

# Voices Climbing the lease accounting compliance mountain

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Accounting teams are under intense deadline pressure to comply with new lease accounting rules from the Financial Accounting Standards Board and the International Accounting Standards Board. Those who didn't start this time-consuming, arduous process at least a year ago are behind – way behind. But there's still time to get it done, and regardless of where a company is with its implementation, there are important practices they can use now to efficiently reach the finish line.

## Steps to compliance

Public companies must be compliant by Jan. 1, 2019 and for private firms it's 2020. Many businesses are behind schedule due to having under-estimated the level of effort to takes to identify and fully understand all of their leases, to choose and implement a compliant lease accounting system, to normalize the data, to create organizational workflows, and to validate operations.

## The challenge to comply

With months to the deadline, many companies are still in the process of identifying all of their leases, which is one of the biggest obstacles on the path to compliance. Why do companies struggle to inventory all of their leases? Sheer volume.

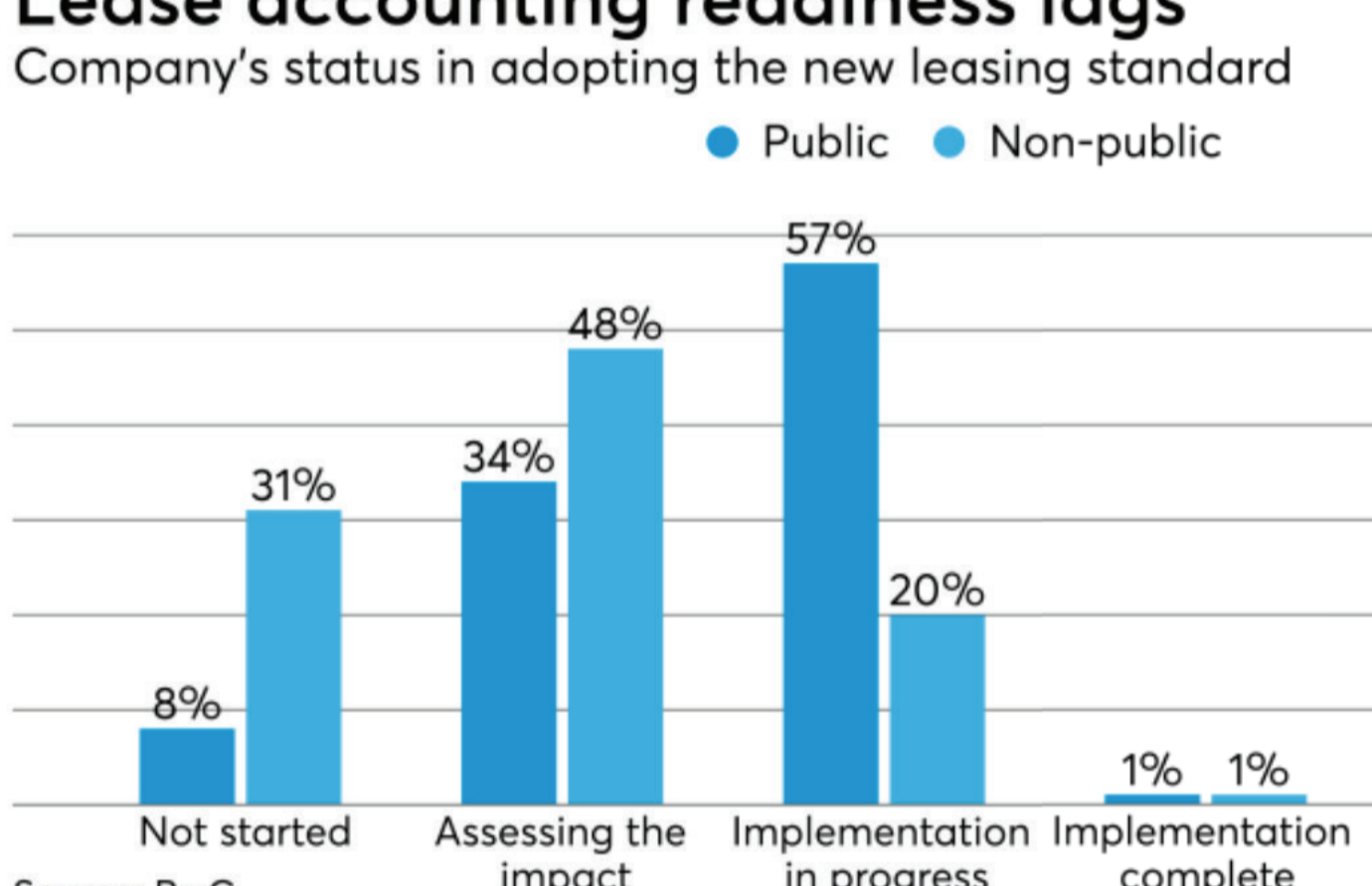
Fresenius Medical Care, for example, has had to track down 100,000 different leased assets spread across 3,000 separate physical facilities. Fortunately for Fresenius, they started the path to compliance in 2016, and while there is still work to be done, this global health care company is on track. In going through the discovery and inventorying phase, Fresenius discovered an eye-opening possibility – they should stop leasing computers. When computers are added to their leased real estate and biomedical assets, the asset base needing new accounting treatment grew to over 200,000 items, all of which must be validated, loaded into the system and kept current. And making the issue even more difficult is the fact that GAAP and IFRS accounting approaches treat computer leases differently, and Fresenius' business model requires both methods. So, it makes sense to switch to asset purchases.

"Nobody has gone through this lease accounting transition before, all companies are doing it at the same time, and there's no rulebook to follow," said Maria Notar, Fresenius Medical Care's senior vice president of corporate finance. "There are a lot of nuances in the new accounting standards, including how renewals and expansions and contract extensions are handled, how data on 'right of use assets' should be treated when leases change over time, and how to handle future structural changes such as expansions and renegotiations. If we hadn't started down the path to compliance when we did, using a well-designed system, we'd be in trouble."

Compounding the issue of the sheer number of leases is the wide variety of organizational stakeholders involved, including real estate operations, facilities, IT, office managers, marketing, procurement, vehicle fleet managers and so on. A recent PwC study revealed that 76 percent of companies reported that data collection and systems pose either a "difficult" or "very difficult" challenge to compliance. Furthermore, upon completing discovery of their current inventory of leases, they're generally finding that existing databases have only 10 percent to 30 percent of the data they need for compliance.

## Lease accounting readiness lags

Company's status in adopting the new leasing standard



## Achieving on-time compliance

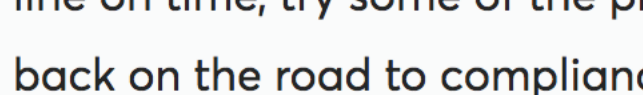
Becoming compliant on time goes beyond lease inventorying to include an updated technology infrastructure, data normalization and migration, system validation and business process changes. Here are three tips for companies that need to move beyond lease data analysis and into a fully functioning and compliant system:

- **Rally around a strong internal team.** The most successful projects are driven by a senior finance or accounting executive capable of grasping and tackling the breadth of the entire project. This internal point person must have the knowledge and authority to rally the right internal resources, and have a full command of how the business operates and a strong working knowledge of the ERP system.
- **Implement proper lease abstraction.** After you locate and understand all your leases, there will be a diversity of data format and field names. Make sure your process abstracts clean data into your new system. If the data is packaged incorrectly, you'll run into the kind of problems that Fresenius' Notar mentions above regarding future lease changes.
- **Partner with proven providers.** Auditors and software companies have resources that clients can tap into for proven systems and processes. Work with those having staff who are familiar with the new standards in the same industry you serve. Whether you're just beginning or already in the process of compliance, there are bound to be many questions since no one has gone through this process before. A compliance partner can answer those questions and provide invaluable direction, saving you countless hours as the clock ticks.

"My advice is to work with software companies and auditors who know how your company does business, and make sure your audit partner has experience with the new standards," said Kimberly Williams, director of lease management for Genesco, a global retailer. "We have 2,500 stores we have to go through and analyze. Each store has a different history. We needed to figure out if they were set up accurately in accordance with current guidelines. We have an international footprint, with brands that include Lids, Journeys, and Johnston & Murphy, so, for compliance, we needed a partner with international experience who would guide us on how to set up the system, what information we needed, and how to take advantage of the system's functionality. Implementing the right system gives you a larger set of data and experiences to work with. When it comes to compliance, you won't know how deep in the weeds you are until you get well into the process, and the right partner is like a support group where they feel your pain and point you in the right direction."

## Get to work

The new regulations are so complex and so different that many companies are behind schedule, but it's little comfort to be in a crowded slow lane. The first step to getting under control is to identify and understand all of your leases, and get all the right stakeholders invested in solving the problem. If you or your client have underestimated the level of effort to get to the finish line on time, try some of the practices mentioned above, and you can get back on the road to compliance.



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