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## Moody’s proposed changes to its treatment of operating lease obligations: key considerations moving forward

New accounting standards issued by both the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) will now require all companies with operating leases to record them as on balance sheet obligations.

- Moody’s will reclassify an issuer’s disclosed lease liability as debt rather than use a rent multiple or Moody’s own NPV calculation
    - The expectation is that this proposed change will reflect a more precise calculation of the company’s lease obligations
- Rent expense will be added back to EBITDA and reclassified as interest and depreciation (no change from today)

### Key Takeaways

- Moody’s proposed change simplifies the balance sheet approach and facilitates comparability across accounting regimes, while maintaining the fundamental methodology behind financial ratio adjustments
- The expectation is that there will be minimal impact to credit ratings as a result of the proposed change, primarily because a change in reporting does not change a company’s underlying financial position
- The new methodology will be implemented by Moody’s as issuers adopt the new reporting standards, which becomes mandatory for annual periods beginning after December 15, 2018 (January 1, 2019 for calendar-year companies)

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