LSTA Hosts Accounting Changes Webinar

November 15, 2018 - On November 14th, the LSTA hosted a webinar on “Planning for Changes in GAAP: Credit Agreement Implications” presented by Howard Friedman of PriceWaterhouseCoopers, Ken Steinberg of Davis Polk, and Ramya Tiller of Debevoise. The presenters noted that we are in one of the most active periods (if not the most active period) for accounting changes ever with significant developments in revenue recognition and lease accounting taking place. On January 1, 2019, private companies must comply with the new revenue recognition (ASC 606), something with which public companies had to comply earlier this year. The core principle of that change is that revenue is recognised when an entity satisfies each performance obligation by transferring control of the promised goods or services to the customer. Intended to make reporting more consistent and more comparable across entities, sectors, and jurisdictions, the new five step method for when and in what amounts to recognise revenue in financial statements replaces hundreds of prior requirements. The core principle of the new lease accounting (AC 842), which takes effect on January 1, 2019, for public companies and January 2020 for private companies, is requiring lease assets and lease liabilities to be recorded on the balance sheet; thus now, all leases other than short term leases which are less than 12 months duration are recorded on the balance sheet with a right of use asset and an offsetting liability. This major change in the accounting standard will bring far more lease liabilities onto the balance sheet; however, the accounting treatment of leases for the purposes of the income statement under the revised GAAP standard is relatively unchanged. Despite years of collaborating on the project, the FASB and IASB did not agree on a unified approach and issued separate standards, thus resulting in different treatment under US GAAP and IFRS. Drafters of credit agreements should consider the implications of these changes on their deals and carefully review definitions of indebtedness and consolidated total assets or consolidated tangible assets.