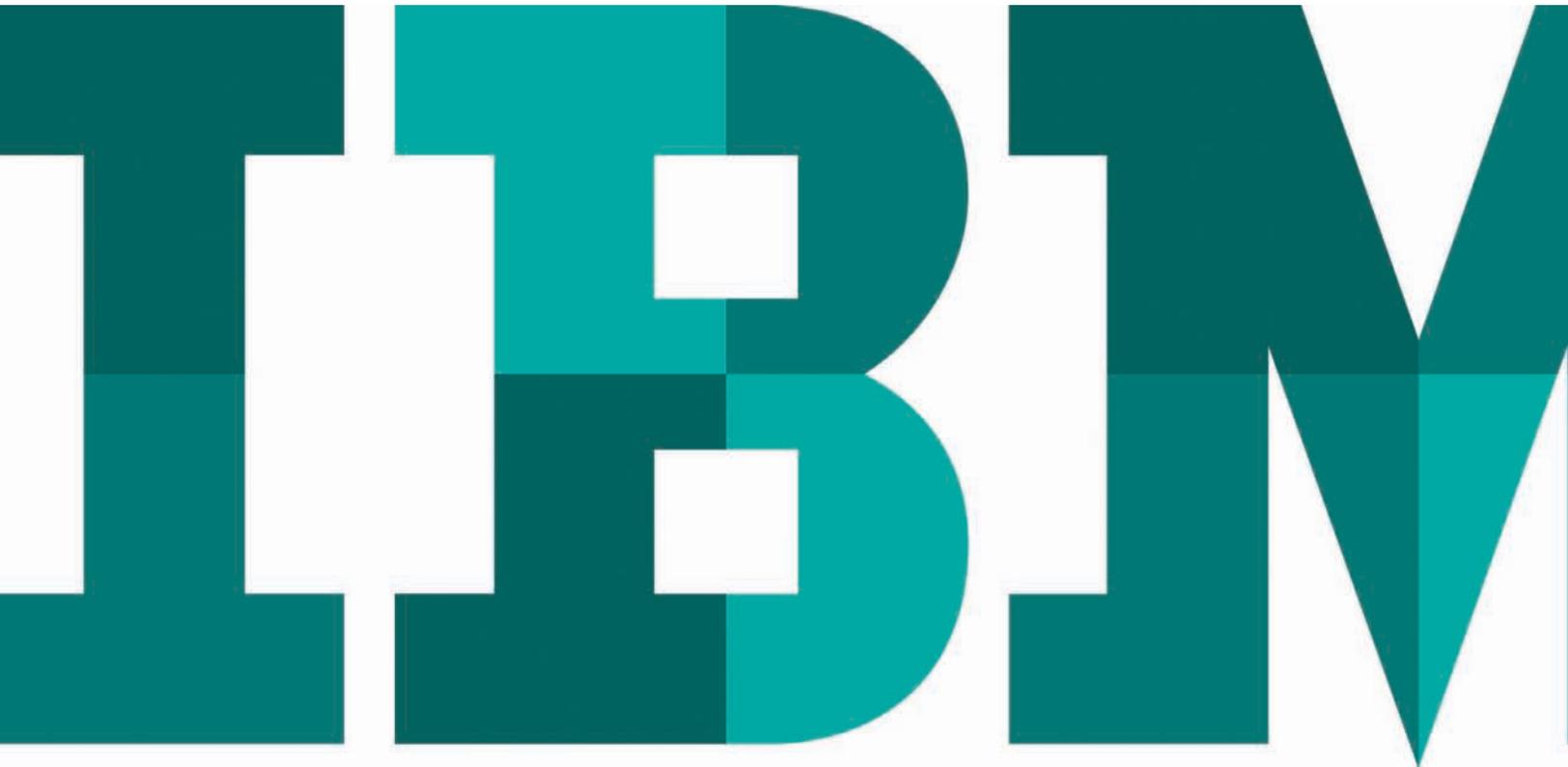# Select the right solution for lease accounting

*Accelerate preparedness for the new lease accounting standard*

Is your organization prepared for the pending changes to lease accounting rules? By moving operating leases to the balance sheets of public companies, these changes can dramatically increase the impact of leased facilities, equipment and other assets on your organization's financial performance. And it will significantly increase the complexity and operational workload of your finance, real estate and asset management functions. Yet, 92 percent of companies do not consider themselves prepared to capture, organize and report this impact on their company today, and 62 percent acknowledge a need for major upgrades or new IT systems to comply.[1] Where does your organization stand?

The upcoming change stems from the convergence of financial accounting standards between the United States-based Financial Accounting Standards Board (FASB) and the European-based International Accounting Standards Board (IASB). And the global investment banking, securities and investment management firm Goldman Sachs estimates that these rule changes will require large publicly traded companies to add an average of $1 billion in new assets and liabilities to their balance sheets.[2]

To prepare for the new lease accounting standard, many organizations will simply focus on compliance. That alone will require system capabilities to simplify complex new processes, automate audits and provide accurate visibility into balance sheet and income statements.

More forward-thinking organizations will not only comply, but will use the new standard as a catalyst for fundamental change— shifting from short- term operational management to longer-term financial management—which will require deeper business insight and better finance efficiency across all asset classes.

Regardless of the approach you choose, an effective lease accounting solution will prove invaluable. As you research options, look for those that work across real estate, equipment, information technology and infrastructure assets. The solution you choose should deliver process management capabilities along with business analytics on a single technology platform, and it should streamline integration of critical data with corporate financial accounting systems. The right lease accounting solution can help you transform the way you manage your assets to achieve increased efficiencies, more effective utilization and greater financial return on assets.

## Getting started with lease accounting

This buyer's guide outlines the features and capabilities of an effective lease accounting solution, addressing the following key areas:

1. Lease abstraction, inventory and analysis
2. Lease administration and management
3. Lease accounting and compliance
4. Security and audit compliance
5. Transaction management
6. Strategic facility planning
7. Management system architecture

Each section of the guide provides a checklist of features to help you evaluate whether or not a solution effectively addresses each of these areas. You will also find tips to help you select solutions with the support—and a vendor with the financial stability—to address the full range of your lease accounting requirements.

## 1. Lease abstraction, inventory and analysis

Nearly half of mid- to large-sized companies can expect to capitalize more than 1,000 operating leases under the new lease accounting standard.[2] For companies with large portfolios of leased real estate—retail, financial services and telecommunications services, for example—real estate leases will likely involve relatively large expenses that must be capitalized. Yet for many, the number of equipment leases exceeds the number of real estate leases.

Many companies currently use lease accounting systems that are informal, incomplete and inaccurate. Going forward, though, gathering information about all leases will require a detailed

understanding of critical terms such as rent, renewal/expansion/termination and other options, coupled with financial and operational assumptions such as borrowing rates and fair market rental value (FMRV).

Beyond the need to streamline the lease abstraction and approval processes, the new lease accounting standard will require companies to perform periodic analyses of dynamic financial and market conditions that create "significant economic incentive" to extend or terminate leases. The ideal lease accounting solution would therefore be able to drill down and uncover details across all leases to deliver an accurate analysis of the impact on your balance sheets and income statements.

## Lease abstraction, inventory and analysis

| Look for a solution that: | IBM | Other |
|---|---|---|
| Delivers pre-built forms and data import processes for offline abstraction of real estate and asset leases via internal and third-party abstraction resources. | ✓ | |
| Provides data validation rules and processes to test imported lease abstracts and flag non-compliant records. | ✓ | |
| Delivers certified compliance with the import and export of real estate lease abstracts from third-party legal and abstraction services via the Open Standards Consortium for Real Estate (OSCRE) Lease Abstract Exchange Standard. | ✓ | |
| Enables import, validation and correction of legacy data from multiple data sources into initial asset records. | ✓ | |
| Delivers pre-built, wizard-based forms for direct manual data entry of lease abstracts within the lease accounting system. | ✓ | |
| Supports multiple currencies as well as a system currency standard for global reporting purposes and multiple units of measure. | ✓ | |
| Manages content and stores scanned and electronic copies of lease contracts. | ✓ | |
| Provides the ability to query and retrieve real estate property asset data enterprise-wide, in multiple formats. | ✓ | |
| Includes revision and version controls for content management. | ✓ | |
| Separates lease abstracts and lease contract record types for real estate and asset leases. | ✓ | |
| Provides pre-built and ad hoc reports of lease abstracts and lease contracts for real estate and asset leases. | ✓ | |
| Provides both real estate and asset leases in a single data repository. | ✓ | |
| Delivers pre-built and ad hoc approval processes for lease abstracts, based on assigned roles, geographies and organizations. | ✓ | |
| Automates creation of real estate and asset-lease contracts and payments, as well as critical date notifications—for expirations and options—from approved lease abstracts. | ✓ | |
| Provides a role-based dashboard for lease abstraction, inventory and analysis. | ✓ | |
| Enables end-user dashboard configuration to fit personal work styles. | ✓ | |
| Provides pre-built performance metrics to determine lease contract performance against targets such as cost per area or area per person. | ✓ | |
| Analyzes lease contracts and aggregates historical statistics and information. | ✓ | |

## 2. Lease administration and management

In many cases, corporate real estate departments responsible for tracking real estate leases rely on inadequate or home-grown systems and spreadsheets. But these methods typically track only a small subset of the information required under the new accounting standard. For equipment leases, the process can be even more complex, with many departments responsible for tracking and managing their own lease contracts.

An integrated lease accounting solution can help reduce the inefficiency and expense of multiple lease administration systems by delivering increased visibility and control of the impact on the income statement. A single global lease accounting solution could optimize lease administration and management processes such as index adjustments, payment processing and percentage rent processing.

An effective solution would provide policy-based access to lease details and closed-loop approval processes, and enable users to revise all lease accounting from a single point of control. Ideally, the same lease management system could automate critical date alerts, payment reconciliation and approval routing to help users avoid penalties and overpayments.

**Lease administration and management**

| Look for a solution that: | IBM | Other |
|---|:---:|:---:|
| Delivers a pre-built dashboard for lease administration and management. | ✓ | |
| Enables end-user dashboard configuration to fit personal work styles. | ✓ | |
| Automates notices and alerts for real estate and asset lease contracts such as expiring leases, available options, pending notices and overdue payments. | ✓ | |
| Provides pre-built reports and ad hoc reporting for real estate and asset-lease contracts. | ✓ | |
| Provides pre-built performance metrics to determine lease contract performance against targets such as on-time payment and percentage of savings for lease audits. | ✓ | |
| Analyzes lease contracts and aggregates historical statistics and information. | ✓ | |
| Enables master data management for organizational structures, people, geographies, locations, assets and financial cost codes. | ✓ | |
| Provides pre-built "smart" clauses that contain clause-specific data attributes such as rent, allowances, taxes, security deposits, responsibilities, insurance and more. | ✓ | |
| Provides pre-built "smart" options that contain option-specific data attributes such as renewals, purchase options, early termination, right of first refusal and more. | ✓ | |
| Offers ad hoc, one-time and monthly payment schedules. | ✓ | |
| Provides advanced user-configurable payment schedules such as annual, quarterly or last day of month. | ✓ | |
| Automates bulk-update processes that update pending payments based on index adjustments including Consumer Price Index (CPI), Producer Price Index (PPI) and more. | ✓ | |
| Automates payment processing that reconciles invoices against previous payments and contract terms to identify lessor overcharges in areas such as common area maintenance. | ✓ | |

**Lease administration and management**

| Look for a solution that: | IBM | Other |
|---|---|---|
| Provides sub-lease and payment pass-through management to internal and external parties. | ✓ | |
| Provides direct pre-built integration with lease accounting, transaction management, asset management and strategic planning components within a single solution. | ✓ | |
| Provides direct pre-built integration with maintenance management processes to route service and maintenance requests to lessors and service providers using lease responsibilities and service-level agreements. | ✓ | |

## 3. Lease accounting and compliance

In addition to requiring publicly traded companies to add huge amounts in new assets and liabilities to their balance sheets, the new standard will also increase lease accounting complexity, with new periodic reviews of financial and operational assumptions and strict auditing and reporting requirements.

To comply with the upcoming new lease accounting standard, companies will need an integrated management solution that forecasts the balance sheet impact, simplifies the lease accounting processes and automates audit processes. The ideal solution should streamline lease accounting processes such as index adjustments, assumption reviews and balance sheet reporting, across all leases.

**Lease accounting and compliance**

| Look for a solution that: | IBM | Other |
|---|---|---|
| Delivers pre-built support for new IASB/FASB standards across real estate and asset leases. | ✓ | |
| Delivers pre-built dashboards for lease accountants. | ✓ | |
| Enables end-user dashboard configuration to fit personal work styles. | ✓ | |
| Automates notices and alerts for real estate and asset lease contracts such as lease assumption reviews based on company-defined periods of time. | ✓ | |
| Offers pre-built option selector to simplify "likely term" assumption reviews. | ✓ | |
| Provides bulk update processes for incremental borrowing rate, index growth rate and FMRV assumptions, and for rent component assumptions such as maintenance, taxes and rent. | ✓ | |
| Automates bulk-update processes that update pending payments based on index adjustments including CPI, PPI and more. | ✓ | |
| Provides approval and audit tracking of lease data changes. | ✓ | |
| Automates the creation and update of amortization schedules based on approved data changes. | ✓ | |
| Provides pre-built cash flow, balance sheet effects and income statement impact analysis. | ✓ | |
| Integrates with enterprise resource planning and other financial accounting systems. | ✓ | |
| Provides the information and reports needed to comply with internal audits and regulatory reporting requirements. | ✓ | |
| Provides direct pre-built integration with lease administration, transaction management, asset management and strategic planning components within a single solution. | ✓ | |

# 4. Security and audit compliance

To satisfy auditors, companies will need to guard the integrity of their processes and data more closely than ever, complying with various financial and operational assumption audits by providing carefully documented lease accounting records.

Companies should look for a solution that not only supports industry standards for system and information security, but goes beyond with internal settings that control which users can view, edit, create or delete any file or document set. The solution should control document versions and create a comprehensive document history and audit trail.

The ideal lease accounting solution should also provide enhanced security features specific to an organization's accounting needs, from providing full audit capabilities to automatically archiving lease details for security, compliance and audit purposes.

**Security and audit compliance**

| Look for a solution that: | IBM | Other |
|---|:---:|:---:|
| Restricts user access to data records and data attributes based on assigned role, organization and geography. | ✓ | |
| Enables users to audit and track data modifications and transactions. | ✓ | |
| Uses and supports industry security standards including identification, authentication, encryption, user access/permissions and auditing. | ✓ | |
| Provides full audit capabilities at the security-, field- and action-level. | ✓ | |
| Restricts user access to user actions and data processes such as creating, revising or approving, based on assigned role, organization and geography. | ✓ | |
| Provides a rules-based approval engine to route lease and financial reviews to approvers based on relationship to the record (e.g., role, organization, geography and value.) | ✓ | |
| Automates archival snapshots of changes in user security rights, lease amendments and lease assumptions for security and audit purposes. | ✓ | |
| Provides version control to maintain document integrity and creates comprehensive document histories and audit trails. | ✓ | |
| Addresses security on both sides of the firewall, especially if it is web-based. | ✓ | |
| Provides pre-built lease assumptions audit log report for streamlined analysis of lease data changes. | ✓ | |

## 5. Transaction management

The proposed new lease standard most likely will not allow grandfathering or reporting on existing leases using today's accounting standards. In which case, management will need to apply the same analytical rigor to leases negotiated prior to the implementation date as those negotiated after it. International operations introduce even more complexities, such as contracts in different languages and leases affected by local regulations.

To accelerate preparedness with the new lease accounting standard, companies should seek a closed-loop lease accounting system to evaluate lease transactions against purchases and other planning scenarios, to automatically create leases upon approval and to automatically create transactions upon approval of critical date notifications. The ideal solution would also streamline transaction and lease accounting processes.

**Transaction management**

| Look for a solution that: | IBM | Other |
|---|:---:|:---:|
| Delivers pre-built dashboards for transaction management/real estate managers, yet also enables end-user dashboard configuration to fit personal work styles. | ✓ | |
| Automates notices and alerts for transaction management, such as pending requests, lease renewals and expiring options. | ✓ | |
| Offers pre-built transaction management reports and ad hoc reporting for transaction management. | ✓ | |
| Provides a closed-loop process with lease management and accounting for new leases and renewals, automatically creating leases from approved transactions and automatically creating transactions from lease options and expiration notifications. | ✓ | |
| Provides lease requests and requirements gathering for preferred terms such as lease length, budget, area and required completion date. | ✓ | |
| Provides schedule templates and critical path scheduling to reduce project cycle times and increase the efficient delivery of real estate transactions. | ✓ | |
| Offers user-defined Six Sigma quality measures, including deal-specific criteria for quantitative and qualitative comparisons. | ✓ | |
| Provides pre-built transaction types such as lease, purchase/free hold, sub-lease, termination to model acquisition, disposition and consolidation scenarios. | ✓ | |
| Provides scenario modeling and analysis of financial and non-financial components to determine the best fit for the company. | ✓ | |
| Evaluates financial, operational and environmental impacts across multiple lease-build-buy scenarios to generate the highest return from real estate transactions. | ✓ | |
| Tracks real property acquisitions by updating asset records with information on sales, contracts, depreciation and availability. | ✓ | |
| Calculates real property inventory variance. | ✓ | |
| Offers geographic information system (GIS) mapping to assess location of real-estate alternatives. | ✓ | |

**Transaction management**

| Look for a solution that: | IBM | Other |
|---|:---:|:---:|
| Provides profit and loss impact analyses using new lease accounting standard to forecast impact on financial statements. | ✓ | |
| Enables side-by-side comparison of scenarios against current term and other transaction scenarios to identify best-fit alternatives. | ✓ | |
| Generates customer surveys to evaluate brokers/service providers and transaction management personnel. | ✓ | |

## 6. Strategic facility planning

Under the new lease accounting standard, real estate assets are expected to generate the greatest impact on the balance sheet. According to the joint survey between IBM and CFO Research Services, nearly half of companies expect their leased real estate assets to add more than 10 percent to the balance sheet.[2] As companies undertake the detailed work required to right-size their lease portfolios, many will look to consolidate and eliminate under-utilized assets before they impede financial ratios or trigger debt covenants. To achieve this reduction, companies will require simple-to-use solutions for strategic facilities planning that deliver rigorous scenario modeling and analysis capabilities based on contract terms and market conditions to forecast impacts on balance sheets, profit and loss statements, and income statements for new leases and lease renewals.

For all types of real estate planning—strategic, master and tactical—the right solution should simplify the complex facilities planning process and identify gaps in facilities supply and demand. It should be able to analyze planning scenarios against the status quo, planning goals and other planning scenarios.

**Strategic facility planning**

| Look for a solution that: | IBM | Other |
|---|:---:|:---:|
| Delivers pre-built dashboards for facility/space planners. | ✓ | |
| Enables end-user dashboard configuration to fit personal work styles. | ✓ | |
| Automates notices and alerts for facility planning such as pending requests or pending space forecasts. | ✓ | |
| Provides pre-built and ad hoc reports for strategic facility planning. | ✓ | |
| Provides pre-built performance metrics to determine under-utilized and under-performing facilities such as area per person, cost per area and occupancy rate. | ✓ | |
| Provides an n-level planning framework cascading business plans, facility objectives and performance goals. | ✓ | |
| Automates the capture of aggregated actual space use to determine current space usage. | ✓ | |
| Provides online and offline requirement forecast surveys to determine future space usage over multiple planning periods. | ✓ | |
| Assesses impact of space forecasts (demand) against facilities (supply) against planning goals such as occupancy rate and other data. | ✓ | |

| Strategic facility planning | | |
| --- | --- | --- |
| **Look for a solution that:** | **IBM** | **Other** |
| Offers visual tools to extend or terminate leases, and purchase or see real estate, in order to model acquisition, disposition and consolidation scenarios. | ✓ | |
| Provides modeling tools to determine impact of alternative workplace strategies, such as hoteling, to increase facility utilization. | ✓ | |
| Provides visual "stack planning" and analysis to determine best-fit allocation of departments within facilities. | ✓ | |
| Enables side-by-side comparison of scenarios against the status quo, planning goals and other scenarios to identify highest return alternatives. | ✓ | |
| Delivers advanced request-for-proposal analysis to support selection of optimal sites. | ✓ | |
| Provides estimated asset value analyses using new standard to forecast impact on balance sheet. | ✓ | |
| Integrates strategic facility planning with transaction management to streamline transaction management for facility purchases, leases, dispositions and terminations. | ✓ | |
| Integrates strategic facility planning with facilities and move planning to streamline implementation of preferred scenarios. | ✓ | |
| Supports workplace reservation management for workplace hoteling, as well as reservations for conference rooms, vehicles and other equipment. | ✓ | |

## 7. Management system architecture

In dealing with the added complexity from the proposed new lease accounting standard, organizations can save time—and money—by using an enterprise-class suite of business applications that can support lease accounting, real estate management and facilities management on a single technology platform and data repository.

A centralized infrastructure with a global lease accounting system can establish a consistent way to capture the underlying information about lease contracts globally. A solution based on an Integrated Workplace Management System can help provide this consistency while also helping reduce facilities operational costs, increase return on real estate assets and mitigate environmental and financial regulatory risks.

Look for a reliable solution that provides a dependable level of performance—one that can support thousands of concurrent users without disruption or long response times—and one that is simple to use and integrate, helping you both reduce costs and complexity and boost productivity.

| Management system architecture | | |
|---|---|---|
| **Look for a solution that:** | **IBM** | **Other** |
| Provides a single technology platform and data repository. | ✓ | |
| Reduces desktop support requirements with a browser-independent, web-enabled platform. | ✓ | |
| Supports multiple operating systems and architecture standards, as well as multiple application, web and database servers. | ✓ | |
| Enables end-user dashboard configuration to fit personal work styles. | ✓ | |
| Automates notices and alerts. | ✓ | |
| Provides ad hoc reporting. | ✓ | |
| Provides configuration/reconfiguration to meet customer requirements without changes to source code. | ✓ | |
| Provides XML/SOAP-based integration with external systems. | ✓ | |
| Provides performance benchmarks for thousands of users—including concurrent users. | ✓ | |
| Provides capability for pre-built data integrations and automated workflow processes. | ✓ | |

## Selecting the right vendor

The provider you choose should be able to support the full breadth of your lease accounting requirements. Ideally, you will also want a provider who can support you throughout the process of implementing your solution, and keep you ahead of ever-changing industry standards. Before you select a provider, make sure to ask these questions:

*Are your vendor's products tightly integrated for seamless functionality?*
The more integrated the solution, the less work you have to do to streamline your lease accounting functions. Make sure that the solution is interoperable with multiple platforms and servers, and that the vendor can respond quickly to changes in operating systems and infrastructure, taking immediate advantage of platform enhancements.

*Does your vendor's technology support your business goals?*
Look for vendors whose solutions are designed to facilitate your lease accounting objectives. Do their solutions promote accelerated compliance, increased asset efficiencies and reduced costs?

*Does your vendor provide rapid time to value?*
A cost-effective solution should minimize system configuration and reduce project cost and risk. The vendor should be able to provide reliable implementation service delivery and quality assurance to help you meet lease accounting objectives.

*Is the solution supported by a mature organization with the expertise and bandwidth that can be relied on when you need it?*
Your vendor should offer highly responsive and highly effective customer support. Find a vendor that has a proven support organization to help you maximize the value of your investment in asset management and lease accounting solutions.

*Are the vendor's solutions consistently rated highly by the analyst community?*
Look for solutions that leading analysts have recognized as superior through independent analysis and examination across multiple dimensions.

*How sure are you of your vendor's stability and staying power in today's economy?*
A big issue in today's economy is vendor stability and visibility. You should consider a vendor who has a long history in the asset management sector—including expertise in real estate management—with a solid, forward-looking strategy and the resources to withstand adverse economic conditions.

*Can your vendor deliver products that are strategically designed, technically superior and easily customizable?*
When comparing various lease accounting solutions, look for technical superiority—well-designed functionality, an intelligent architectural design, broad support for changing industry standards and robust disaster recovery capabilities. In addition, the solution should enable customer-specific configuration without changes to source code.

## Address your lease accounting needs with IBM
As you evaluate lease accounting solutions to meet your goals, you will find that IBM TRIRIGA® solutions accelerate preparedness for the new FASB and IASB lease accounting standard

with pre-built spreadsheets and templates compliant with Open Standards Consortium for Real Estate (OSCRE) data standards for faster loading of lease information. They provide the necessary financial reporting to achieve auditable lease accounting with simple-to-use, pre-built reports and financial assumption management capabilities. And they help reduce or eliminate the need for under-utilized leased assets with advanced strategic facility planning capabilities.

To help ensure a consistent level of performance, the IBM TRIRIGA quality assurance team consistently runs performance testing to document its ability to perform under high volume and load scenarios.

IBM TRIRIGA offerings are part of a larger enterprise-class software portfolio that also includes business applications for real estate and asset management on a single technology platform and data repository. Designed to help global organizations increase return on real estate assets, reduce operational costs of facilities, and mitigate environmental and financial regulatory risks, IBM TRIRIGA solutions automate time-consuming activities to increase the efficiency and effectiveness of real estate and facilities management.

In use at more than one-third of Fortune 100 companies, IBM TRIRIGA was the first software to deliver lease abstraction capabilities compliant and certified with the OSCRE Lease Abstract data standard to streamline the exchange of lease details between companies and their service providers.

Most importantly, IBM TRIRIGA solutions can help your organization not only comply with the pending lease accounting standard changes, but flourish—by optimizing your real estate asset efficiency and increasing your return on assets.

## For more information

To learn more about IBM TRIRIGA lease accounting, real estate and enterprise asset management solutions, please contact your IBM marketing representative or IBM Business Partner, or visit the following website: **ibm.com**/software/tivoli/lease-accounting

Additionally, IBM Global Financing can help you acquire the IT solutions that your business needs in the most cost-effective and strategic way possible. We'll partner with credit-qualified clients to customize an IT financing solution to suit your business goals, enable effective cash management, and improve your total cost of ownership. IBM Global Financing is your smartest choice to fund critical IT investments and propel your business forward. For more information, visit: **ibm.com**/financing

[1] CFO Research Services. "Beyond the Balance Sheet: Assessing the Impact of the New Lease Accounting Standard." January 2012, **ibm.com**/tivoli/beyond

[2] Goldman Sachs Global Market Institute. "Accounting Policy Update: FASB's lease proposal - $500 billion potential impact on S&P 500 balance sheets." October 2010. goldmansachs.com/our-thinking/accounting-policy/FASB-lease-proposal.html

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