on a company’s income statement as a “rent expense”. This standard applies to both publicly and privately owned companies as well as other organizations, including non-profit entities. While this standard originally was a joint effort between FASB and its international counterpart (IASB), FASB and IASB were unable to reach an agreement on key issues. IASB is issuing its own new standard which is similar to FASB’s with a similar effective date.

HOW WILL THIS AFFECT YOUR COMPANY?

Beyond leasing real estate, this will affect all other company leases including office equipment, aircraft, etc. For some industries, where leasing is key to their operations (e.g., airlines and retailers), it will have a much larger impact on their balance sheets. On November 10, 2015, the Wall Street Journal estimated that approximately \$2 Trillion will be transferred on to the balance sheets of US companies. For some companies, the change could alter certain financial ratios (e.g., return on assets). There also has been concern that this will increase debt to equity ratios which could trigger certain loan covenants; however, companies will have time to renegotiate those loans and FASB argues that leases will be considered “operating leases” as opposed to debt. Practically speaking, most banks will recognize that this is an accounting change for good customers.

*Not confident that you will be in compliance?
Call Mike for a free evaluation.*

Mike Maroon, SIOR is the Managing Partner of The Acclaim Group. We are corporate real estate strategists and advisers to leading companies large and small.