Whitepaper

Streamline and Automate Lease Accounting Processes with IBM TRIRIGA

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Overview

In 2016, the US-based Financial Accounting Standards Board (FASB) and the European-based International Accounting Standards Board (IASB) published new lease accounting standards. Today, all public organisations and most large private organisations face the challenge to comply with the new standards and improve their real estate, fleet and equipment leasing. Some are just beginning that long process. In either case, it will require significant investments of time, effort and budget to succeed. These new lease accounting standards will increase the complexity of most organisations' lease accounting functions because they will create a significant impact on corporate balance sheets and income statements. However, compliance activities do not have to cripple an organisation's day-to-day operations or the productivity of its lease accounting staff.

The IBM® TRIRIGA Real Estate Manager lease accounting solution provides a comprehensive, consolidated and easily configurable system that helps organisations streamline and automate their lease accounting processes - from the initial data import to ongoing audit and compliance reporting. As a result, IBM designed its advanced lease accounting offering to boost the productivity of organisations, including large and multinational companies. It allows organisations to more strategically manage the leased portfolio and more easily comply with the standards.

Data challenges

Companies will need to capture and validate all their lease data to comply with the new standards, applying audit-level scrutiny. This effort will be more onerous for companies with a decentralised leasing process. Determining how many leases a company has can take months and internal and external resources may be scarce. Locating and standardising the additional lease details required by the standard places additional demands on organisations. To aid this process, IBM TRIRIGA has created critical functionality:

– Pre-built real estate and asset lease types in a single data repository
– Integrated document management capabilities
– Data import forms and processes for offline lease abstraction via internal and third-party resources
– Data validation rules and processes to test imported lease abstracts and flag noncompliant records
– Support for multiple currencies as well as a system currency standard for global reporting purposes and multiple units of measure
– Pre-built and ad-hoc approval processes for leases, based on assigned roles, geographies and organisations
– Integration with Watson Analytics to speed data validation exercises and alert users to gaps.

Looming deadline

Most publicly-traded companies must comply with the new regulations beginning in 2019 and most private companies in 2020. Prior to the adoption date, business users should test their data and assumptions to ensure that the results of the system implementation align to what auditors and investors are expecting. This data-driven exercise shortens the timeline available for implementing a new system.

The software implementation will include identifying all leases; gathering the associated documents and data; validating data; standardising new leasing processes and loading and testing new systems. Some organisations may express concern about the risk and penalties of non-compliance. IBM software solutions have supported many hundreds of standards and regulatory requirements in the past. Based on this experience, organisations face the more likely scenario that they pay premium prices and employee overtime to achieve compliance.

If a company has debt and debt covenants include liabilities that the real estate lease obligations now present, companies may face issues of financing or debt covenant violations. To meet this demanding timeline, IBM TRIRIGA offers important features and services:

– Automated creation of lease contract records, payments and amortisation schedules based on approved lease abstracts
– Pre-built pro-forma cash flow, balance sheet and income statement impact analysis
– Data integration with enterprise resource planning and other financial accounting systems
– Experienced internal consultants and an extensive partner network that can apply best practices in any industry.

Entering a new era

Companies rushing to comply with the new standards may forget to realise that the new standards will create a 'new normal'in leasing. With virtually every lease impacting the balance sheet, accountants, business users, real estate managers and financial executives will need to develop new standards for day-to-day business. For an advanced lease accounting solution designed to help orchestrate compliance, the solution must do more than calculate the appropriate Right-of-Use (ROU) asset and liability values. It must guide an organisation through the effort, providing confidence in not only the numerical outputs calculated, but in the decisions made based on them. IBM has embraced this goal with TRIRIGA's advanced lease accounting capabilities in its Real Estate Manager offering. Under the new standards, organisations must reassess lease terms, remeasure ROU assets and liabilities and provide detailed disclosure reports to a far greater extent than they do today.

This increased reporting invites heightened scrutiny. To streamline these new processes, TRIRIGA has designed process and audit functionality:

– Predefined, yet configurable, user roles to focus users on tasks at hand
– Automated notices and alerts for lease contracts such as lease assumption reviews based on company-defined periods of time
– Pre-built option selector to simplify 'likely term'assumption reviews
– Bulk-update processes for incremental borrowing rate, index growth rate and FMRV assumptions
– Bulk-update processes that update pending payments based on index adjustments, including the consumer price index (CPI) and producer price index (PPI)
– Streamlined workflows for batch payment processing, journal entry creation, period closings and disclosure reporting.

Since organisations will continue to refine their processes to comply with the new standards, IBM plans to continuously improve its offering for customers and partners. By helping organisations expedite their compliance, IBM TRIRIGA empowers users to more purposefully manage leased portfolios of both real estate and equipment, with robust reporting capabilities to measure impacts.

Configurability

Organisations cannot know what compliance will look like because no one has completed it. Standards like ASC 842 and IFRS 16 are guidelines, not blueprints. The new standards tell companies what has to be done but not necessarily how to accomplish it. Each organisation has its own operating principles and business processes for lease administration and lease accounting - not only for evaluating leases, but also for making decisions on them and managing them over time. Personnel from leasing, accounting, finance, treasury, real estate, procurement and human resources could all be affected during the transition to the new standards.

With this in mind, IBM TRIRIGA delivers extensive configurability that allows organisations to implement the system in a way that meets their unique requirements, without requiring changes to source code. No two organisations are alike and with IBM TRIRIGA, organisations can enable business processes unique to their business.

Why IBM?

The IBM TRIRIGA development team did not build its lease accounting solution in a vacuum. It considered guidance from industry leaders, Big four accounting firms, financial experts, real estate providers and equipment experts to fully understand the challenges and opportunities the new standards present. More than one-third of the Fortune 100 and hundreds of other companies, have chosen TRIRIGA to meet these challenges.

For more information visit

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