

The Lease Administrator's Quick Guide to the New FASB & IASB Lease Accounting Standards

What is happening and why it matters to you.



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We'll be quick and to the point.



What's Happening

FASB and IASB have changed the way leases must be reported. We'll give you the short version.

Why it Matters to You

You're probably not an accountant and there are folks down the hall who are, so what concern is this of yours? Plenty. We'll explain.

What Can You Do?

By now you should see these new standards as a possible threat or opportunity. Either way, you should read on for some quality advice.

HERE IT IS IN A NUTSHELL WHAT'S HAPPENING?

Companies have always had to disclose lease information, but it was traditionally done in the footnotes of their financial statements, rather than the balance sheet.

This new standard brings most leases, including real estate and equipment leases, onto the balance sheet.



According to The Wall Street Journal, this move will increase the liabilities of public companies in the US by about \$1.5 trillion!

So What?

We have **accountants**, why is this **my** problem?

You may be thinking, “I’ve got 99 problems and FASB ain’t one,” but if you are involved in managing the day-to-day activities related to real estate or equipment leases, it actually is. Let’s start with the data. To comply with the new standards, each lease will need to be classified as an operating or a finance lease. You will need new information about each lease to make that determination, but that’s really the easy part. Ensuring full compliance with the new standards will require even more information about each lease, including:

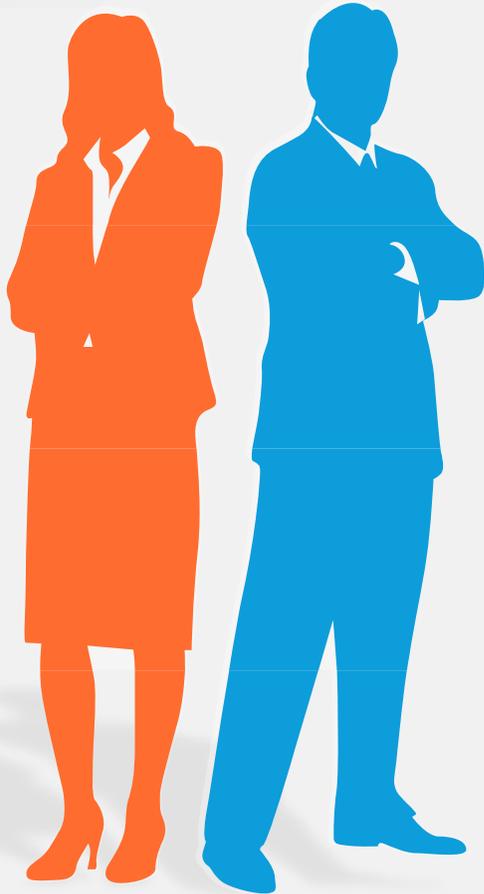
- What is the commencement date?
- On which day was the renewal notice signed?
- Does the lease include CPI/Index rent?
- What is the fair market value of the lease?
- What is the useful life of the asset?
- Is there a purchase option?
- Has the space been expanded or contracted during the term?
- Are you paying less than market rate rent?
- Are there any impairment charges?
- How much of a gross lease can be attributed to operating expenses, utilities or other service rent?
- Are there any landlord allowances and when were they received?
- What were the initial direct costs?
- What is the borrowing rate for each lease?
- Does the lease provide for designated parking spaces?
- Are you reasonably certain to exercise your renewal options?

Who will organizations turn to for these answers? In most cases, it will be the person closest to the lease, and that likely means you.



The Auditors are Coming

New standards shine a **spotlight** on leasing.



The intent of the change is to give investors more insight into the true financial obligations of the company.

In the past, lease administration was seen as an operational “must-do.” Now that it will have a direct effect on the balance sheet, and therefore potentially stock performance, it is about to get much more attention than ever before.

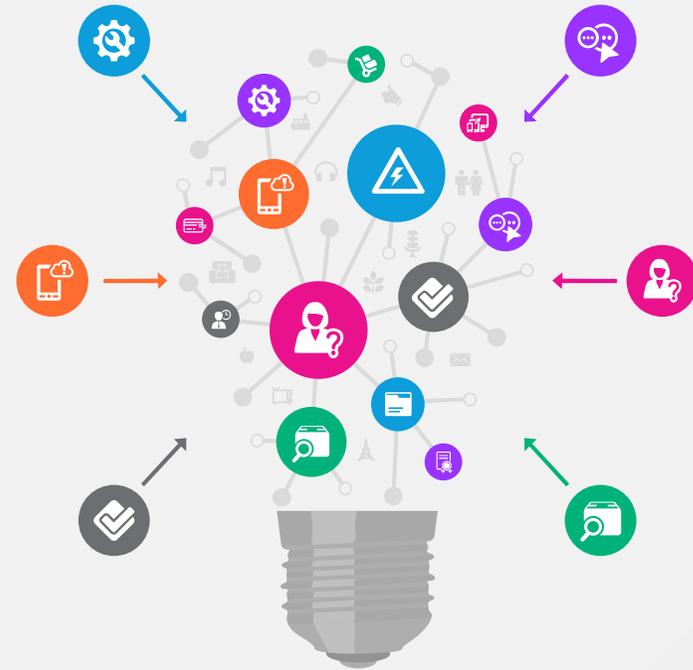
Lease administrators who are well prepared, with their data in order have the opportunity to play a more strategic role in the organization. Those who aren’t are likely to face intense scrutiny and may find themselves in hot water.

A Few Words on Technology

How attached are you to your **lease management** system?

The new calculations are sufficiently complex that organizations will need to implement entire technology solutions to manage them. The lease administration system you use today may very well have the capability to store all of the required data, generate the FASB or IFRS schedules, and send the journal entries to your accounting system. (If you are using AMTdirect, it certainly does.)

The risk for lease administrators who don't become part of the conversation is that finance teams may be unaware that the solution you already have is FASB ready. They may select an entirely different system for both lease management and financial compliance, forcing you to migrate data, learn a new system, and potentially forgo the features you love.



Don't Be Fooled ALL-IN-ONE IS BETTER

There are some bolt-on tools in the market that attempt to create the necessary FASB calculations outside of the lease administration solution. Avoid this trap unless you're into:

- Business process complexity
- Duplicate data across platforms
- Data structure inconsistencies
- Technology integration challenges
- Multiple points of failure and responsibility



What Can You Do?



- **Volunteer**

Smart organizations are forming project teams to manage the transition. Volunteer to join or run it to make sure your voice is heard.

- **Make a Plan**

Come up with a plan to validate existing data and abstract data that isn't currently being tracked. Set reasonable expectations for how long this will take and whether you need third party help like the turn-key implementation service offered by AMTdirect.

- **Evaluate Your Technology**

Find out if your lease administration system has a solution for the new standards. If it does, and you like it, speak up. See to it that your accounting/finance teams evaluate and appreciate the benefits of your existing, integrated solution.

Change is never easy, but with it comes opportunity. In this case, you are in a great position to be the hero for your organization by leading the way to a successful implementation of the new standards. AMTdirect is the industry's recognized leader in FASB and IASB compliance. We have the software and services to help. Learn more at www.amtdirect.com.