HANDBOOK

How to Comply with the 2015 FASB Lease Accounting Changes and Drive Savings and ROI

Companies Will Need 6-12 Months to Implement Processes, Controls, and Systems to Comply with the New Standard — Capture Significant Savings as an Added Benefit of the Comprehensive Compliance Process

By Michael J. Keeler and Bruce Conway
Covers Financial, Tax, and Operational Impacts on Lessees' Leases
and Explains How Lessees Should Prepare and Manage Them

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Fourth Issue: Updated to reflect FASB decisions through May 15, 2015.
We expect few changes as the FASB staff is in the process of drafting the final standard.

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Introduction to the New Lease Accounting Standards

In moving toward the goal of global accounting standards, the Financial Accounting Standards Board ("FASB") in the U.S. and the International Accounting Standards Board ("IASB") have been working jointly on a replacement for the current lease accounting standards, ASC 840 (previously FAS 13) and IAS 17, respectively, since 2006.

Although the FASB-IASB Lease Accounting Project has clearly moved slowly, the pace of activity has accelerated and the process is now nearing completion. With the Revenue Recognition (RevRec) standard finalized (the transition date was recently moved to 2018), the lease accounting standard has become the primary focus of the boards. With relatively few issues remaining, it should be finalized and released by year-end 2015. The boards have made the implementation of the standard easier for preparers. This is one of the major factors in the ongoing delays.

Multiple observers of the boards have pointed to the recommended effective date used in the RevRec standard, that is: entities would apply the new revenue standard to annual reporting periods beginning after December 15, 2018. Nonpublic entities would apply the new revenue standard to annual reporting periods beginning after December 15, 2019. They suggest this as the earliest date that could be used as the effective date for the new leasing standard. The Rev Rec standard impacts sale-leaseback accounting so it makes sense for both standards to have the same transition date. There has been no indication to date about the effective date from the boards, but for the purpose of this document, we are suggesting this as a possible effective date throughout. This would mean that public companies with calendar year ends would have to comply with the new standard in their 2018 year-end financial statements. Assuming a transition for annual reporting periods beginning after December 15, 2018, the following is a table to help understand when your company would have to transition to the new rules:

IF YOUR YEAR END IS:	YOU MUST TRANSITION TO THE NEW RULES IN YOUR FINANCIAL STATEMENTS FOR THE YEAR ENDED:
December 31	December 31, 2018
March 31	March 31, 2019
June 30	June 30, 2019
September 30	September 30, 2019

The primary objective of this project is to require companies worldwide to capitalize operating leases and thus to include them on their balance sheets as assets and liabilities for the purpose of giving users of financial statements information on operating lease obligations that they typically estimate for their particular analytical purposes. Under the current rules, operating leases are accounted for off-balance sheet and a table of future operating lease obligations are disclosed in the footnotes to the company's financial statements. Since most users of financial statements estimate lease assets and obligations to adjust their financial ratios and measures, the Boards believe that users of financial statements will have more useful information when operating leases are capitalized in a uniform way and included as assets and liabilities on a lessee company's balance sheet.

The FASB and IASB (the "Boards") have made significant changes to the approach presented in the Re-Exposure Draft (the "RED") issued in May 2013. They received more than 648 responses as of May 2015, many of which challenged the Boards to address the classification controversy, complexity, and cost of implementation for lessees.

The most notable change is that the boards have split on lessee lease classification and how lessees account for capitalized operating leases. For lessees, the IASB would drop lease classification and apply capital lease accounting, which the Boards refer to as "Type A lease accounting", to all leases with a term of 12 months or more and leases of small (meaning low value) items can be exempted from capitalization. Capital lease accounting is where an asset and liability are recorded at the present value of the lease payments, the asset is depreciated straight line, and interest is imputed on the liability. The IASB short term and small ticket exemption allows those leases to continue to be accounted for as off-balance sheet operating leases. The FASB has decided to retain a lessee lease classification model similar to the current model but without the 75% and 90% "bright lines" in the useful life and present value tests. As a result operating type leases will be capitalized but accounted for differently from capital leases and will be called "Type B" leases. The present value of the operating lease payments will be recorded as a separate asset and liability and the P&L expense will remain as the straight line average rent expense. Most notable is the Type B lease liability will not be classified as debt, but rather as an "other" liability. This is significant as it will not impact debt covenants that limit debt. The FASB allows a short term lease (12 months or less) exemption, but not a small ticket exemption.

The proposed wording of the FASB lease classification tests is:

"A lessee would effectively obtain control of the underlying asset when any one of the following three criteria is met at lease commencement:

(a) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.

(b) The lessee has a significant economic incentive to exercise an option to purchase the underlying asset.

(c) The lessee otherwise has the ability to obtain substantially all of the remaining benefits of the underlying asset as a result of the lease. Situations that individually or in combination would normally indicate that the lessee has the ability to obtain substantially all of the remaining benefits of the underlying asset as a result of the lease include:

(i) The lease term is for a major part of the remaining economic life of the underlying asset.

(ii) The sum of the present value of the lease payments and any residual value guaranteed by the lessee amounts to substantially all of the fair value of the leased asset.

(iii) The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

If the lessee meets any one of the three criteria listed above then the lease is classified as a Type A lease. Otherwise it is classified as a Type B lease.

The new accounting rules will represent a significant change from current US Generally Accepted Accounting Principles (GAAP), as not only will operating leases be capitalized, but also the definition of a lease payment will be expanded to include certain variable rents as well as contractual payments and bargain/compelling renewal rents, whereas only the expected payment under a residual guarantee is considered a lease payment. The FASB has softened the requirements to have variable rents and renewal rent assumptions subject to review and adjustment during the lease term to only when it is reassessing the lease liability for other reasons (for example, when there is a change to the lease term). The IASB requires rebooking whenever a variable rent changes the future contractual payments. In addition, under the new standard, the IASB lease cost pattern for capitalized operating leases will be front- ended, rather than straight-lined as under the current rules. The FASB lease expense accounting for capitalized operating leases is the same as current GAAP, where you report the average rent expense. Since the lease is capitalized, the P&L rent expense is a combination of imputed interest and amortization of the asset such that the sum of the two results in a straight line rent expense. The FASB calls their operating lease accounting method Type B accounting although there is some discussion that they may revert back to the current terminology calling leases either capital or operating leases. Accounting, compliance, and record keeping for operating leases will be much more complex.

Exhibit 1: Executive summary of proposed lease accounting rules

Estimated timeline per the FASB IFRS staff

> Target for the final standard is the year end 2015.

> Transition date likely to be January 1, 2018 for companies with December 31 year end.

New Lessee Accounting Standard Summary

> Capitalize all leases (except those exempted as noted above) at the PV of estimated payments.

> For the IASB all capitalized leases will have a P&L pattern that is front ended – rent expense replaced by straight line amortization of the asset and imputed interest on the liability, now called Type A leases. For the FASB there will continue to be 2 types of leases. Capital leases (now called Type A) will have the same capital lease-type method as described above, while operating leases (now called Type B) will have an expense pattern exactly as they do today – the expense will be the straight line average rent.

> The lease term is to be the same as the current GAAP definition.

> The initial measurement of variable lease payments included in lease assets and lease liabilities includes only variable lease payments that depend on an index or a rate, measured using the index or rate at lease commencement.

Variable rents based on a rate (i.e. Libor) or an index (i.e. CPI) are booked based on spot rates. Variable rents based on usage or lessee performance (e. g. sales) are not booked unless intended as a tool to avoid capitalization (also known as disguised minimum lease payments which will have to be estimated and capitalized).

For the FASB, one should reassess variable lease payments that depend on an index or a rate only when the lessee is reassessing the lease liability for other reasons (for example, when there is a change to the lease term upon the occurrence of a significant event or a significant change in circumstances within the control of the lessee). The IASB voted to reassess whenever a change in the reference index or rate in a variable rent clause changes the future contractual rents.

> Short term leases (with terms of 12 months or less), including renewals where the lessee has a significant economic incentive to renew, can elect to use the current operating lease method (off-balance sheet) with additional disclosure. For the IASB, low dollar value leases (even if material in the aggregate) can continue to be accounted for as operating leases (off-balance sheet), if so elected.

Compliance Requirements

The compliance requirements under the proposed new standard are complex, and it will take significant work for companies to transition their accounting for existing leases to the new rules and establish a process for accounting for future leases.

Most companies are not currently prepared for the transition to the new standard (presumably by 2018). All leases have to be identified and data has to be extracted to meet the proposed new requirements. Companies don't have systems in place to capture the additional lease information that will be required under the new rules, nor account for the newly capitalized leases. When these new rules do take effect, most US-based public companies will need to show comparable balance sheets for at least one year prior, meaning both 2018 and 2017, and P&L statements for two or three (for larger companies) years for SEC purposes, but they have not yet systematized the input of all the data required for those comparable years. These systems and process related issues are considered to be one of the main reasons the RevRec effective date is likely to be delayed by one year. Similar issues are expected with the lease accounting project, and it is uncertain if similar delays will be considered by the boards, but don't count on a delay in your transition planning.

Multinational companies may have local reporting needs so they may have to keep both FASB and IASB style records for capitalized operating leases. There will be cases where an IASB company may have to report operating leases using the FASB method – examples are when lenders request a break out of operating leases from capital leases, to comply with property tax rules that only apply to capital leases and for regulated entities that do not require capital for operating lease assets. Without adequate and flexible systems these complex record keeping needs will be onerous.

To meet the deadline for implementation of the new standard, it is critical that companies begin to prepare immediately. Since companies may need to prepare comparative P&L statements beginning in 2016 for SEC reporting, that leaves little time for them to establish effective systems and processes for compliance. For many companies (especially large, multinational companies with multiple lines of business), it will likely take significant planning to prepare; and have all systems implemented and ready for the new standard.

Purpose of this Handbook

This handbook will help you get prepared in time to meet the requirements of the new lease accounting standard. It focuses on lessee accounting, lease administration, and operational impacts for lessees with equipment and real estate leases. While focused on compliance, it also provides suggestions about how to drive cost savings and return-on-investment (ROI) as you carry out an implementation plan.

After first reviewing the current status of the Lease Accounting Project, this paper will provide CFOs, Treasurers, Controllers, and other departments involved with lease activities and the reporting thereof, with advice and detailed guidance on how to most effectively gear up to meet the compliance requirements and internal fiduciary responsibilities.

To meet the compliance deadline, companies should start now to prepare by: (1) forming a project team with representatives of all departments involved in the leasing process (including Finance/Treasury, Lease Administration, IT, Accounting, and the Business Units); (2) keep up with all developments in finalizing the new lease accounting standard; and (3) develop processes, systems, and controls that will record all necessary data required for compliance by following the 9-Step Transition Process detailed in the second part of this handbook.

While this paper is aimed at guiding you to timely compliance with the new standard, preparing for and implementing these rules will also yield an important secondary benefit. The transition process, if carried out properly, will result in significant efficiencies and savings, and thus a meaningful return on the required spending – rather than being exclusively a compliance cost. The savings is generated by improving economic decision-making and reducing the cost-of-capital on the front-end of the leasing process and increasing performance of on-time equipment returns by improving visibility and accountability at the back-end of the process. This paper will explain how achieving compliance with the new standard and installing controls will improve the overall economics of each lease and the financial performance of your leasing process and portfolio.

In practice, especially as it relates to equipment lease management (ELM), this paper will reveal how compliance and savings are inextricably linked. In order for the controllership to get the data — with sufficient completeness and accuracy — required to comply with the new standard on a sustainable basis, finance and operations executives must collaborate to remediate and control the lifecycle process from the beginning to the end, which is a transformational endeavor that is difficult to undertake in the pursuit of compliance alone. It is much easier to rally the leadership and commitment for fixing this kind of cross-functional and inter-departmental process if the project pays for itself and exceeds the payback and ROI thresholds of the business. To bring about a transformation in a global business process, it's much more compelling to leverage ROI as the driver than compliance.

I. The New Lease Accounting Standard: Timing, Key Provisions and Changes in Direction

Final Lease Accounting Standard Expected the End of 2015

The Lease Accounting Project is now progressing at an accelerated pace, with a target date for the issuance of the final new standard by year end 2015. It is expected that the new standard will be issued in 2015 but due to the magnitude of the conversion, the implementation date is expected to be in 2018.

By the anticipated effective date of the new standard, companies must be in full compliance. Retrospective treatment for at least one comparable prior year may require them to be ready by as early 2017 while SEC reporting rules may require earlier comparative results (as early as 2016), which requires a parallel reporting system. Because this date is approaching quickly, and the transition and compliance requirements are complex, companies should start now to plan for implementation of the standard.

Here's the planned timeline for the remaining aspects of the formulation and implementation of the new global lease accounting standard.

Exhibit 2: Expected New Lease Accounting Rule Timeline

Expected Timeline:

LEASE ACCOUNTING PROJECT EVENT	EXPECTED TIMING
Issue Final Rule	Year End 2015
Implementation/ Transition	For Financial Statements beginning after December 15, 2017 (see table above for details)
SEC Retrospective Reporting Compliance	For large companies: 2 fiscal year-end balance sheets and 3 years P&L. For "smaller" companies as defined by the SEC: 2 fiscal year end balance sheets and 2 years P&L

Key Changes in the Re-Exposure Draft

The paper will be updated as the Boards make new decisions and the rules become clearer, although we expect few additional changes.

For US lessees, adoption of the proposed new rules will result in a significant change from the current ASC 840 reporting, where operating leases are off-balance sheet. Operating lease obligations are disclosed in the footnotes and Management Discussion and Analysis (MD& A)) although lease expense for most existing and future operating leases (Type B leases) will continue to be recorded on a straight-line basis in the Profit and Loss ("P&L") Statement. While "most" operating leases will be Type B leases, which assumes that the "bright lines" will be removed and judgement will be involved, audit firms will likely continue to use the "bright lines" as a factor in their judgement in determining the lease classification. For example, leases with a present value of 89.999% may get questioned and judged as Type A leases. The specific audit protocols will emerge after implementation, this is logical approach that is worth bearing in mind.

Leases Capitalized. All leases longer than 12 months will be capitalized. The proposed rules will require a lessee to capitalize the leased asset and record the related lease obligations using estimates of the lease term and lease payments based on assumptions related to contractual rents, including: (1) bargain or compelling renewal rent and purchase options where the lessee has a "significant economic incentive" to exercise the options; (2) variable (contingent) rents; and (3) likely payments under residual guarantees.

Present Value Calculation. The lessee will calculate the present value ("PV") of the estimated lease payments using the company's incremental borrowing rate (the interest rate the lessee would incur to borrow under a secured loan with terms similar to those of the lease) or the implicit rate in the lease, if it is known to the lessee as it would be in a synthetic lease or a TRAC lease in which the lessee guarantees the residual and, as a result, knows the implicit rate in the lease.

This PV is considered to be both (1) the value of the right to use the leased asset (ROU asset), and (2) the "principal" balance of the obligation to pay rent (lease liability). This amount will be recorded as both an asset and a liability. For the IASB, the asset will be amortized as expense in the P&L over the estimated lease term on a straight-line basis ("SL"). Interest expense will be imputed on the lease liability – the sum of the interest and amortization (I&A leases) creates a front ended lease expense pattern. For the FASB, capital leases will apply the same method as described above

for IASB leases to arrive at the initial capitalized amount. However, for the FASB, capitalized operating leases will continue to use the straight line average rent as the expense, and the operating lease assets and liabilities will be reported separately from capital lease assets and liabilities.

Lease Payment Breakdown: Interest and Principal Components in Type A leases. Under the proposed standard, for a Type A lease (this means all leases for the IASB but only capital leases for the FASB approach) the lease payment, will be broken down into: (1) an interest component (charged to P&L), and (2) a principal component. The total of the interest expense plus amortization expense regarding the lease asset recorded in the P&L will initially be greater than the traditional straight-line lease expense for current operating leases, causing lease costs to be front- ended, as exists for capital leases under the current rules. Furthermore, for the IASB only, although lease expense on the financial statements will be greater than under current practice for operating leases, the IRS and likely other countries' income tax authorities will still only allow rent actually paid to be deducted for income tax purposes. Deferred income taxes will result and will need to be calculated and accounted for. To deal with the complexity and details, it is advisable to have a system to calculate and track the elements of deferred tax activity at the equipment level.

Lease Cost for Type B leases: This applies to the FASB only and it applies to leases classified as operating leases. The lease cost for those leases that qualify as Type B leases will be the same as current GAAP, that is, the straight line average of the minimum lease payments reported as rent expense. The "rent expense" will be the sum of the imputed interest on the liability and amortization of the asset. It is advisable to have a system to compute the amortization of the asset as it is the difference between the average rent and the imputed interest.

Estimates of Lease Term and Lease Payments: For purchase and renewal options, a lessee should reassess whether the exercise of an option is "reasonably certain" (and thus must be recognized) only upon the occurrence of a significant event or a significant change in circumstances that are within the control of the lessee. The boards explicitly agreed that the term "reasonably certain" is a high hurdle. The original exposure draft's contemplation of reassessing every year or every reporting period has been definitively eliminated.

Transition: Existing Capital leases are grandfathered for both the FASB and IASB. For the FASB a "modified retrospective" method is required where all operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements (the date of initial application) will have to be booked on a prospective basis **but** those that expire in the periods of comparative statement will not have to be rebooked. The asset and obligation is booked at the PV of remaining rents at earliest date presented in the financial statements.

For the IASB, a lessee can do a full retrospective application where all leases are rebooked from their inception. Also the IASB allows a modified retrospective method where all existing operating leases are booked on a prospective basis but with a more complex calculation than the FASB method. The asset and obligation is booked at the PV of remaining rents at earliest date presented in the financial statements, the offsetting ROU asset is booked **but** adjusted by the ratio of remaining rent to total rents at inception and the difference is charged to equity and a deferred tax asset is recognized for the book tax difference. This complex transition is designed by the IASB to lessen the current charge to P&L caused by the change to a front-ended cost pattern. Instead, the charge is to equity. Because of comparative financial statement reporting requirements of the SEC (see above), SEC reporting companies will have to make the adjustments and have their data and systems in place to report earnings for the year 2016, when they prepare their 2018 financial statements.

For a more detailed description of the proposed lease accounting changes, please see Appendix I, "Major Compliance Requirements Under Lease Accounting Exposure Draft."

Exhibit 3: Lease Accounting Under the New Standard: A Real-World Example

Operating lease example: Here's an example of how the new lease accounting standard under the FASB's approach would work for an operating lease (Type B lease) based on provisions of the Boards' decisions made to date.

A company leases several PCs for three years. The rent is $1,700 a month for 36 months ($61,200 in total). Under the current accounting standard, this is considered an operating lease as the PV of the payments is less than 90% of the fair value of the assets, and is accounted for as an off-balance sheet transaction. Under the proposed new standard, the lease must be capitalized and reported as an asset and liability on the balance sheet.

At a 5.5% incremental borrowing rate, the present value of the rental payments is $56,557. This is the amount that is capitalized on the balance sheet. The lessee's initial balance sheet entries are:

> Debit Right to Use Leased Asset = $56,557

> Credit Capitalized Lease Obligation = $56,557

On the P&L, the first year's imputed interest expense is $4,425 and the amortization expense is $15,975. Together, these two items total $20,400 for the first year's lease expense. Under the current GAAP standard, the rent expense would total $20,400 on a straight-line basis.

Table 1. PC Lease Example: Assumptions and Calculations

ASSUMPTIONS		
Rent in Advance	$1,700	
Term in Months	36	
Incremental Borrowing Rate	5.50%	
Fair Value of Leased Assets	$65,000	
CALCULATIONS		
PV of Payments - Inception	$56,557	87% of $65,000 FV
PV of Payments - Year 2	$38,729	
PV of Payments - Year 3	$19,896	
Total Rent	$61,200	

Table 2. Annual Journal Entry Summary

ENTRY TO CAPITALIZE THE LEASE AT INCEPTION		
ROU asset	$56,557	
Capitalized operating lease liability		$56,557
ENTRY TO RECORD FIRST YEARS LIABILITY ACTIVITY		
Rent expense (imputed Interest)	$2,572	
Liability	$17,828	
Cash		$20,400
ENTRY TO RECORD ASSET ACTIVITY		
Rent Expense (amortization of asset)	$17,828	
Asset		$17,828

Capital lease example: Below is example of the IASB's approach for the same lease as in the example above (based on the Boards' decisions to date).

A company leases several PCs for three years. The rent is $1,700 a month for 36 months ($61,200 in total). Under the current accounting standard, this is considered an operating lease as the PV of the payments is less than 90% of the fair value of the assets, and is accounted for as an off-balance sheet transaction. Under the proposed new IASB standard, the lease must be treated as a capital lease. That is, it is capitalized and reported as an asset and liability on the balance sheet with interest expense and amortization expense reported on the P&L statement.

At a 5.5% incremental borrowing rate, the present value of the rental payments is $56,557. This is the amount that is capitalized on the balance sheet. The lessee's initial balance sheet entries are:

> Debit Right to Use Leased Asset = $56,557

> Credit Capitalized Lease Obligation = $56,557

On the P&L, the first year's interest expense is $2,572 and the amortization expense is $18,852. Together, these two items total $21,425 for the first year's lease expense. Under the current GAAP standard, the rent expense would total $20,400 on a straight-line basis. Thus, capitalizing the lease has increased the company's lease expense by $1,025 in the first year. The cross-over point occurs in the second year of the lease, when the total lease expense under the new standard would be less than the expense under the current GAAP standard (see Comparative Analysis below).

Table 1. IASB method PC Lease Example Assumptions and Calculations

ASSUMPTIONS	
Rent in advance	$1,700
term in months	36
Incremental borrowing rate	5.50%
Fair Value of leased assets	$65,000
CALCULATIONS	
PV of payments - inception	$56,557
Total rent	$61,200

Table 2. Annual Journal Entry Summary

ENTRY TO CAPITALIZE THE LEASE AT INCEPTION		
ROU asset	$56,557	
		$56,557
ENTRY TO RECORD FIRST YEARS LIABILITY ACTIVITY		
Imputed Interest Expense	$2,572	
Liability	$17,828	
		$20,400
ENTRY TO RECORD FIRST YEAR'S ASSET ACTIVITY		
Amortization expense	$18,852	
		$18,852

Table 3. Income Statement Impact of Front Ended Lease Expense

COMPARATIVE REPORTED TYPE B LEASE EXPENSE			
Year	1	2	3
FASB Method	$20,400	$20,400	$20,400
IASB Method	$21,425	$20,418.91	$19,356.55
IASB B/(W) than FASB	($1,025)	($19)	$1,043
%	-5%	0%	5%

Recent and Anticipated Changes to the Re-Exposure Draft

Lease Term. In the re-deliberation meetings, the FASB and IASB tentatively decided that the lease term will be defined at inception as the contractual term plus renewal or purchase options, where the lessee has a "significant economic incentive" to exercise the option to renew or purchase. This is essentially a reversion to current US GAAP albeit with different words. Under current GAAP, a renewal or purchase option is included in the lease term if they are bargains or there is "compulsion" to exercise, where the lessee would incur an economic penalty for failure to exercise the option. Under the new standard, for purchase and renewal options, a lessee should reassess whether the exercise of an option has now reached the level of "significant economic incentive", in other words "reasonably certain" (and thus must be recognized) only upon the occurrence of a significant event or a significant change in circumstances that are within the control of the lessee. The boards explicitly agreed that the term "reasonably certain" is a high hurdle.

Variable Lease Payments. Only certain variable lease payments will be included in the lessee's lease capitalization, including: (1) Variable lease payments that depend on an index (like the CPI) or a rate (like LIBOR, using the spot rate at lease inception for floating leases); and (2) Variable lease payments that are "disguised" minimum lease payments based on usage of the underlying asset or on lessee performance – in other words payments that are "reasonably certain", in which case an estimate of the expected rents must be capitalized. This is a far more limited approach than the one that was proposed in the original Exposure Draft (ED).

Change in Required Adjustment of Variable Rents. The lessee is required to reassess variable lease payments that depend on an index or a rate only when lessee is reassessing the lease liability for other reasons, for example, when there is a change to the lease term upon the occurrence of a significant event or a significant change in circumstances within the control of the lessee. The IASB voted to reassess for that reason or if the cash flows change due to a change in the reference index or rate. This may change when the standard is finalized as this could represent a significant difference in some situations between FASB and IFRS. Nonetheless, with these changes, reassessment is greatly simplified from the original approach of requiring annual reassessment in a much broader set of circumstances.

Residual Guarantees: Lessees need only include the likely payment under a residual guarantee in the lease payments capitalized – not the full amount of the residual guarantee. Residual guarantees are common in synthetic leases, TRAC leases, split TRAC leases, and open ended fleet leases.

Impact of New Standard

Financial Impact—Significant, But Less Than Originally Envisioned

The overall financial impact of the proposed lease accounting changes, due to favorable re-deliberations, should not be as great as originally thought for many US companies. Certainly the impact of capitalizing leases is significant as it puts new assets and liabilities on the balance sheet, but the impact on profitability for many Companies is not significantly different from the existing standards to the new standards due to the FASB decision on the expense pattern for Type B operating leases. Some financial ratios and measures will be impacted. IASB companies will see much more significant changes including permanent higher debt amounts, permanent lost capital, new permanent deferred tax assets and temporary reduced earnings. IASB companies will see more serious negative impacts to financial ratios and measures.

For most leases, the amounts capitalized will generally be the same as used in Standard & Poor's ratings (S&P uses the same PV method as proposed in the ED) and likely less than what Moody's Investors Service would calculate (Moody's generally uses a rule of thumb factor of 8 times the current rent expense). For IASB companies, the increase in liabilities classified as debt due to capitalizing operating leases may result in debt covenant breaches that will require negotiation and adjustment unless the Boards' allow the capitalized operating lease obligation to be classified as a non-debt obligation. US bankruptcy laws do not consider operating lease obligations as debt, as do many other countries, so the FASB decided to classify operating lease obligations as non-debt other liabilities. Also, financial measures like return on assets, EBITDA, interest coverage and operating leverage will change, so a lessee should make pro forma calculations to determine if debt covenants, other contracts, or internal performance and incentive plan measures using those measures are affected.

Tax Impact—Minimal, Depends on Jurisdiction

Lessees should investigate the following areas further with their tax departments to determine if there are any tax changes that may result with the new standard:

> In many taxing jurisdictions, typically in North America, the income, sales and property tax code for leases is entirely independent of the accounting treatment. Regardless of what changes take place, there is expected to be no impact in these jurisdictions on taxes, and as such, the lease versus buy decision will not be impacted by taxes. However, in these same jurisdictions, because of the changes to lease accounting for IASB companies, there may be an increased administrative burden with tracking deferred income taxes as a result of timing difference which are expected to occur for capitalized operating leases. IASB companies will also have to track operating leases for personal property tax purposes as they are not taxable for the lessee. The difference in administrative costs of tracking tax treatments that differ from book treatments is not expected to be material for companies with an Equipment Lease Management (ELM) system that has strong accounting and reporting capabilities.

> In other taxing jurisdictions, and as sometimes seen in Europe, the tax code makes reference to or uses the accounting treatment for the purposes of calculating taxable income without any adjustments. The new standards may in fact impact the amount of taxes paid in these jurisdictions. However, there are certain taxing jurisdictions taking action to ensure that such accounting changes do not impact taxes by revising the tax code to be consistent with the existing standards. Again, where timing differences occur, you will be required to track deferred tax amounts.

> Personal property tax and sales tax could possibly be impacted in some taxing jurisdictions. Ordinarily, the responsibility to pay these amounts are determined by the legal substance of the lease contract or within the lease contract terms and the accounting treatment would not impact either the amount or responsible party for these payments. Nevertheless, companies should consult with their tax departments to ensure there are no tax consequences as a result of the lease accounting changes in all of the countries and taxing jurisdictions in which they transact or a nexus exists.

Operational Impact—Substantial Increase in Administrative Burden

The new lease accounting standard will increase a lessee's administrative burden due to the required increase in process controls; data collection, analysis, and maintenance; monitoring; internal reporting systems, and most importantly, audit scrutiny. Many industry leaders believe that this added burden has received insufficient attention to date from the IASB/FASB. Here are some of the key factors contributing to the added burden:

> A new, expanded definition of what is included in lease payments, in particular variable payments and expected payments under residual guarantees.

> Data to calculate payments comes from several sources in the organization.

> Calculation of lease payments is complex.

> Calculation of some payments involves judgment and estimates.

> Calculations to determine the amounts to record in order to capitalize operating leases are complex.

> Financial disclosure requirements are expanded.

> Income tax reporting and accounting may be more complex.

> All existing operating leases will have to be recorded in accordance with the new standard in the earliest accounting period reported when transitioning to the new rules.

> For most companies, the scale of the administrative requirements will mean additional systems and tactical support.

> Requiring dual track reporting throughout 2016 depending on the timing of the final standard.

To Meet the Timetable for Implementation, Lessee Companies Must Begin Preparing Now

If they are going to meet the 2018 probable implementation date, lessees must start preparing for the transition now. That's especially true if a company's lease portfolio includes many lease schedules with multiple assets, non-homogeneous assets, lessors, countries or languages.

Although the implementation date of the new standard may seem far in the future, given the scope of the required preparation, lessees need to take action immediately. It is likely to take more than twelve months for some companies to fully overhaul the lease accounting processes, systems, and controls that will be required to comply with the new standard. Companies must: (1) understand the new rules to determine compliance requirements; (2) start and complete a transition process; and (3) develop an ongoing process for complying with the new standard beginning on the effective date.

The lease accounting rules are still a work-in-progress and we do not expect any significant changes. In any case, lessees should still closely monitor developments in the Lease Accounting Project until the final standard is issued, which is now expected at the end of 2015. In the meantime, companies should begin the process of creating both a Transition Project and planning for the Ongoing Lease Accounting Process.

Setting Objectives and Defining Compliance and ROI Success

To address the coming lease accounting changes, companies will have to change how they manage their leasing activities. Accounting for operating leases was relatively simple, since these leases were treated as operating expenses. But accounting for capitalized operating leases requires a much more rigorous approach, given the increase in risk and complexity -- including the impact of estimation errors, as well as the increased compliance requirements of the Sarbanes-Oxley Act.

As with any change-management project, you should start by defining the objective, scope and strategy of the project or process. Below is an example of an objective that you might establish for your company's transition to the new standard. It is deliberately stated in past tense as if it has already been accomplished. The objective is not exclusively focused on compliance. Instead, it is designed to yield financial returns from the investment in compliance by improving the financial performance of your leasing process and portfolio.

Objective: By the implementation deadline for the lease accounting changes, on a global basis, we have developed, deployed, documented, and iteratively refined a leasing process that is compliant with the new lease accounting standard, well-controlled, auditable, automated, and scalable, and we will be able to demonstrate that we made good economic decisions throughout the lease lifecycle.

How do you know you are successful with this objective? Below are metrics you can employ to measure how well you achieved the Objective. We know we have been successful in meeting this Objective because:

> We can generate reports with the push of a button, quickly and easily, for:

- The lease accounting changes that reflect the final new lease accounting standard;
- Preparation of our financial reporting disclosures, including SEC-required comparables, with full auditability; and
- Internal management of all lease terms that require timely decision-making.

> All stakeholders, who use the data, trust the data.

> All stakeholders in the leasing process receive timely, accurate, and complete reporting and notifications, especially notifications about the end-of-term.

> The financial performance of our lease portfolio, process, and people is measurable and continuously improving. For example, we know quantitatively how much money we are saving by leasing rather than buying. And we know how much money we could be saving if specific underperforming people and groups managed their leased assets at the end-of-term more effectively and returned assets on time. We can provide those underperformers with automated notifications and scorecards that they need to improve their performance quickly and easily.

II. Transitioning to the New Standard: How to Meet the New Requirements and Drive Savings and ROI

Introduction

The remainder of this handbook will provide you with comprehensive guidance on implementing the new lease accounting standard. The transition process will require the collaboration of many individuals and departments within your company. At the same time, the process we recommend here will achieve major efficiencies in the handling of lease-related information across your entire company and improve the financial performance of your leasing process and portfolio. The result: significant, recurring, annual cost-savings for the company as a whole and a measurable, quantitative, positive ROI for your compliance project. Thus, while this transition process is motivated by the need to comply with the new standard, it is also an investment in managing the company's leasing activities more efficiently and effectively. Therefore, if properly implemented, the process will pay for itself and bring continuous, sustainable, annual returns.

Below we recommend a multistep process that will most effectively get your entire company into compliance with the new standard. As a precursor and preparation for this process, you should: (1) continue to monitor the progress and developments of the FASB-IASB Lease Accounting Project (by visiting wwwifrs.org. or www.fasb.org) for the day-to-day proceedings and decisions; and (2) review your company's leasing policies.

Review Your Leasing Policies. In view of: (1) the complexities of the new standard: (2) the additional administrative burdens that will be entailed; and (3) the changes that will be required, it is critical at the start of the transition process that you thoroughly evaluate your company's leasing policies.

Lease-vs.-Buy Analyses. Review of your leasing policies includes reviewing your lease-vs.-buy (LvB) analyses. Previously, LvB analysis and decision-making were primarily based on economics, as operating leases were off-balance sheet and treated as an operating expense. Now that nearly all leases will have to be capitalized, there are financial metrics that must also be considered.

The traditional LvB analysis will remain largely unchanged, as the analysis will continue to focus on the after-tax implicit cost considering timing of lease payment cash disbursement and tax cash flows and not accounting expenses. Nevertheless, the changes in financial ratios should be analyzed to the extent that they impact the LvB decision.

In an asset purchase, depreciation is stretched out over the asset's useful economic life. For IASB lessees, if an asset is leased, depreciation may be accelerated and spread over a shorter lease term. Thus, under the new lease accounting rules, because of additional assets on balance sheet, and the acceleration of lease costs (at least for IASB lessees) , the Return on Assets/Return on Equity calculations will look worse for a now-capitalized operating lease.

However, for FASB lessees, under the new rules operating leasing will still look better than buying. That's because the amount recorded will be less than the cost of the asset and the reported lease cost will be level – not front ended. The answers for IASB lessees are a bit more complex. The amount recorded will be less than the asset cost, EBITDA and cash flow from operations will look better than under the existing rules, as rent will no longer be considered an operating expense on the P&L, but there is a front loading of reported costs. The significance of front loading will depend on several factors including the lease term and incremental borrowing rate of the Lessee.

Why Leasing Will Remain Attractive Despite the Accounting Changes. Your review of leasing policies should also take into account the quantitative and qualitative reasons why leasing will remain attractive.

Under the new rules, the accounting benefits for leasing (off-balance sheet financing) will only partially recede. It will remain only to the extent that the PV of the rents is less than the cost of the asset, in which case the lessee capitalizes only the PV. In that case, from a budget perspective, the amount of capitalized lease payments is less than the cost amount had the asset been purchased. Under certain leases like synthetic leases, TRAC leases and auto/truck fleet leases the amount capitalized may be significantly lower than the cost of the asset.

There are many reasons why companies lease and most will still remain favorable per the chart below (the source being http://www.elfaonline.org/Issues/Accounting/EC/ReasonsForLeasing.pdf):

REASON FOR LEASING	DETAILS	STATUS AFTER PROPOSED NEW RULES
Raise Capital	Additional capital source, 100% financing, fixed rate, level payments, longer terms	Still a major benefit versus a bank loan especially for SME & non-investment grade lessees with limited sources of capital
Low cost capital	Low payments/rate due to tax benefits, residual & lessor low cost of funds	Still a benefit versus a bank loan
Tax benefits	Lessee can't use tax benefits & lease vs. buy shows lease option has lowest after tax PV cost	Still a benefit
Manage assets Residual risk transfer	Lessee has flexibility to return asset	Still a benefit – if lessee can manage end of term.
Service	Outsource servicing of the leased assets.	Still a benefit
Convenience	Quick & easy financing process often available at point-of-sale	Still a benefit
Regulatory	Capital issues	Regulators should still treat ROU assets as "capital free" as they are an accounting contrivance and do not represent an asset in a bankruptcy liquidation
Accounting	Off balance sheet	Partial benefit if the PV < cost of the asset, S/B true for all op leases especially high residual assets with tax benefits. The Type B liability is not debt – no impact to debt covenants

A likely outcome of the changes in the accounting rules is that companies may decide to negotiate different lease terms, possibly shorter terms. They may choose CPI variable rents versus stepped up contractual rents.

Also under the new rules, sale-leasebacks that were transacted to remove assets from the balance sheet will no longer provide this relief except to the extent the PV of the payments is less than the book value of the asset. The capitalized value of the sale-leaseback rents will replace the asset cost on the balance sheet.

Sale/leaseback transactions

The boards reaffirmed that for a transaction to be considered a sale/leaseback, the sale must meet the requirements of the new Revenue Recognition joint standard (ASU 2014-09/ASC 606/IFRS 15). However, "continuing involvement" in the form of a fixed price purchase option (even if it is not viewed as a bargain) precludes sale recognition under that standard. The boards clarified that an ordinary leaseback (meaning with no option to purchase) does not trigger that clause and precludes sale/leaseback accounting. The FASB also decided that the presence of a fair market value purchase would also not preclude sale treatment provided that the asset was readily available in the marketplace and not specialized.

- The IASB concluded that a "substantive repurchase option" precludes sale recognition.
- "Failed" sale/leasebacks are accounted for by the seller/lessee as a loan and the asset remains on its books. For the lessor the transaction is recorded as a loan.
- The FASB decided, that if the leaseback meets "Type A" criteria (i.e., it's a capital lease), the transaction would not be considered a sale. In other words, if the risks and rewards of ownership are being transferred back to the seller-lessee, no sale really happened.
- For those sale leasebacks that meet the Rev Rec sale criteria, both parties treat the lease like any other lease.
- For the gain, the two boards split: the FASB concluded that the full gain should be recognized just as with any other sale. The IASB held that only the portion of the gain applicable to the residual asset can be recognized at sale.
- If the official sale price is higher or lower than the market price ("off-market"), a reduced sale price is treated as a prepayment of rent; a higher sale price is treated as additional financing by the buyer-lessor to the seller-lessee.

Lessee Benefits That Continue

Despite these changes, in the new lease accounting environment, there are a host of situations where leasing will continue to remain attractive and preferred over purchasing assets. To recognize this, consider the reasons why your company has been leasing equipment in the past, and ask yourself: Do these reasons remain valid under the new rules? Here are several examples:

- Liquidity – 100% low-cost, fixed-rate, financing collateralized using the value of the equipment, in contrast to a senior secured loan which uses the collateral of the entire business.
- Superior economics – the present value of lease payments is lower than the purchase cost, due to the lessor's residual and tax considerations, resulting in quantifiable savings.
- Forced refresh of equipment, resulting in avoidance of break-fix costs following warranty expiration.
- Leasing is a hedge against the risk of technological obsolescence.
- Level lease payments (in some cases).
- As an additional source of financing, leasing increases a company's liquidity and conserves capital.
- Leasing can be simple and easy, often available at point-of-sale transaction. It can come with service as in fleet leases, PC leases and rail car leases enabling outsourcing of costs and activities.
- Leasing can offer beneficial tax considerations, generally leases can be structured to allow either the lessee or the lessor to claim tax benefits including MACRS deductions and tax credits, if any.
- Outsourcing the residual: if the lessor has taken a residual, leasing offers a lessee the ability to return and refresh their equipment, ensuring their equipment continues to contribute to the profits of the business. The lessor retains the responsibility of monetizing the residual, and environmentally compliant disposition and disposal, which, given focus, scale and expertise, the lessor can do much more effectively than the lessee.
- Leasing enables companies to align cash flows/expenses with revenues, and
- Leasing continues to allow corporate budget owners to spread the cost of their investments in equipment over time, which is often referred to as "budget expansion."
- For regulated entities like banks and insurance companies where regulatory capital is against assets, operating lease assets do not require capital.

So by and large, equipment leasing will continue to make sense in a wide range of scenarios after the new lease accounting standard becomes effective. And the changes to the lease accounting rules should not have a significant impact on the ultimate lease versus buy decision.

Transitioning to the New Standard: A Comprehensive 9-Step Process

For many companies, leasing will continue to be an important technique for acquiring the use of assets. At the same time, given the nature and complexity of the requirements under the new standard, the transition will require substantial time and effort.

To help you make that transition in an efficient and timely fashion, we have devised a 9-Step Transition Process that will take you all the way from creating an internal transition team to creating a comprehensive leasing database to acquiring the appropriate lease software right up to and beyond the effective date of the new lease accounting standard.

At the same time, when properly followed, this process, which encompasses a wide range of cost-saving measures, will also result in substantial savings for your company and in the end, will pay for itself and bring continuous returns by reducing costs throughout the leasing lifecycle. By following this process, your firm will be in the forefront of companies that are well prepared and in full compliance with the new standard.

Step 1: Create a Lease Accounting Project Team

Companies should create a Lease Accounting Project Team that will oversee the transition process, establish timelines, and be fully responsible for timely and effective completion of the project. The team should include representative stakeholders that lease equipment, administer leases, or use information concerning leases. That would include Finance/Treasury, Lease Administration, IT, Accounting, and the Business Units. In some cases, depending on the degree of technical complexity or internal sensitivity of the asset type, there may be a need for a specialized team devoted to leasing of specific asset types (e.g., a global executive auto program).

Step 2: Deploy Software Designed for Your Processes and Portfolios: Integrated Workplace Management (IWM) for Real-Estate Leases and Equipment Lease Management (ELM) for Equipment Leases

Many companies will need to identify new systems that support the full lifecycle of leasing and are easily adapted to their process and portfolio, and to the geographies where their company operates. There are many software packages available for managing real-estate in the Integrated Workplace Management (IWM) category. These software appeal to the stakeholders of the real-estate management process within a lessee, who are distinct from those involved in the equipment leasing process. None of these IWM software platforms offer the functionality to manage the equipment leasing process or perform asset-level lease accounting, which is required by the new standard.

If your company is still using spreadsheets, a fixed asset subledger, or an asset management system – a system without the required lease and accounting capabilities – to manage its portfolio of leased assets, it is critically important to acquire software specifically designed for the unique requirements of equipment lessees. Lessors employ software specifically designed for either real-estate lessors or equipment, depending on their leasing specialization. Lessees need to mirror this specialization. Equipment lessees need software that automates the equipment leasing lifecycle across a company in which the decisions and data capture are local, while the controls and financial reporting are global. Full lifecycle automation is required to capture the data and documents and maintain the completeness and accuracy required throughout the process in order to generate auditable financial reporting. Furthermore, you must verify that your software provider meets the new lease accounting standard's requirements and can support your firm's transition process.

Because equipment leasing is fundamentally an interdepartmental, cross-functional, decentralized process in most large geographically distributed companies, selecting a software system that is web-based or cloud-based is essential to including all of your stakeholders, wherever they may be, in order to achieve your objective. The Software-as-as-Service is now widely accepted and available as a delivery model.

If you are an international company, the software should be multicurrency and multilingual. It should also have multi-lessor capabilities (i.e., it should be lessor-agnostic), because most large companies employ multiple lessors. This eliminates the possibility of using any software system offered by a single lessor (often offered to clients in an effort to monopolize their leasing business). Your software provider should also have the ability to integrate with not only your internal procurement, ERP, and IT asset management systems, but also your lessors' systems to achieve step through processing (STP).

You also need to be able to load any kind of asset into the system – essentially, whatever you lease: furniture, airplanes, forklifts, water coolers, copiers, rail cars, pea pickers (seriously), etc. This is more versatile than the use of an IT asset management system, because these systems are designed only for IT equipment.

To determine whether a particular lease administration and accounting software package is appropriate, start by giving the prospective software provider a sample data set so that you can test your data in their system. Then ascertain whether or not the system can generate capital lease debits and credits for each asset, each transaction, and the portfolio as a whole. If it can't perform these basic and essential functions, it won't support your firm's transition to the new lease accounting requirements, and you should continue to investigate alternatives. The ability of your lease administration and accounting software to easily integrate into your ERP is also important. Your software vendor should have the ability of exporting journal entries at both asset level and summary level with any account configuration.

Once you have decided on appropriate lessee software, you should configure and integrate the system for maximum efficiency. You should: (a) include your organizational structure and GL coding and other business coding; (b) set up users and groups and their authorizations; (c) integrate the system with your Single Sign-on System (e.g., LDAP) Purchasing System, and AP/GL system where appropriate, and (d) train your stakeholders.

Step 3: Establish a Totally New, Retrospective Lease Information Database

To be absolutely sure that you have all the information you need to move forward under the new standard, you should establish an entirely new lease information database. Of course, you already have accumulated a substantial amount of data about your current leases. But setting up a completely new database will ensure that all members of the company's team and all departments that need the information for compliance will have it at their fingertips. This procedure will also ensure that your current database is completely accurate, especially if you scrape the data from the original documents

or reconcile your existing data to your original documents. Here are the steps we recommend:

> Create a Master List of Data Elements by obtaining all relevant reports and data from all stakeholders within your company.

> Compile a complete set of all internal lease-related documents.

> Capture the required schedule level and asset level data for every lease by scraping and scrubbing (aka "abstracting and performing quality assurance on") the data from the documents.

> Reconcile and integrate data from other sources, including lessors, vendors and internal asset management systems.

> Require asset owners to attest to the accuracy and completeness of the data.

> Populate your lease administration system with key financial variables, such as the company's incremental borrowing rate and the spot rate for floating rate leases and the applicable CPI index for leases with CPI based variable rents.

> Load your lease information database into the lease administration system.

The major components of Step 3, as shown above, encompass a wide range of specific actions that should be taken. Please see Appendix II for the details of recommended actions.

Step 4: Build a Reports Library, and Automate the Distribution of Reports to Stakeholders

Create a set of reports that allow you to report on and analyze all leases and underlying assets, expenses and obligations in your lease portfolio. The lease accounting software system that you choose should have a library of canned reports immediately available when you load your database. In addition, you should be able to easily build your own reports from scratch. The reporting should be automatically updated when you load the data and documents for a new lease. In addition, your lease administration system should enable you to send the reports automatically to any other stakeholder on a routine basis that you specify.

Step 5: Analyze and Triage the End of Term – Generate Immediate Savings and Better Data

> Generate reports for all asset classes based on their End of Term status: return, buyout, or renew.

> Generate "evergreen report" to determine the status of leases that are past their original lease end date including all contractual renewals (intentional) and automatic evergreens (unintentional).

> Follow up with Asset Owner and Asset Users for every lease schedule past due, and resolve the issues:

- Update information in the lease administration system at the asset level.
- Recalculate expected payments if it is a partial buyout or partial return, and reconcile this against invoices.
- Perform analysis to determine best economic option in consultation with users, make the decision and execute on it.
- Calculate savings created from these actions.

> Configure End-of-Term internal and contractual notifications.

Step 6: Maintain Database Accuracy and Completeness

In order to maintain the accuracy and completeness of your lease information database, you must capture all new leases as they become available. Because of the decentralized nature of many companies, this is often difficult to do. One strategy that has proven to be effective is to mandate that users around the world use a common, simple, and automated country specific Lease-versus-Buy tool that is integrated with your lease administration system. This will allow you to see all of the LvB activity, such that if the outcome of the LvB analysis is a recommendation to lease, you can track the transaction as it moves through your automated process. LvB is the earliest opportunity to establish a control that enables distributed, local decision-making while facilitating centralized visibility. Here are the steps we recommend to maintain the accuracy and completeness of your database:

> Gain visibility into your leasing pipeline by mandating a global Lease-vs.-Buy process and tracking lease originations.

- Identify internal sources for a variety of variables, including intentions to exercise options to renew leases or options to purchase.
- Manage transactions for efficiency and the benefit of internal users; Capture new leases as they are signed.
- Send periodic notifications to asset owners to test the accuracy of the data and capture changes during the lease term.

Each of these aspects of Step 6 encompasses a number of significant actions that must be taken. Please see Appendix III for detailed guidance on how to effectively reach the objective of maintaining database accuracy and completeness.

Step 7: Develop Procedures to Manage End-of-Term Effectively

Under the proposed lease accounting changes, increasing the percentage of timely returns will reduce the lease term for prospective lease transactions. For example it will be more difficult to justify the present value for just the original lease term if a significant proportion of assets are going on extension, renewal or evergreen. Here's a step-by-step process to ensure that you effectively manage the end-of-term in the best interest of Asset Owners within the company and the company as a whole:

- Send automated notifications to Asset Owners with request for End-of-Term decisions well in advance of EOT.
- Pay attention to the date required to notify lessors about EOT decisions, and back up from there as to when to notify the Asset Owners.
- Include asset-level data and economic analysis of EOT options in a spreadsheet to accelerate the decision about lease renewal.
- Require a decision and, if necessary, commitment for the return of the equipment by the deadline;
- Send a follow-up automated notification on the date committed for the return of the equipment, and require the Asset Owner to submit the actual date when the equipment was returned, so that you can determine if you owe anything to the lessor (i.e., if the return slipped beyond the grace period)
- If there is no response within the requested timeframe, then escalate to the Asset Owner's supervisor (outlining financial implications if appropriate), request intervention and follow-up until you get a response;
- Create an Asset Owner scorecard, which measures the performance of each Asset Owner, and distribute it to the Asset Owner and their supervisors and
- Review line of business, departmental, or country scorecards (whichever ones are relevant) with the appropriate executives.

Step 8: Roll Out the Leasing Process Globally

Having completed all of the previous steps, you will be ready to implement the transition to the new lease accounting standard. Here are the steps in the global rollout:

- Develop a launch strategy that works for your company and culture (e.g., by business unit, country, etc.);
- Take into account the degree of centralization/decentralization within the company and with respect to the conduct of leasing activity;
- Seek to enable decentralized work and decision-making with centralized controls and reporting;
- Test-launch the transition rollout with early adopters and streamline the process by incorporating the lessons learned (e.g., 6-Sigma approach for repeatability and scalability);
- Train users (or train the trainers, as appropriate for your company's culture) on the new process, procedures, and tools;
- Communicate with all concerned to achieve universal adoption of the process; and
- Listen to feedback and suggestions from users to improve the process incrementally, especially concerning ease-of-use.

Step 9: Ongoing Activity: Generate Accounting Information Required by FASB and IFRS Monthly and Annually

After completing this intensive preparation and rollout process, you now will be ready to transition to the new standard at the effective date in 2018, and to continuously improve the performance of your leasing program.

Companies will then need to develop and implement operating procedures to generate the accounting information required for financial reporting under FASB/IFRS rules, monthly, quarterly, or annually as required.

Using the automated reporting function of your lease accounting and administration system, you will be able to access and analyze complete, accurate and up-to-date lease information. You will then be able to calculate contractual rents and bargain renewal rents, calculate the variable rents for the term, including bargain renewals, calculate any expected payment under residual guarantees; calculate PV of the total estimated payments over the term; and calculate the principal and interest run-out of the lease obligation.

Meet Routinely with the Controller's Team. On each accounting reporting date as defined by your Controller's team, review the assumptions for variable rent with the Controller's department and review your renewal assumptions (whether there has been a change in determination regarding bargain renewals) with the Operations department. Also determine whether floating rate or CPI index variable contractual rents have changed or if there is a change in the expected amount to be paid under residual guarantees. If changes are material, revise the present value calculation for future contractual and renewal rents, and provide the revised present value and new principal and interest run-out to the Controller's department, or input the new numbers into your lease accounting and administration system. While the requirements have been greatly relaxed with regards to reassessment, we believe that when practical, and when acceptable to your auditors, there can be improved financial reporting by reassessing on a more frequent basis than will be required under the new standard. Regardless of the requirements to re-assess, management should be aware of all economic changes to their balance sheet, and continual monitoring of changes to future contractual payments is considered best practice.

Auditors may look at historical renewals to corroborate assumptions being made on existing leases. Companies should assume that historical renewal and evergreen activity will need to be readily available for audit scrutiny. This will require systems that are far more sophisticated and transparent than traditional ERP systems for lease accounting for Lessees.

Provide Controller with Reports for Financial Statements. Prepare disclosure information annually for the Controller's department to be included in the annual report's leasing footnote. The following are the quantitative disclosure requirements for lessees:

> 1 Type A lease expense, segregated between amortization of ROU assets and interest on lease liabilities.

> 2 Type B lease expense.

> 3 Short-term lease expense, excluding expenses relating to leases with a lease term of one month or less.

> 4 Variable lease expense.

> 5 Sublease income.

> 6 Cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows and between Type A and Type B leases.

> 7 Supplemental noncash information on lease liabilities arising from obtaining ROU assets, segregated between Type A and Type B leases.

> 8 Weighted-average remaining lease term, disclosed separately for Type A and Type B leases.

> 9 Weighted-average discount rate for Type A and Type B leases as of the reporting date.

> 10 Gains and losses arising from sale and leaseback transactions.

The FASB decided to retain the requirement for a lessee to disclose a maturity analysis of its lease liabilities, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years, and reconciling the undiscounted cash flows to the discounted lease liabilities recognized in the statement of financial position.

Provide Journal Entry Information. Provide information for necessary journal entries directly from the lease administration system, which has a lessee accounting sub-ledger that can generate debits and credits at a detailed asset level and/or GL summary level.

Conduct a Periodic Review of Estimates. Every time the company reports earnings, you should re- run the entire process as outlined above, contacting internal sources to get new estimates of key information; then input changes to the system and assess any requirements for adjusting

journal entries. As discussed, the requirements in this regard have been relaxed for financial reporting, but best practices would continue to require this be performed on an annual or more frequent basis; if not for compliance purposes, then for economic analysis of leasing metrics.

Send Reports for Tax Leases to the Tax Team. Each year, provide to the Tax department, actual rents paid under "true" (tax) leases and accounting lease expenses for those leases. This information is to be included in the company's tax return, and to be used to prepare deferred tax entries, as the accounting expense may be different from the tax deductions for those leases. You should specifically provide the actual rent paid (for the tax return) and the deferred tax accounting entry.

The Bottom Line: Deadline For Data is 2016

Getting ready for the implementation of the new lease accounting standard is going to take a great deal of resources, dedication, smart planning, and cooperation across all groups in the organizations that are involved in any way with equipment leasing activity.

We estimate the timeframe from start of the transition to total readiness will be in the 6-12 month range or perhaps longer, depending on the complexity of your process and portfolio. It will likely take 3-6 months to secure the budget and resources to move forward on the transition program. That will include preparing a project plan, making a business case to financial officers, and securing budget and resource approval.

We anticipate that it will take an additional 6-12 months to establish the systems, and set up the processes and procedures to prepare the company's financial and accounting systems to be ready sometime in 2015, depending on when the standard closes and the finalized transition rules. The more lease transactions in a company's portfolio, and the larger the number of lessors and countries involved, the longer the transition is likely to take. The transition rules for both the FASB and IASB are known and outlined above.

Start the Project Now

First steps: (1) Budget the time and resources required to perform the work. (2) Determine the proportions of Internal Resources vs. Outsourcing (see next section) to deploy to the process. (3) Determine whether Homegrown or Third-Party systems (e.g., a SaaS approach) are best for your company. Conduct a Build-vs.-Buy analysis for this decision. (4) In planning, allow a minimum of one year for implementation of this Transition Process; 12 to 18 months if it is a global program (i.e., more than 5 countries).

Consider On-demand Lease Accounting and Portfolio Management Software

Leasing for equipment lessees especially is inherently cross-functional and interdepartmental and typically involves a wide variety of stakeholders including procurement, regional and corporate treasury, users, operations managers, asset managers, regional and corporate controllers, lease accounting, financial reporting, FP&A, and internal and external auditors. Whether your portfolio is domestic or global, enabling all of your stakeholders across your company to access the same cloud-based software via the web and get the information and tools they need just-in-time will help you establish and monitor controls from the beginning of any lease transaction to the end, regardless of changes in location, jurisdiction, personnel or exchange rates. Here are some features to expect from an Equipment Lease Management (ELM) software platform:

> You can access a suite of cloud-based, multi-lingual software services that automates the end-to-end lifecycle of leases via the web

> You can drive down the cost of capital using competitive capital sourcing features in any country around the world.

> During the term, you can track leases, assets, lessors, and stakeholders and any related events in any jurisdiction using the portfolio management features.

> At the end-of-term, you can improve the timeliness of decision-making and return performance by configuring the software to automatically notify users prior to the end-of-term and you can include the economic analysis and logistical instructions for any option in the lease.

- You can generate reports that quantify the financial performance of your portfolio and the operational performance of your stakeholders.
- You can employ a robust lease accounting sub ledger that you can use to generate debits and credits at the asset, schedule, or portfolio levels, including an audit history to ensure controls and auditability of each transaction.
- You can integrate with procurement systems (e.g. iProcurement, Ariba) and ERP systems (Oracle, SAP) for straight-through processing.

Consider Outsourcing: Drive Maximum Savings Quickly

If you do not have the resources, time, or expertise to manage the transition smoothly, consider outsourcing tasks in your leasing program to a lease servicing company. Several global companies offer an affordable suite of lease administration services, including (1) an expert, multi-lingual team serving Fortune 1000 companies around the world and (2) a global delivery model with the capacity to source lease capital competitively in many countries and service transactions around the world.

Outsourcing to a service provider will save you considerable time, money, and headaches. Get the service provider to make a compelling business case, based on quantitative savings, i.e., identifying hard and soft costs savings. If they prove their business case, check their references to ensure that they have previously faced situations similar to yours.

The transition process to the new lease accounting standard will include the development of a new leasing strategy, the creation of new processes and controls, the selection of new software, as well as managing the implementation. If the strategy is complex, you can manage the implementation in phases, if necessary. Throughout the process, it will be important to pay attention to feedback from actions already taken, and to incorporate lessons learned incrementally to continuously improve the financial performance of the portfolio. Start now – and you'll be ahead of the game and beat the deadlines.

Appendix I: Major Compliance Requirements under Lease Accounting Exposure Draft

New Rules Compliance Requirements

ITEM	DETAILS	SOURCE OF INFORMATION/ HAND-OFF
Lease Payments	Under the new lease accounting standard, the lease obligation includes base term contractual rents and rents from renewal options where there exists a significant economic incentive that the lessee will exercise the options. Said another way, bargain renewal options and options where the lessee would suffer an economic penalty if not exercised are the options that must be capitalized. **How does a lessee measure leased assets and liabilities?** A lessee would measure lease assets and liabilities at the present value of future lease payments. Lease assets would also include any costs directly related to entering into the lease. In response to concerns about cost and complexity, the boards have simplified the measurement of lease assets and liabilities. Consequently, variable payments and most optional payments are excluded from that measurement. The boards have also simplified the reassessment requirements compared to those proposed in the 2013 ED, thereby reducing the cost and complexity of application. In addition, the boards have clarified that a lessee can apply the requirements to a portfolio of similar leases, rather than to each individual lease. The initial measurement of variable lease payments included in lease assets and lease liabilities would be only those variable lease payments that depend on an index or a rate, measured using the index or rate at lease commencement. A lessee would reassess variable lease payments that depend on an index or a rate only when it is reassessing the lease liability for other reasons (for example, when there is a change to the lease term upon the occurrence of a significant event or a significant change in circumstances within the control of the lessee). **Guidance will be provided in the final standard for those services that fall into the grey area.** **Equipment or Service:** Under existing standards, the accounting for off balance sheet leases and services is similar. Under the new lease standard, this will change. Consequently, the distinction between a lease and a service is critical, because that distinction would determine whether a lessee recognizes assets and liabilities. The principle is clear - a lease exists when the customer controls the use of an identified asset; a service exists when the supplier controls the use of an asset. In the vast majority of cases, this assessment is straightforward. However, in some scenarios the distinction can be difficult to make and would require judgment.	> Terms are extracted from the lease document. > Business Unit management should provide the estimated lease term. > The Finance Department should provide the LIBOR spot rate for floating rate leases and IBR. > Business Unit management should provide estimated usage- based variable payments. > Business Unit management can provide information on possible payments under residual guarantees. Allocating consideration between lease and other non-lease components should be based on observable standalone prices, if available, or the best estimate. If the lease term or an option is reassessed, the allocation should also be reassessed. Regarding residual guarantees, the difference between the expected value and the guaranteed amount is also included in the lease obligation, if likely to occur. For leases that include service elements such as full-service leases billed with a bundled payment, the services may need to be bifurcated and accounted for as normal operating expenses. It may be difficult to break out the service elements, but every effort should be made to do so to avoid capitalizing too much. Lease payment information should be captured in a lease administration and accounting system to enable the required calculations, store the data and provide the required output reports and journal entries. Separate pricing and tracking of service components have the added benefit of informing the lessee of the true costs of all components of the lease, positioning them to negotiate more favorable pricing at inception and end-of- term. The estimated lease payments must be discounted using the company's incremental borrowing rate (the rate that the company would incur under a loan with similar terms as the lease) or the implicit rate in the lease. Determining the incremental borrowing rate may be more difficult than expected, as most companies do not have loans, notes or bonds that match the terms of their equipment leases. As an example, banks generally do not provide 100% financing or offer fixed interest rates and level payments. The implicit rate in the lease is usually not known to the lessee except in leases like TRAC leases, synthetic leases or open end fleet leases where the lessee knows the residual it is guaranteeing and the lessor's residual risk.
Initial Accounting	A balance sheet entry must be made recording an asset called "the right to use leased assets" and a liability called "capitalized lease obligation." This initial accounting should be performed by a system that has an interface with the general ledger.	Creation of automated journal entries and supporting calculations

ITEM	DETAILS	SOURCE OF INFORMATION/ HAND-OFF
Subsequent Accounting	For US FASB, the P&L cost for capitalized operating leases is rent expense over lease term on a straight-line basis ("SL") The IASB has tentatively decided on a single lessee model that would require the recognition of interest and amortization for all leases recognized on a lessee's balance sheet as described above. They will not be following the same accounting as FASB for capitalized operating leases. The FASB has tentatively decided on a dual model that retains the existing distinction between capital leases (i.e. leases that are in-substance purchases) and operating leases.	Journal entries given to the Accounting Department - but it is not known at this time if the entry is to rent expense or amortization and imputed interest
Adjustments	The requirements to review estimates of existing lease payments for changes at the end of each reporting period have been relaxed. The Lessee should reassess whether to exercise of an option is "reasonably certain" (and thus must be recognized) only upon the occurrence of a significant event or a significant change in circumstances that are within the control of the lessee. However, if the changes are material, even if they are not within the control of the Lessee, one would assume that adjustments should be made to the book value of the asset and the liability. We will wait for the final standard for more guidance relating to this issue, given that the board has previously expressed this was the preferred method of accounting, but seems to have backed off due to the cost and complexity of complying with the original rules. Any changes made will also affect the lease expense going forward. These adjustments require a system or process to make the calculations that also interfaces with the general ledger.	Journal entries given to the Accounting Department
Tax accounting and reporting	There is no significant change in Tax Accounting and Reporting compared to current GAAP. A deferred tax entry reflecting the difference between the tax deductions for rent paid and the book lease cost (amortization of the asset and accrued interest on the liability) must be posted to the balance sheet. At year- end, the actual rents paid must be given to the tax department to include as a tax deduction. A lease administration system should be used to provide the information necessary to prepare the accounting entries and reports.	Tax accounting information must be given to the Tax and/or Accounting Departments. Tax return information must be given to the Tax Department.
Disclosures	The boards are currently discussing disclosure requirements, but some of the major requirements expected for Lessees are as follows. Balance Sheet presentation Both boards agreed that Type A lessee lease assets should either be presented as a separate line item, or combined with the same type of assets as the underlying leased assets and then disclosed separately in the notes (the latter treatment is not permitted if the amounts are material). The FASB concluded that Type B assets should be treated likewise, and should be separated from Type A assets. For FASB lessees, liabilities can be reported as a separate line item or disclosed in the footnotes, with Type A and Type B liabilities reported separately. The capitalized operating lease liability is not debt but rather is an "other" liability. If liabilities are combined in the primary statement, the footnote should indicate which line item contains the lease liabilities. For Lessees, cash payments for the principal portion of a Type A lease are financing; cash payments for the interest portion of a Type A lease are operating (FASB), or either operating or financing based on a lessee's accounting policy choice (IASB); cash payments for a Type B lease (only relevant to FASB) are operating. Footnote information requirements of estimated payments included in lease payments for future periods (next 5 years and a thereafter) broken down by interest and principal portions. The lease administration system should be able to produce this report. The FASB also requires the disclosure of the weighted average lease term and the weighted average discount rate used to capitalize the leases. Whatever the requirements end up being for disclosure, it will likely be considered best practices to have this information available anyway for internal management reporting to understand the overall economics of leasing and the expected future impact on balance sheet and earnings.	Disclosure information must be given to the Accounting Department.

Appendix II: Details of Recommended Actions for Implementing Step 3 of the 9-Step Process

Step 3 Establish a Totally New, Retrospective Lease Information Database

Create a Master List of Data Elements:

Consult with all stakeholders inside your company for the following:

- Collect reports that the stakeholders currently use to track the leasing process: e.g., controller's reports used for financial statements (contractual obligations & lease footnote);
- Compile all data necessary to prepare reports that allow you to examine the impacts of the accounting changes (e.g., data adequate to capitalize operating leases);
- Identify sources of electronic data (to avoid having to work with paper documents, where possible);
- Ask lessors and vendors to send .csv or .xls files for all of the electronic data they possess about your lease portfolio, especially asset data including serial numbers and shipping locations; as well as financial information (cost and rent) at the asset level;
- Ask the IT department to send available reports on asset information from the asset management system (if any); and
- Ask the Procurement and Accounts Payable departments to send PO related information and deal participant data (asset owner, asset user); and
- Distill the data elements in these reports into a master table of data elements.
- The lessee-focused lease administration and accounting system you select should support this master table of data elements.

Compile a Complete Set of All Internal Lease-Related Documents:

- Collect all original internal lease-related documents: e.g., Purchase Requests, Purchase Orders, Invoices, Certificates of Acceptance, Master Lease Agreements, lease schedules and addenda;
- If you are unsure whether or not you have a complete database -- because you suspect that there are some leases that are not accounted for – ask your AP department to send you a list of all leases for which they are making payments, and reconcile them against the documents you have. Contact the lessors and ask them to provide copies of the missing documents; and
- Establish procedures for storage of all documents (e.g., a centralized, web-accessible electronic repository) using your lease accounting system.

Capture the Required Schedule-Level Data for Every Lease

Where the data has not been provided in electronic form, extract the data from the documents to capture the data elements of the master list for each lease, including the following:

Capture the terms of the lease, including:

- Basic minimum term;
- Amounts of basic term minimum rents;
- Breakdown of service elements vs. lease elements (basic rent) in bundled lease payments;
- Frequency and timing of basic rent payments;
- Contingent rents/variable rents based on a rate or other index:
  - Formula for calculation of rent based on the rate or index;
  - Timing of payment of the variable rent;
- Contingent rent/variable rent based on usage:
  - Formula for calculation of variable rent-based usage
  - Timing of payment of variable rent

- Renewal options that are at the sole option of the lessee:
  - Term of each renewal option;
  - Amount of renewal rent payments for each renewal option; and
  - If the renewal option is for fair market value rent, note this fact and any formula for the calculation of fair market value;
- Interim rents;
- Residual guarantee terms;
- Purchase option terms or automatic transfer of title, if any;
- Return and maintenance provisions;
- Governance information from Purchase Request, especially the individual who submitted the order. If that person is no longer at the Company or in a different position, track down their current replacement; and
- Determine the internal fiduciary (the Asset Owner) for each lease schedule.

Reconcile and Integrate Data From Other Sources:

- Reconcile asset data from lessors, vendors, and internal asset management systems;
- Then reconcile the asset data with the lease schedule data; and
- Through integration, pull the necessary data elements from the different systems and consolidate critical data into the Leasing Systems to provide a centralized view of all pertinent leasing data in one place, thereby enabling best practices for reporting, economic metrics, asset location verification, and end-of-term notifications.
- Reconcile lease payment terms and data with the internal reports used to prepare financial disclosures.

Require Asset Owners to Attest to the Accuracy and Completeness of the Data:

- Send a report of all schedules and assets to each Asset Owner and ask them to:
  - Edit or attest to the accuracy of the data, including: equipment location, variable rent terms, purchase/renewal options, End of Term (EOT) status, presence of "bundled" service costs, other business coding (General Ledger codes, cost center information, project code, etc.);
  - Determine if they are reasonably certain that they will renew the lease and for how many renewal periods, and if a purchase option exists are they reasonably certain the company will exercise it. Determine if they expect that they will have to make a payment under any residual guarantees
  - Using your lease accounting system, capture their attestations of accuracy and lease renewal estimates with a time stamp to begin the audit trail.
- Your lease information database is now accurate and complete for past transactions, with the exception of the End of Term, which we will address in Steps 5 and 7.

Populate Your Lease Accounting System with Key Financial Variables:

- Obtain the company's incremental borrowing rate from the Treasury department; and
- Contact the Controller's department to get the spot rate for floating rate leases for variable rents; and
- Ensure these emails and rate support (index publications and spreads if applicable) are captured and auditable for each deal in your lease accounting system

Load your Lease Information Database:

- Take the spreadsheet or database information that you built above and load it into the Lease Administration System.

Appendix III: Details of Recommended Actions for Implementing Step 6 of the 9-Step Process

Step 6 Maintain Database Accuracy and Completeness

Gain Visibility into Your Leasing Pipeline: Mandate Lease vs. Buy Process & Track Lease Originations

- Define repeatable procedures for Lease-vs.-Buy (LvB) that will work anywhere in the world such that any employees (users) can engage the process, quickly and easily;
- Determine the appropriate term used in the LvB. Economic analysis would suggest the most likely term, and not the contractual term or accounting term with "reasonable certainty", which could be different from the most likely term. Economic analysis for LvB need not follow the revised accounting standards (or the existing ones).
- Simplify and standardize inputs (e.g., debt, equity, tax rates, tax depreciation rates) for users so that anyone can submit Lease-vs.-Buy data, using either email or via the web, and get consistent results;
- Automatically generate economic analysis and either email it back to the user or provide it immediately via the web;
- Automatically generate accounting analysis, including cash flows and impacts on the income statement and balance sheet, and on the LvB requester's budget;
- Calculate the PV of the total lease payments and compare to the original cost of the equipment. Consider this metric when assessing the overall benefit of leasing along with the LvB analysis at lease inception, as well as at end-of-life to assess the actual historical benefits of leasing against intentions;
- Determine generic Request for Proposal (RFP) requirements and include them with results sent back to the user with the Lease versus Buy analysis. This will accelerate the collection of the background information required to prepare an RFP and put it out to bid. Ensure that the person performing the LvB analysis gets the supplier they have selected to provide the asset level data that you require for your master database requirements.

Identify internal sources for the following information:

- Intentions regarding exercise of the renewal and purchase options (Business Management);
- Incremental borrowing rate (Finance/Treasury);
- Discount rate used for LvB analysis (Weighted Average Cost of Capital, Debt rate, Equity rate, or other) (Finance/Treasury);
- Break out of service costs in "bundled" billed full service leases:
- Projections for variable rents (Business Management); and
- Residual guarantee payments (Business Management)

Manage the Competitive Leasing Process Using Local Market Lessors – Generate Significant Savings

The LvB lets you track a transaction when budget owners are in the planning stages. If you then extend to them the ability to easily put the transaction out to bid in a competitive, highly automated leasing process, you can help them and your firm save considerably – typically 4%-6% on a PV basis. If you are a multinational company, it helps to have lessors in all the countries in which you operate registered in your lease administration system and ready to compete. Look for these capabilities in the lease administration system you select.

Manage Transactions for Efficiency and the Benefit of Your Internal Users – Capture New Leases As They Are Signed

No one has any spare time, especially in growing organizations. If you can make leasing easier and less time-consuming for your users, you will be able to capture all transactions and ensure that your lease information database remains complete and up-to-date.

While internationally, local teams will have to negotiate the terms and conditions of the legal agreement themselves, you can influence the agreement by helping them prepare the RFP and require that certain conditions be formally included. Also, consider establishing a standardized lease agreement that you distribute with RFPs. This will reduce your legal costs tremendously and create a level playing Feld for lessors who want to compete, as you can require that your document be used in the RFP. When the transaction is executed, simply follow the procedures detailed above for capturing and storing documents and data at the time of a transaction. Administrative costs will also be reduced due to the consistency in the many end-of-term provisions that will need to be captured electronically at lease inception.

Send Notifications to Test the Accuracy of the Data and Capture Changes During the Lease Term.

Use your lease accounting system to schedule automated notifications to request that Asset Owners and Asset Users attest to the accuracy of information. For example, send routine (e.g., every 6 months, annually) automated email requests to Asset Owners with an Excel spreadsheet that includes asset data, location, and coding, and require edits and attestation of accuracy. This will ensure that you can apply costs to the appropriate internal cost center/GL code during the term and know the location of the assets for effective EOT management.

By performing all of the actions discussed above on an on-going basis, you can maintain the accuracy and completeness of your lease database and accounts.

Exhibit 6: Executive summary of proposed lease accounting rules

Estimated timeline per the FASB staff:

> Standard expected by year end 2015

> Target for Implementation date no earlier than date for RevRec (December 31, 2018 year-ends)

Lessee Accounting:

> Capitalize all leases at the PV of estimated payments.

> For US FASB, the 2 lease types of leases (current: capital/operating) continue with operating leases capitalized but the P&L cost is the straight line average rent.

> For IFRS, capital lease accounting (similar to current capital lease accounting) will be extended to practically all leases.

> Lease term = substantially the same as current GAAP definition.

> Variable rents based on a rate (i.e. Libor) or an index (i.e. CPI) are booked based on spot rates with adjustments booked when the rate change changes contractual lease payments. Variable rents based on usage or lessee performance (e. g. sales) not booked unless structured as to avoid capitalization (disguised minimum lease payment). Estimated payments under residual guarantees are booked with review and possible adjustment at each reporting date if reasonably certain to occur.

> Short term leases, including most short term renewals, can elect to use operating lease method with additional disclosure. The IASB allows a small ticket exemption.

Notes

About the Authors

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