

# Lease Accounting: New Rules for New Standard

The long process to issue a New Lease Accounting Standard has finally come to completion. After 10 years of discussions, the Financial Accounting Standards Board (FASB) released Topic 842 - "Leases" on February 25th, 2016.

This FASB update follows the January 13th release of IFRS 16, the International Accounting Standards Board (IASB) version of the new lease standard.

The New Lease Accounting Rules ("New Rules") will materially change the way leases are accounted for globally by requiring 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. This is a significant change from the current rules which allow for many leases to be used as a form of off-balance sheet financing.

The effective date for public companies is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Private companies must comply in fiscal years beginning after December 15, 2019 and interim periods beginning after December 15, 2020.

However, the effective date is the end of the process, not the beginning. Readiness, fiduciary responsibilities and regulatory compliance will require most public organizations to be completed early in 2018 to allow for review and testing.

## Why It Matters: The Business of Balance Sheets

Lease contracts are commonly used across all industries, all countries and all types of assets. The extensive volume and reach of lease agreements means that transition to this new standard will be exhaustive. It is estimated that the majority of new assets and liabilities recorded on the balance sheets of lessees will be related to commercial real estate. The relative size of commercial real estate lease arrangement compared to total assets and their ability to shift business ratios embedded in legal covenants may elicit an increase in scrutiny of real estate transactions.

Corporate real estate departments will have to interface more closely with Treasury, Corporate Accounting and Finance departments. Real estate processes, procedures and technologies will have to be updated to capture relevant data, calculate financial statement balances, and to ensure that management has adequate control over the financial reporting process. Understanding the rules and evaluating the impact prior to the effective date will facilitate a cost-effective and successful transition.

The long road to issue a new lease standard has finally come to an end. But as this process closes, a different path begins. The journey moves out of the meeting rooms and deliberations of FASB and IASB - and into the boardrooms of companies around the globe. The real work begins now as the New Rules identify an arduous trek to implementation and updated operating processes.

The time for action is now. Creating a timeline that identifies tasks and targets from now until formal adoption will be of critical importance to a smooth transition. CRE will find itself front and center in the changes ahead.

Cushman & Wakefield will continue to monitor all developments in this area critical to commercial real estate industry - to add value and assist our clients with their understanding of the New Rules.



**RYAN RAWLS, CPA**  
**Regional Director,**  
**National Financial Consulting Group**  
ryan.rawls@cushwake.com



**MITCHELL RUSBARSKY, CPA MCR**  
**Managing Director of West Region,**  
**National Financial Consulting Group**  
mitchell.rusbarsky@cushwake.com

### Transition Goals

-  Education across all divisions and levels in corporation
-  Creation of complete database and documentation for all lease agreements
-  Development of enterprise software with integration to financial reporting system
-  Corporate policy approval processes