



Webinar

Applying IFRS 16: Scaling Your Compliance Efforts with Automation



**THE LEADER IN ENTERPRISE
LEASE ACCOUNTING SOFTWARE**

www.leaseaccelerator.com



Webinar Logistics | CPE Accounting Credit

- 1 CPE Credit for FEI Members – Answer at least 3 polling questions at different intervals during the webinar
- Complete & submit survey evaluation form e mailed to attendees' post webinar
- Ask questions in the “Q & A” box (Lower Right)
- Video replay & slides available on-demand
- Technical Issues? Email us at: trigg@feicanada.org

Today's Presenter

Leonard Neuhaus, CPA

Vice President of Lease Accounting



Led the International Flavors & Fragrances Project Management Office for the global implementation of lease accounting (GAAP & IFRS)

- Team of 60 colleagues from around the world who gathered and abstracted leases (not just accounting staff)
- Accounting standards
- Sox compliance
- Controls
- Auditor satisfaction
- Optimization of software usage and MEC

The Global Leasing Market



\$5T IN
LEASING
VOLUME

1B LEASED
ASSETS

100M LEASE
CONTRACTS





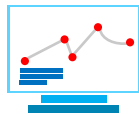
The Standard - Highlights

- Effective January 1, 2019
- Eliminates nearly all off balance sheet accounting for leases
- Increases comparability
- New model – one lease type
- Business processes, systems and controls
- Cross functional approach

Lease Financing: Impacts and Risks to Lessee



**Market
Capitalization**



**Business /
CAPEX
Strategy**

**Credit
Ratings**



**Financial
Metrics**

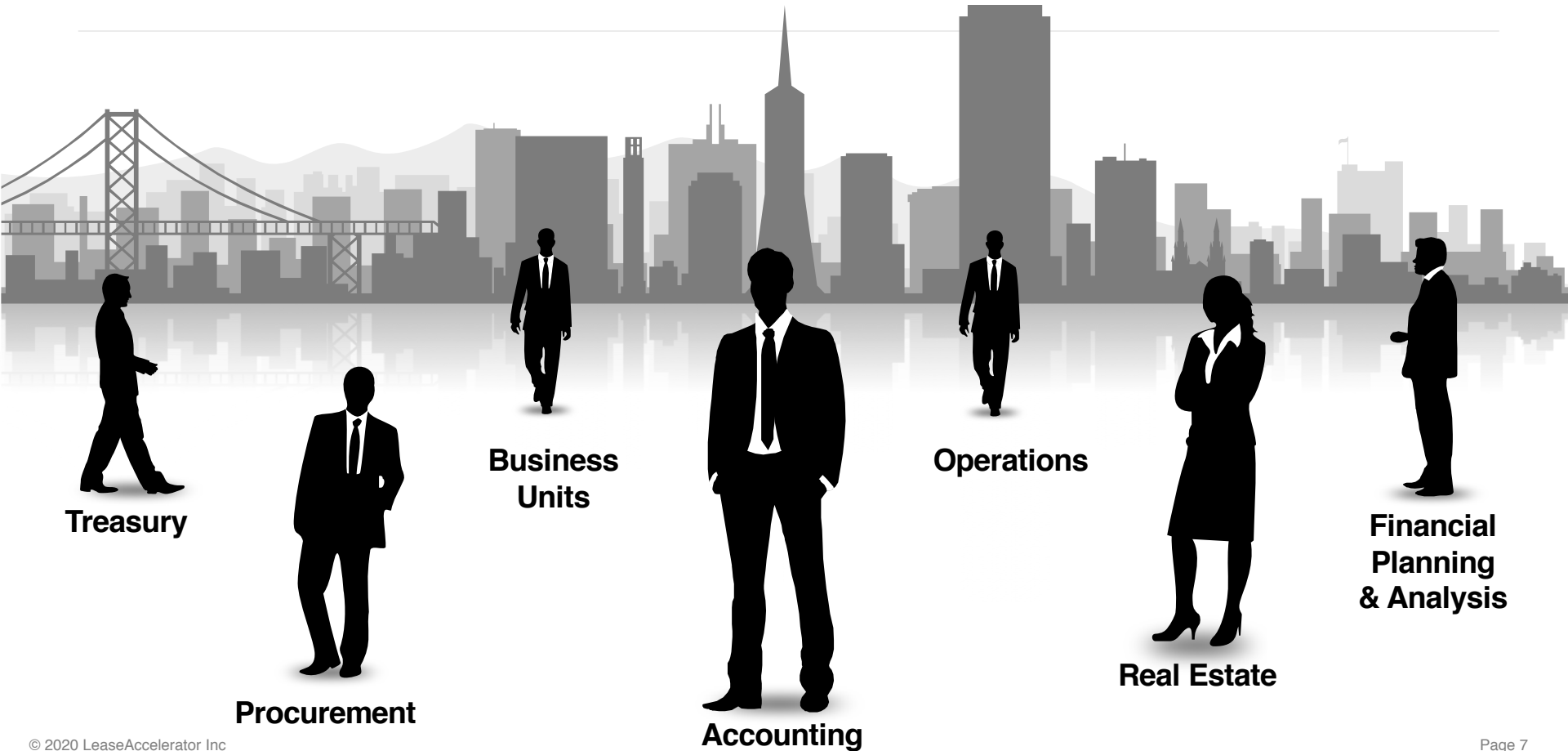
**Executive
Compensation**



**Administrative
Burden**



Who To Include in the Lease Lifecycle Management Project?



Accurate Data is Critical for Lease Accounting





Data Capture Challenges

Amendments

**Geographic
Location**

**File
Types**

**Foreign
Language**

**Unstructured
vs Structured**

Currencies



Top Administrative and Compliance Issues



**COMPLETENESS
& ACCURACY**



**INCREMENTAL
BORROWING
RATE**



**POLICIES
& CONTROLS**



Success = Plan, Plan, Plan then Test, Test, Test

The Monthly Close





Complexity of the Standard

- **Planning** - Audit committees / boards and auditors know how complicated the implementation of this standard is:
 - Accounting judgement and expertise
 - Systems enhancements
 - Business process improvement
- **Execution**
 - ERP not designed for IT challenges
 - Spreadsheets vs. purpose-built solutions
 - Accounting is just the tip of the “iceberg”



Real World Complexity

- **Complexity in Pricing and Contract Structures** - While innovation in lease pricing and contract structures may land deals, it makes automating the accounting of those deals complex and difficult;
- **Managing Lease Lifecycle Events** - Lease events—their nature AND their timing—vary greatly from company to company, and even within a company; and
- **Reporting Requirements and Accounting Variables** - The accounting policies and financial reporting options adopted by your company introduce even more complexities into the accounting of your lease portfolio.



Data-Driven Quality - Delivering the Right Lease Accounting, for the Combinations You Need

When Choosing a Lease Accounting Solution

- Ask About Quality and Validation of lease accounting combinations
- Data-Driven Approach to Quality
- Quality = Confidence = Resting Easier at Night
- Testing What Really Matters
- SOC1 Type 2 and SOC 2 Type 2 reports

Warning: Spreadsheets are NOT the Answer



The difference between poison and the cure is the quality of the antidote.

- Excel is the poison
- A complete, lease lifecycle management system is the cure



Excel is Not an Accounting System



No Version Control



Formula Errors



Cannot Be Closed



Inability to Collaborate



Poorly Documented



No Testing Process



Data Input Errors



Hard-Coded Cells



Misuse of Functions



No Change Control





Spreadsheets and Art of Lease Accounting

- Compliance to lease accounting standard is complex and requires expertise in the knowledge of the accounting standard which requires applying judgements related to the standards.
- Per the standards, lease accounting must be performed at the asset level. In other words, each asset must be accounted for.
- Many inputs (up to 140 per leased asset) are required for lease accounting. (e.g. rates, payment amount, terms, covenants, etc.)
 - If leases change, the accounting likely changes.
 - Add in unknown items that get resolved in the future. (e.g. Fx, IBR, Usage, CPI)
- Part of lease accounting is the sub ledger that must tie multiple general ledger accounts (usually 10-20) to the general ledger.

Why is Lease Lifecycle Management Important?



Cost effective, sustainable, enterprise-wide lease accounting compliance where the lease database changes virtually every month



Maintaining, automating and optimizing the monthly accounting close process



Minimizing the impact of the ongoing lease accounting workload on the accounting team



Optimizing and delivering the highest return on investment in the lease spend category

What is Lease Lifecycle Management?



Needs Assessment

- ❑ Lease versus buy
 - Fiduciary duty / internal controls
- ❑ Improve lease portfolio performance on a continuous basis through flexible deal structures provided at the start of the lease



End of Lease Term Options

- ❑ Extend – Renegotiate better terms
- ❑ Return – meet notification terms
- ❑ Purchase



Overcoming Complexity

- ❑ Leverage Robotic Process Automation (RPA) to automate judgements and decisions
 - Centralized intelligence drives the automated process
- ❑ Ensure the accuracy and completeness of lease accounting data using Workflow Automation



Sourcing, Performance and Quality



Improve lease portfolio performance on a continuous basis



Drive savings and standardization through competitive sourcing



Standardize documentation



Ensure data quality on a continuous basis



Flow Through Business Process

Inception:
Lease v. Buy

Lease Finance
Optimization

Data Abstraction,
Lease Admin. &
Rents Payments

Lease
Accounting
Compliance

Lease Lifecycle
Reporting and
Analytics

Sunset – End
of Term
Management



Global Lease Services



Lease versus Buy Analysis





Forecasting and Budgeting



At lease inception, a proper lease accounting and lease lifecycle management system provides

- Monthly P&L (FP&A team)
- Balance sheet (Treasury team)
- Cash Flow guidance

over the lifetime of **each** lease



Lessor
Management

Asset
Utilization

Ongoing Lease
Management

Asset
Impairment

Full Support from
Lease Accounting
Vendor

Facility
Itemization

Asset
Tracking

Automated Stakeholder
Communications, Workflow
and Alerts

Centralized
Documentation



Lease Administration



Compliance

Lease Accounting, Reporting & Analytics



- Internal controls and fiduciary responsibility
- Automation of lease classification
- Workflow for internal controls
- Apply policies to entire lease portfolio (e.g. IBR, Fx, useful lives)
- **Automated application of judgments and decisions based on centrally controlled and consistently applied policies ensures corporate governance**

Debt Covenants and Borrowing



Will the changes to your balance sheet impact existing debt covenants and borrowing ability?

Ratios in Loan Covenants

- Basic fixed-charge coverage
- Current ratio
- Debt service coverage
- Debt to net worth
- Funded debt to EBITDA

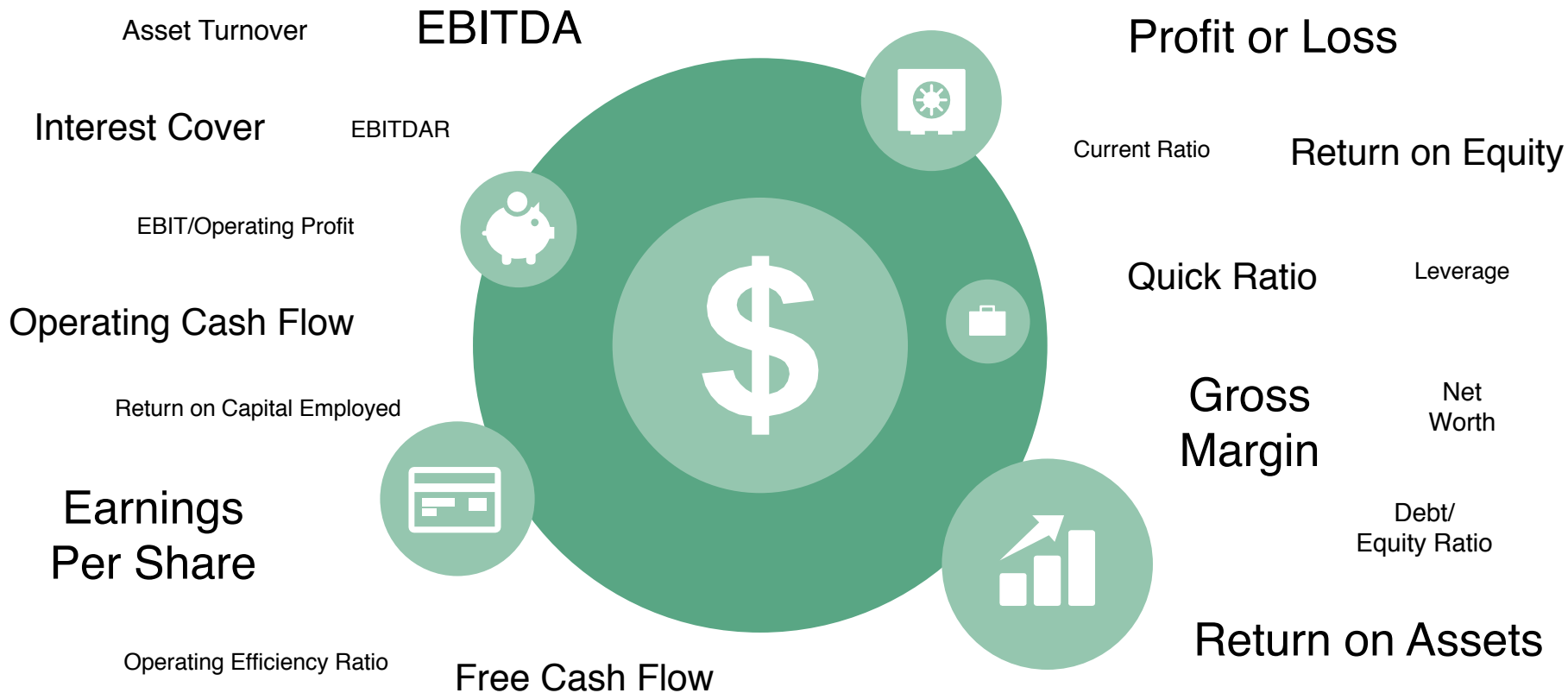
MOODY'S

STANDARD
& POOR'S

FitchRatings



Which Financial Metrics are Impacted?



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Leonard Neuhaus, CPA

Vice President of Lease Accounting

LeaseAccelerator

lneuhaus@leaseaccelerator.com



THANK YOU

QUESTIONS?



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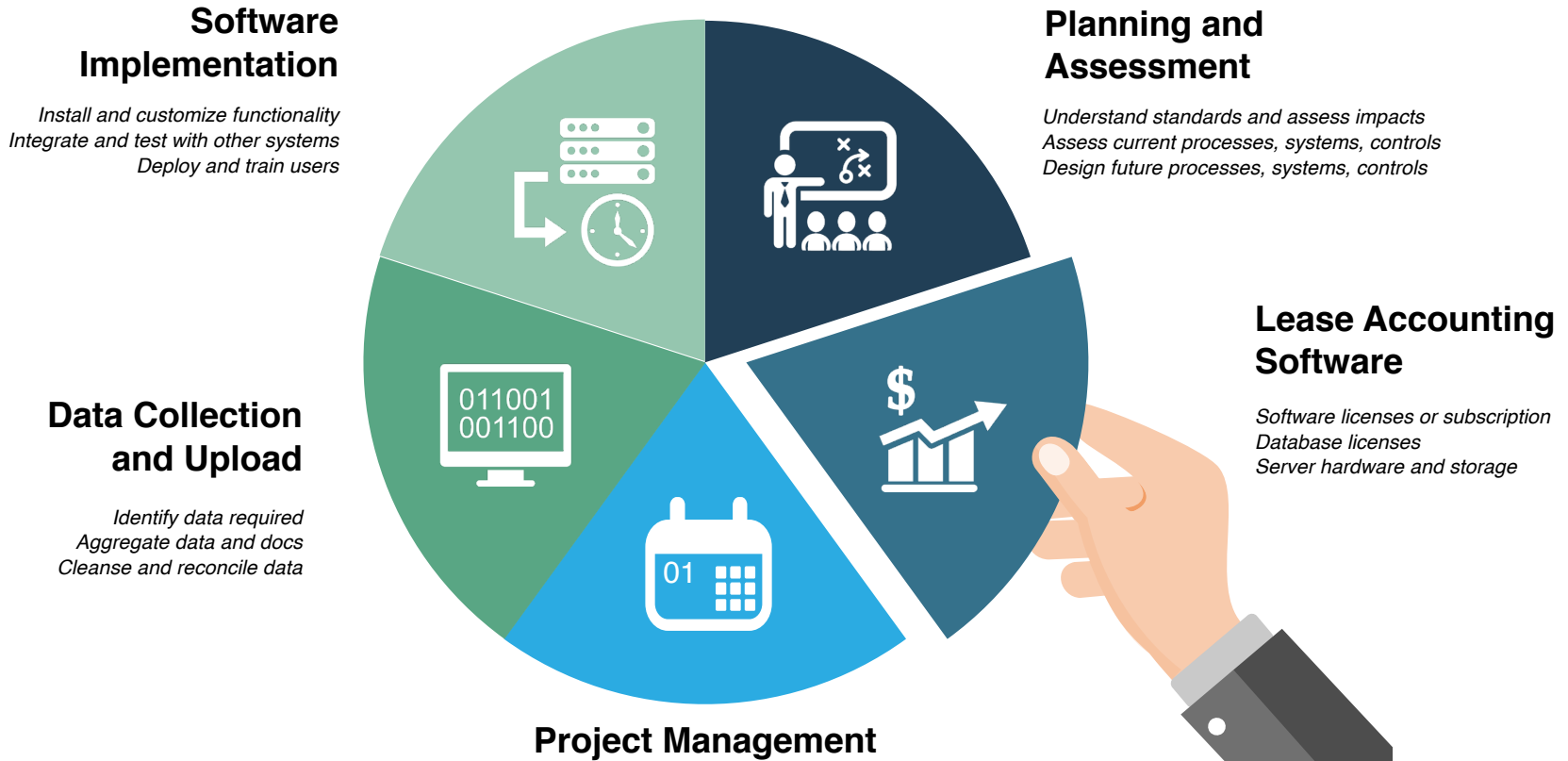


10 Key Implementation Steps

<div>Enterprise-Wide Lease Census</div> <div><div>1</div></div> <div><ul style="list-style-type: none">• International versus domestic• Real estate versus equipment• Capital versus operating</div>	<div>Current Leasing Program Assessment</div> <div><div>2</div></div> <div><ul style="list-style-type: none">• Current business processes• Current controls and policies• Current systems and data</div>	<div>Future Leasing Program Design</div> <div><div>3</div></div> <div><ul style="list-style-type: none">• Design future processes• Identify software strategy• Model future policies, controls</div>	<div>Secure Budget and Resources</div> <div><div>4</div></div> <div><ul style="list-style-type: none">• Estimate project timeframe• Identify incremental costs• Submit budget request</div>	<div>Software Vendor Selection</div> <div><div>5</div></div> <div><ul style="list-style-type: none">• Define requirements• Issue RFP to vendors• Negotiate pricing and terms</div>
<div>Software Implementation</div> <div><div>6</div></div> <div><ul style="list-style-type: none">• Install and configure• Customize functionality• Integrate with ERP and GL</div>	<div>Data Collection, Cleansing and Upload</div> <div><div>7</div></div> <div><ul style="list-style-type: none">• Identify universe of leases• Translate language, currency• Validate and reconcile data</div>	<div>Accounting Policy Elections & Judgments</div> <div><div>8</div></div> <div><ul style="list-style-type: none">• Lease classification• Non-Lease components• Begin and end dates</div>	<div>Functional and User Acceptance Testing</div> <div><div>9</div></div> <div><ul style="list-style-type: none">• Develop test scripts• Execute functional testing• User acceptance testing</div>	<div>Rollout, Training and Communications</div> <div><div>10</div></div> <div><ul style="list-style-type: none">• End-user training• Employee communications• System deployment</div>



The Key Budget Elements



Quiz – What do these entities all have in common?



- Goldman Sachs
- JP Morgan
- Citibank
- Barclays
- Fidelity
- AstraZeneca
- Marks & Spencer
- Eastman Kodak

These are all companies that have disclosed financial accounting errors or irregularities caused by Excel.