

New FASB lease accounting standard could impact bank debt agreements

June 14, 2021



Private banks are shifting into high gear as the effective date approaches for a new lease accounting standard that may create pitfalls for customers' debt covenants, analysts told S&P Global Market Intelligence. The standard requires companies to account for operating leases on their balance sheets, a shift from their previous off-

sheet treatment. The Financial Accounting Standards Board delayed the standard last year to assist companies through the economic hardships of the pandemic. The new requirements are effective for private companies with annual reporting periods beginning after Dec. 15. For companies with calendar-year reporting, the standard goes into effect Jan. 1, 2022. It impacts financial institutions in two ways. Banks now must account for their own leases of assets such as branches and office equipment, which could impact their capital ratios. And they now have to look more closely at the debt agreements they hold with their customers, where balance sheet increases could lead to violations, experts said.

...

“What we’re advising our clients to do is to mend the covenant portion of their lease agreements to exclude the debt-equity ratio,” said Zurab Moshashvili, a partner at accounting firm Anchin, Block & Anchin LLP. His firm wrote a letter to FASB officials in May 2020 urging an “infinite deferral” of the lease accounting standard.

...

Full article originally published by [S&P Global](#).