

Learning Series: Lease Accounting Changes for Non-accountants

How do the accounting changes impact my CRE team?

Arazzo Solutions, LLC

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Should we brace for impact?

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What specifically are the impacts of these lease accounting guideline changes (FASB ASC 842 and IASB IFRS 16) to your CRE team?

deciphering as we speak. But what does that mean to your CRE team specifically? Let's explore that.

This Learning Series is intended to simplify the vast amount of information relating to the latest FASB/IASB lease accounting guidelines. Our goal is to boil down these standards to make them easily understood by CRE professionals who are not accountants by trade. We want to help you understand the concepts and the lingo (with a bit of humor) without having to be a CPA, while also enabling you to hold your own with the newly extended group of stakeholders and executives. We hope you enjoy this series and we look forward to your feedback.

You're likely hearing familiar buzz words and getting requests for lease data from new stakeholders like Finance and Treasury...perhaps even the CFO. The good news is that your CRE team has become even more valuable to your organization. The bad news is that you now have a lot more data points to track and communicate back to the extended group of stakeholders.

Your organization is likely in the throes of specific guideline

Due to the significant value of real estate lease payments across organizations globally, CRE is commonly viewed as the 4th "resource", next to Finance, Personnel (HR), and Information & Technology. So CRE is a key player in this ball game.

While equipment leases are also included in these guidelines, for most organizations the focus is on real estate leases because they have the biggest impact to financial statements.

Buzz Words to Know

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Data Governance: The management of the availability, usability, integrity, and security of data

Reasonably Certain: Obscure term in the new FASB/IASB guidelines that allows room for interpretation on things like renewal and termination/break options – requires an auditor interpretation

Re-measurement: The requirement to re-evaluate the Lease Liability and/or the ROU Asset when a significant lease data point changes. This includes lease term changes (options exercised for renewal or termination), rent payments (i.e., abatements), additional tenant improvement allowances

Your CRE team will have more data points to record, maintain, and monitor. Critical dates are much more important because you have to alert Finance when renewals or terminations are likely. Nothing like a little extra pressure! The guidelines provide a very gray area of evaluation based on a “reasonably certain” determination of whether options will be exercised. “Reasonably certain” needs to be defined by your auditors, so make sure your Finance team has their understanding and approval of this definition.

Data governance (i.e., the management and ownership of data quality) has always been incredibly important, but it’s even more so now. With the extended pool of stakeholders, there are many

people/groups depending on data from your CRE team, so it’s imperative that CRE maintains high-quality data that everyone trusts as accurate. Also, you must ensure your team is tracking critical dates, managing data updates, and owning detailed communications. You’ll likely need to drive these communications with the other stakeholders. If you don’t yet have a cross-departmental steering committee in place for this project, now is the time!

Re-measurements (see Buzz Words) are going to play a large part in accounting for leases and your CRE team is key to this. As part of your company’s accounting compliance policies, there should be clear definitions of what triggers a remeasurement triggers. Then CRE must

keep a watchful eye on each of those data points, providing Finance with as much advance notice as possible of key changes to leases.

The light is shining on your CRE team and it’s a perfect opportunity to show its incredible value within your organization! You manage the data and its quality. You own the critical date notifications and should control the necessary communications with Finance on remeasurements. CRE should be considered mission critical under these new guidelines. Let’s make it so!

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Upcoming Papers in this Learning Series

Volume 1: Why did FASB and IASB change the guidelines?

Volume 2: Why is moving leases to the Balance Sheet such a big deal?

Volume 3: How do the accounting changes impact my CRE team? (CURRENT ISSUE)

Volume 4: What are the key requirements of FASB ASC 842?

Volume 5: What are the key requirements of IASB IFRS 16?

Volume 6: What are the differences between ASC 842 and IFRS 16?

Volume 7: What comes first – the chicken or the egg?

Volume 8: What do I need to consider when evaluating software systems?

Volume 9: What potential impacts will there be to leasing space?

Arazzo Solutions, LLC is a boutique professional services firm focused on the Commercial and Corporate Real Estate (CRE) industry. Having more than a combined 45 years of CRE experience, our team has a unique combination of expertise in lease administration, lease accounting, project management, and IWMS (Integrated Workplace Management System) support.

We are here to augment your internal CRE teams, assist you with ASC 842 and IFRS 16 compliance, including required data points, data management and governance, evaluation of systems, and best practices, and act as your advocate to manage IWMS vendors. Whether you have seasonal demands or need assistance year-round, we can help you meet your responsibilities and deadlines without the need to hire additional employees.

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