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Leasing

Companies Urged to Get Started on Lease Accounting Rules

The chorus of “get started now”—often offered as advice for when to prepare for the far-reaching revenue reporting rules—is also being repeated in public discussions of new lease accounting prescriptions.

“Eighteen months sounds like a far time out, but it really will take every bit of that amount of time” to make a smooth transition to reporting under the leases standard, Nagore Huntley, IBM Corp.’s senior project manager overseeing the move to the leases rules, said June 28.

The lease accounting rules promise substantial change, or at least major exertion, in lease inventory efforts for many corporations. The standard becomes effective for public companies on Jan. 1, 2019.

The balance sheets of retailers, airlines, many banks, hotel and restaurant chains, telecoms and other companies are expected to inflate markedly—some by billions of dollars—with the advent of the U.S. leases rules, issued in early 2016.

They carry with them the required booking of lease-related liabilities for the first time. In the U.S., public companies’ operating leases carried off-balance-sheet totaled more than \$1 trillion in leasing obligations, according to a Financial Accounting Standards Board staff study of 2014 securities filings.

Joining Refrain In giving her advice, IBM’s Huntley had plenty of company at a Financial Executives International conference that focused on the revenue reporting and leases standards, both issued by FASB.

“Companies really need to get started today,” Jeanne McGovern, partner at Deloitte & Touche LLP, told Bloomberg BNA June 27.

“There’s certainly some evidence from the recent Deloitte poll that only 14 percent” of an estimated 6,000 people surveyed in May were either well prepared or very well prepared for the advent of the leases standard, she said. That “leaves a pretty big pool of people who need to get started here,” said McGovern.

Recent polling by Ernst & Young LLP and PricewaterhouseCoopers LLP offered similar results.

EY’s Anastasia Economos reported about a quarter of EY poll respondents saying they are at risk of falling behind in applying the leases standards; about 23 percent are on track for first-time use; “believe it or not, 26 percent that thought they were ahead of schedule,” she

said; and the fourth quarter answering “not applicable or they haven’t started yet.”

‘Some Blinders, Some Reality Setting In’ “You can say there’s some rose-colored glasses. There’s some blinders. There’s some reality setting in,” said Economos, EY’s lease accounting change leader for the Americas.

The International Accounting Standards Board also issued versions of rules on the topics of revenue and leases. With regard to leases, U.S.-based multinational companies with subsidiaries abroad likely will face complications of having to report under the U.S. version of lease accounting principles, ASC 842, and the IASB’s version, IFRS 16, as McGovern and her Deloitte colleague Derek Bradfield said at the FEI event, held in Philadelphia.

The international financial reporting standards on leases differ from the FASB rules—most significantly in the reporting of lease-related expense in the income statement. And some companies and their subsidiaries will have to deal with what’s called “local GAAP,” or generally accepted accounting principles issued by a national government that differ from IFRS, a speaker at the conference said.

“The leases project is going to take more time, sometimes, than they think,” John Bober, global technical controller for General Electric Co., said. “At the same time, you have to also remember that the impact is very disparate across companies.”

Complicating Factors Bradfield cautioned against underestimating the volume and complexity of data behind the effort to carry out the information-gathering exercise in taking stock of leases that would be covered by the new standard.

“Unlike revenue recognition, where it’s a lot about interpretation and judgments of the standard,” he said, taking stock of and tracking certain leases requires recording about 75 “data points.” “And not all that data’s in one place,” he said, citing that as another reason to get started to apply the new standard.

Wal-Mart’s Shawn Husband, senior director of global leasing, described the work of validating tens of thousands of leases—checking and updating terms of payment, for example—as “hugely important” and a big drain on company resources.

Steve McKechnie, managing consultant at Houston business management house RGP, looked ahead to the Independence Day holiday and what could be a year’s worth of solid work for a company to get set for the lease accounting rules.

“Enjoy the long weekend and come back ready to work,” he said.

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