

Outsourcing Lease Management

IFRS16 as a Service



The logo for leaseology, featuring the word "leaseology" in a blue, lowercase, sans-serif font. Above the letter "o" is a stylized blue cloud icon.

IFRS 16 Operational Changes



IFRS revamps lease accounting. What does this mean for you? How is IFRS compared to ASC842? According to IFRS, “IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.”

One of the clearest differences between the two is the difference in classification criteria for leases. While FASB chose to maintain the dual model approach for lease classification, with leases being classified as operating or finance, IASB now requires a single model.

Under the single model, all non-exempt leases (discussed below) are treated as finance leases were under IAS 17.

Like ASC 842 and IFRS 16, IFRS 16 allows both lessees and lessors an exemption for short-term leases (those with a lease term equal to or less than 12 months) as well as a few more exemptions, including leases in which ownership of the leased asset is transferred.

Many firms are unprepared to support the changes of IFRS 16, so we thought we would help identify that key areas that are being under scoped from an effort, labor and complexity perspective:

1. Re-classification and reclassification audits of existing leases
2. Disclosure statement and process updates
3. EBITDA impact on expense reclassification
4. Full/Retrospective approach analysis on expedients
5. IFRS 16 Global communication rollout strategy

IFRS 16 Operational Changes

The changes brought about by IFRS 16 are extensive, and begs the question – Is there any alternatives to this time intensive, mundane process of achieving compliance?

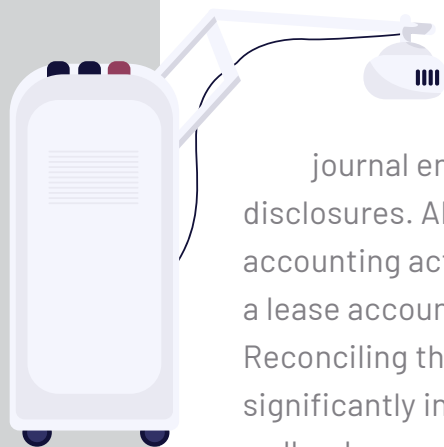
This question will be answered by the Leaseology Achieving Lease compliance Roadmap, as we advise, inform and educate on how to overcome the IFRS 16 burden, as well as how to identify opportunities to monetize this process.



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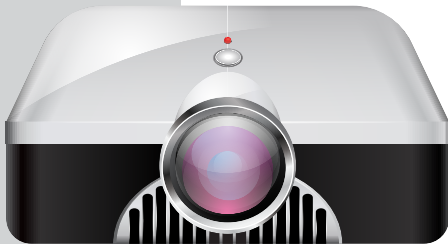
The majority of firms are leveraging excel as a platform for building out their lease abstractions, generating journal entries, creating lease payment schedules and transmitting disclosures. Although excel is capable of supporting these lease accounting activities, it is a manual process that is punishing from a lease accounting, lease management and reporting perspective. Reconciling the entirety of the lease records, is a daunting task that significantly increases the amount of lease accounting modifications as well as lease reclassifications.

Transition approach:

IFRS 16 allows companies to choose between the full retrospective approach or the modified retrospective approach with practical expedients. Unlike FASB's modified retrospective approach, IFRS 16 does not require companies to restate comparative information. FASB did recently vote to offer an additional transition method that would allow companies to forgo the comparative reporting requirement.

Initial right-of-use asset measurement:

IFRS has outlined two alternatives for measuring the right-of-use asset under the modified retrospective approach. One measures the asset as if IFRS 16 had been applied at lease inception. The other measures the asset as the future unavoidable payments of the non-cancellable term. The former is easier to apply as it does not require historical lease information for all assets, but most companies will face a higher liability balance as well as lease payment in their reporting. The latter, while more difficult to apply, would likely result in lower liabilities and lease payments to be reported.



Practical expedients:

There are several differences in the practical expedients offered between the two standards. Both allow for use of hindsight and both grant an option to not separate lease and non-lease components. However, IFRS 16 also allows companies to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. Companies can rely on their IAS 37 assessment of whether leases are onerous instead of applying IAS 36 Impairment of Assets to the right-of-use assets. They can also choose to exclude the initial direct costs from the measurement of the right-of-use asset at the date of initial application. Lastly, they can choose to account for leases ending within 12 months of the date of initial application as short-term leases.

What is not understood about the excel platform is the risk associated with this highly manual process, as excel is not a commercial real estate lease management software and using it as such creates the following procedural vulnerabilities:

- ➔ **Spreadsheet management and controls** – risk issues include: human entry errors, lack of data parameters on inputs, inability to validate data, insufficient date validation accuracy controls and lease reclassification interpretations errors.
- ➔ **Volume of transactions increase exponentially** – whether it's a financial lease, or the reclassification of an existing operational lease, achieving IFRS 16 compliance thresholds, requires significant re-work. Re-calculating the interest expense across your lease records, updating schedules and reclassifying leases is purely unbudgeted time and labor. The burden to your lease accounting staff, system modifications and manual updates is a bi-product of IFRS 16 compliance.

IFRS 16 Risk Overview



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➔ **IBR calculations are complex** – requires data accuracy. Without proper controls, you will be generating significant audit expense as well as introduce potential lease accounting issues that could create cost containment issues around your lease portfolio.
- ➔ **SOX controls** – Proper signoffs, segregation of duties and approval processes around HR and Financial payment processes are key challenges around achieving GAAP compliance. There are significant compliance requirements in meeting these minimal compliance objectives, and having a solution that is managed by experts and built in accordance with IFRS 16 is a recommended first step in building out this compliance capability.
- ➔ **Audit procedure is long and tedious** – reviewing historical lease and reclassifying lease structures to achieve compliance is a costly proposition, not to mention the disruption to daily lease accounting activities. Auditors are expensive and auditing improper controls, systems and resources – creates an expensive proposition for lease accounting leadership.
- ➔ **SOC1 reporting** – Manual system processes create manual system reports, which expose risk in two areas: Data Accuracy and Compliance reporting. To help lease accounting practitioners, a reliable and automated system is required as the alternative is hourly auditors – who are expensive.
- ➔ **Disclosure reporting** – Probably the biggest challenge in achieving IFRS 16 compliance is with restructuring all of the disclosure reports to meet compliance. Aligning with a partner that has the appropriate lease management tools to support your compliance initiatives is key to achieving the disclosure compliance component.



➔ **Additional head count and payroll expenses** – the aforementioned components provide insight into the workload impact on lease accounting teams, in achieving IFRS 16 compliance. Whether it be financial lease restructuring or lease reclassification, the lease accounting teams supporting these processes are not set up to provide the reporting, controls or data integrity required to meet compliance requirements. The challenge is exacerbated by the additional process burden, so not only do teams not have the tools for success, they are being inundated by the extensive manual processes that are new to the new lease accounting standards.

The team at Leaseology understands what internal lease accounting teams are up against, and have built an end to end solution that allows customers to divert resources, remove cost, increase accuracy/locate cost savings opportunities – all while achieving compliance via an outsourced lease management process. The following six pillars of success are the core of the Leaseology service offering, and we are confident that our combination of industry expertise in lease accounting, compliance, reporting and automation can help you meet the IFRS 16 compliance requirements.





Service Pillar One: Legislative Mandates, Real-Time Security Updates, Auto Backup & Recovery:

We are seeing two approaches in the market today, both are influenced by size, revenue and head count. Billion dollar plus customers are more likely to implement a lease management solution that is integrated with their existing ERP solution, so that the automation of interfaces is built in, and they can leverage internal resources supporting the rest of the business application needs. The downside to this is time, cost and complexity – as these projects can take up to a year to source/implement, and cost millions of dollars in licensing and services to deploy, while also creating a 22% annualized support cost.

Leaseology has a concentrated lease management solution that provides extracts for consumption by platforms upstream and downstream, as well as built in accordance with the IFRS 16 initiative in mind. Our solution is built around lease management needs, with automated IFRS 16 updates, as well as system controls around cyber security, system backup and failover.



Service Pillar Two: Lease Management and Administration:

The Leaseology solution has been designed by experts with over 20 years of lease accounting and lease management experience. These experts know where the pain and risk is from a process, controls and data perspective. Our lease management solution has been developed to provide advanced visibility into Critical dates, Options, Contacts, Rights & Obligations, & Payment Streams, as these areas have the highest potential for impacting the P/L. We know the day in the life of the lease accounting team, and can help ease your mind in these areas.



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Service Pillar Three: Negotiations/Disclosures and Abstractions:

The system is the solution, but we also know that the pace of change is explosive, as we adapt to COVID and develop plans to integrate through this process. Leaseology has a team of lease management, lease optimization and lease outsourcing experts to help you on demand. Whether you need help building a deferment schedule, reclassifying a lease, or just want a compliance interpretation, Leaseology has the expertise to handle any lease accounting or lease management question you may have. Our disclosure reporting and lease abstraction services are also available for any detailed analysis you wish to perform, or wish to review with an expert.

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Service Pillar Four: Implementation Expertise:

Leaseology has over 20 years of designing, developing and delivering enterprise lease management systems, helping companies deal with their commercial real estate and equipment needs. Our goal is provide expert lease accounting solutions, with supporting lease management processes. We will be transparent in our support, so that you can focus on your business.

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Service Pillar Five: Domain Experts/Lease Accounting/ Legal/Systems:

Leaseology has an extensive team of senior level attorney's, CPA's, Lease Accounting/Management domain experts, which are hungry to solve any lease challenge you can come up with. Our objective is that you become self sufficient in mastering our solution, and we will equip you with access to the experts, tips, tools and optimization techniques that will add value to your over-arching lease portfolio management process.



Service Pillar Six: Lease Compliance ASC842, IFRS16, GASB87:

Leaseology has provided Lease accounting and management services for over 20 years. Lease Management is not just our expertise, it is our passion, and we are excited to help customers understand how to best interpret the compliance requirements, so that they derive the maximum business value from this process. It is all about leverage. Leverage our experts, to solve your compliance, lease administration and system challenges. Your challenge is our opportunity to help you in understanding the breadth of possibilities on how to optimize your compliance process, reducing manual processes and strategically aligning to the requirements, without getting bogged down in the minutia. We will help you to outsource the mundane, and enable you to focus on growing your business.

Leaseology makes lease management simple. We offer a complimentary 1-on-1 Lease Assessment. [Schedule yours today](#) and let's see if we can help.



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