# Lessee Accounting: Implications of the New Leasing Standard

Revised accounting for leases will be an impetus for revisiting operational strategies. Early assessment and preparation is essential for occupiers for financial accounting, and in formulating a successful corporate real estate strategy.

Following several years of deliberation, the International Accounting Standards Board (IASB) released IFRS 16, Leases on Jan. 13, 2016. The new standard for lease accounting is due to take effect on January 1, 2019.

The issuance will induce change, especially for lessees with significant existing operating leases that aren't currently on companies' balance sheets such as retailers, transportation and telecom users, and hoteliers. Notably, the new standard does not address specific treatment for real estate separately. All classes of leased assets are deemed one and the same in a single model approach.

The intent of regulators is to provide greater transparency by removing the shadow debt created from operating leases. However, investors, shareholders and financial analysts typically capture the true financial position inclusive of lease activities through normalization adjustments to key performance indicators. No such adjustments will be necessary upon implementation of the new standard, allowing for improved comparability between companies that lease to those that own.

While intent is clear, and for some, the change will merely be another compliance exercise, the precise impact of conversion for corporate occupiers can only be determined through pro forma quantitative analysis, by calculating historical and current operating results in accordance with the new standard. This "what-if" approach will arm corporate decision-makers with the knowledge they need for developing a viable real estate strategy, given the new accounting measures.

The changes to lessee accounting on financial statements can be quantified to assess magnitude, whereas the impact from revised corporate real estate strategies can only be determined over time. The residual effect of the change in lessee accounting on occupier operations could well be more pronounced than accounting implications. Corporate real estate personnel will need to expand their roles to a more strategic function to maintain competitive advantages, avoid unexpected pitfalls and identify key drivers of change.

The change to lessee accounting should have a lasting effect on corporate real estate management through a consolidated system. Corporate real estate departments have been administrative functions for many large occupiers, whereby tracking and managing of properties can often times still be undertaken by outdated methods, with decentralized information spread across multiple platforms, within different departments, or even across business units. Such systems will be problematic for implementing the changes to lessee accounting, which will require detailed information to accurately account for both the RTU and liability. Even asset management systems might not be sufficiently automated and properly integrated between lease administration, tax, accounting and other departments.

In addition to initial application, subsequent remeasurement, changes to lease terms, mandated quantitative disclosures, and accrual of contingent rents make up just a few of the new time-intensive responsibilities.

Implementation of a robust plan is needed to gather pertinent lease data and develop an action plan to consolidate data into a centralized, customizable and automated property management system that can fulfill the needs of each department.

Corporate occupiers with significant leasing should organize an integration committee across all cross-functional departments that play a role in either the usage or reporting of corporate facilities. Each company has distinguishable priorities that require careful and tactical evaluation. Through this broadbased approach, a full account of the potential impacts and processes can be determined, spurring a fresh strategy that will align operational and accounting objectives.

Cushman & Wakefield's expansive service offerings can assist occupiers with implementation of the new lease accounting standard. Valuation and Advisory's (V&A) Financial Reporting group provides valuation and advisory services pertaining to U.S. GAAP and IFRS financial reporting requirements for tangible and intangible assets and liabilities. The Global Occupier Services (GOS) team creates solutions that provide a comprehensive menu of integrated real estate and facility services combining worldwide reach, coordinated local execution, and advanced data analytics.

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