

ARE YOU READY?

New FASB lease accounting changes are here

Snapshot



They are finally real. The Financial Accounting Standards Board (FASB) has published new lease accounting standards designed to provide greater balance sheet transparency of leasing activities for organizations that issue financial statements in accordance with generally accepted accounting principles (GAAP). Non-U.S. based organizations are required to meet revised International Financial Reporting Standards (IFRS).

Together these changes represent new accounting considerations for commercial real estate. The new lease accounting standards may influence the way organizations evaluate real estate decisions and will also require lease data to be tracked and monitored to a greater extent than ever before.

What's the impact?



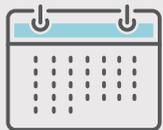
Current rules allow for most leases to avoid balance sheet recognition and be used as a form of off-balance sheet financing. But the new rules require all leases (real estate, equipment, vehicle, etc.) to be capitalized and presented on the balance sheet as a Right of Use ("ROU") Asset and Lease Liability.

Who's impacted?



All publicly-traded firms and privately held firms that comply with US GAAP accounting. Companies with multinational portfolios can face additional challenges since the FASB and IASB standards differ.

When do the changes take effect?



The effective date for public companies is the first reporting period after December 15, 2018, including interim financial statements. Private companies have until the first fiscal year ending after December 15, 2019. But those dates represent the end of the process, not the beginning. Any existing lease in place on the adoption date will have to be identified, measured and presented on the balance sheet, reflecting the new rules. Companies should be mobilizing NOW to manage the required process and technology changes and real estate portfolio planning.

While adoption is required by 2019-2020, the need for planning starts now

Why the urgency?



The extensive volume and reach of lease agreements means that the transition will be exhaustive for many companies, requiring significant planning, resources and effort. The impact on real estate is particularly acute—it's estimated the majority of new assets and liabilities recorded on the balance sheets of lessees will be related to commercial real estate.

Next steps?



Educate staff

- Across divisions and levels in corporation (executive through operational)
- Involves training and development of project teams

Create database and documentation for all lease agreements

- Compilation, review and recording of all lease agreements globally
- Decentralized databases must record similar metrics

Develop enterprise software solutions with integration to financial reporting system

- Integration of software and required overhaul of processes may be extensive
- 2016 /2017 budget should provide funding for transition resources and software

Explain corporate policy

- Approval processes may change due impact to balance sheet
- Policies for discount rates, documentation, impairment and database diligence



Did you know?

- Real estate data may face greater scrutiny
- More lease data will be needed than ever before
- No grandfathering: rules apply to all leases in existence at adoption date
- Abstracted lease data will need to be stored differently
- Transitioning will require a significant implementation effort
- Portfolio planning and real estate decisions (e.g., Lease vs. Own) are directly impacted
- The new FASB standard apply to all leases, not just real estate (manufacturing and office equipment, etc.)

THE TIME FOR ACTION IS NOW



Creating a timeline that identifies tasks and targets from now until formal adoption will be critical to a smooth transition.

Learn more

Peter Brohoski

Senior Managing Director
+1 703.770.3430
Peter.Brohoski@cushwake.com

Ryan Rawls, CPA

Director
+1 813.424.3219
Ryan.Rawls@cushwake.com

Michell Rusbarsky, CPA

Managing Director
+1 213.629.7319
Michell.Rushbarsky@cushwake.com

Larry S. Lazerwitz, CPA

Director
+1 203.326.5885
Larry.Lazerwitz@cushwake.com

