

FASB Finalizes Effective Date for Proposed New Leasing Standard

By: Michael Gallo and Marc Logan

Finance Alert

11.17.15

On November 11, The Financial Accounting Standards Board (FASB) voted to proceed with a new accounting standard that will require companies to include lease obligations on their balance sheets. Under current accounting standards, a majority of leases are not required to be reported on a lessee's balance sheet, particularly those recognized as "operating leases." The proposed new standard will require lessees to report all leases, including leases of real estate, equipment and other assets.

Traditional leases standards have been criticized for failing to meet the needs of users of financial statements because they do not always provide a faithful representation of leasing transactions and the overall economic activities of an organization. According to FASB Chairman Russell Golden, the new standard, expected to be finalized in early 2016, is intended to increase transparency and comparability among organizations that lease assets by more effectively recognizing the assets and liabilities that arise from such transactions.

"We believe that this new standard is important because it 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," Golden said in a statement following the board's vote.

Public companies will be required to adopt the new leasing standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For calendar year-end public companies, this means an adoption date of January 1, 2019, and retroactive application to previously issued annual and interim financial statements for 2018 and 2017.[1]

Nonpublic companies will be required to apply the new leasing standard for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. For nonpublic calendar year-end companies, this means an adoption date of January 1, 2020, and retroactive application to previously issued annual financial statements for 2019 and 2018.[1]

For more information or questions about this topic, please contact Michael Gallo (973.604.5676; gallom@whiteandwilliams.com) or any member of the Finance or Real Estate Groups.

[1] FASB Press Release

This correspondence should not be construed as legal advice or legal opinion on any specific facts or circumstances. The contents are intended for general informational purposes only and you are urged to consult a lawyer concerning your own situation and legal questions.