New leases accounting technical discussion

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Hot topic: Embedded leases
Completeness of lease population

Contracts in the scope of ASC 842

- Identified lease population under ASC 840\(^1\)
- Unidentified lease population (embedded leases)
- Leases tracked in multiple systems or no system
- Leases entered into by multiple business units or subsidiaries
- Identification

\(^1\) Dependent upon package of practical expedients election
What is the challenge with embedded leases?

1. May be embedded leases in existing contracts that were previously not identified
2. Contracts will often not use the terms “lease” or “rent”
3. Evaluation of whether they create a right to control the use of an asset may be complicated
4. The lease may not be a significant feature of the arrangement

What is your plan for embedded leases?
Finding embedded leases

Where could we find embedded leases?

- 'As a service' contracts
- Dedicated manufacturing capacity
- IT services
- Sales contracts
- Supply contracts
- Advertising
- Transportation
- Construction
- Related party charges

Don’t forget ASC 840-10-15-6(c)!
Example: approaches for finding embedded leases

- Scrub AP data to find recurring payments
- Questionnaire to company personnel involved in contracting
- Interviews with company personnel responsible for vendors and contracts
- Identify material vendors
Embedded leases and the package of transition practical expedients

If the package of practical expedients is elected...

ASC 840 definition of lease applies to the search for embedded leases, **not the new ASC 842 definition**!

Errors in the application of ASC 840 are not ‘grandfathered’, even if effect of errors in the past was insignificant because operating leases were off-balance sheet.
Hot topic: Lease term
Lease term under ASC 842

Noncancellable period

Optional renewal periods if lessee *reasonably certain* to exercise

Periods after optional termination date if lessee *reasonably certain not* to exercise

Optional periods to extend (or not to terminate) the lease in which exercise of option is controlled by the *lessor*

\[ \text{Lease Term} \]

Comparison to current U.S. GAAP

- Determination of lease term under new leases standard remains substantially unchanged from current U.S. GAAP.
Reasonably certain is a high threshold of probability that must be met to include optional lessee payments.

Lessee has a compelling economic reason to exercise the renewal or purchase option (or not to exercise a termination option).

Consider all economic factors relevant to the assessment.

Reasonably certain?
What constitutes a ‘penalty’

Any requirement that is or can be imposed by the lease agreement or factors outside the lease agreement to do any of the following:

- Pay cash
- Incur or assume liability
- Perform services
- Transfer an asset
- Forego an economic benefit
- Suffer an economic detriment

- **Broad** term, definition carried over from Topic 840
- Not just payments to counter-party or legally obligated penalties
- Many similarities to economic factors considered in ‘reasonably certain’ analysis
What is the ‘lease term’?

- Leases with short non-cancellable periods
- Cancellable leases (and notice periods)
- TRAC leases
Hot topic: Lessee discount rates
## Lessee discount rates - application issues

<table>
<thead>
<tr>
<th>Issue</th>
<th>Response</th>
</tr>
</thead>
</table>
| Can a lessee estimate the ‘rate implicit in the lease’?              | — No. ‘Readily determinable’ is not the same as ‘*estimable*’.  
— Lessee must have lessor’s estimated residual value and its deferrable initial direct costs. Lessees will generally not have this information. |
| Can the incremental borrowing rate be a non-collateralized rate?    | — No. ASC 842 treats a lease as a collateralized borrowing – if the lessee does not pay, the lessor takes its asset back.  
  ▪ Consideration of collateral should lower the incremental borrowing rate if starting from a non-collateralized “starting point”.  
  ▪ Companies that borrow only on a non-collateralized basis *may* be able to conclude that effect of collateral would be immaterial. |
| Is the lease fully collateralized (i.e. LTV of 100%)?               | — In general, yes. The lessee should assume the lease payments represent a fully-collateralized borrowing.                                |
| Should the collateral considered always be the underlying asset?    | — No. Thus, nature of the underlying asset may not affect the IBR.                                                                   |
## Lessee discount rates - example approaches

<table>
<thead>
<tr>
<th>Approach</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk free rate</strong></td>
<td>— When a lending institution would not be expected to charge a materially lower rate to the lessee if specific collateral were designated because the lessee has exceptional credit.</td>
</tr>
<tr>
<td></td>
<td>— Private companies are allowed by ASC 842 to use a risk-free rate as a policy election.</td>
</tr>
<tr>
<td><strong>Unsecured rate</strong></td>
<td>— If credit spreads are small, the difference between an unsecured rate and secured rate may be immaterial. A lessee asserting the effect of collateral on its IBR is insignificant needs to support that conclusion.</td>
</tr>
<tr>
<td><strong>Adjustment from risk free or unsecured rate</strong></td>
<td>— A lessee may use its unsecured borrowings or the risk-free rate as an input to derive an appropriate IBR.</td>
</tr>
<tr>
<td><strong>Mid-point</strong></td>
<td>— Utilizing a mid-point between the risk free and unsecured rate is operationally easy to calculate, monitor and update.</td>
</tr>
</tbody>
</table>

- Updated quarterly
- Determined on a portfolio basis
Lessee discount rates - determining the IBR

Lessee LE borrows only on a unsecured (non-collateralized) basis. LE’s only outstanding borrowing has the following features:

- 7% coupon rate
- Unsecured
- 7-year term
- Interest only payments until maturity
- Lessee prepayment and Debtholder put options
- US dollar denominated

Lease has a 3-year term, for which Lessee will make equal annual payments throughout the 3 years. The lease was entered into in the UK and is denominated in GBP.

If Lessee uses its outstanding debt as the starting point for its IBR determination, what adjustments does Lessee need to make to arrive at a reasonable IBR?
Policy elections and conventions: Transition
Transition option election considerations

<table>
<thead>
<tr>
<th>Expedient</th>
<th>Description</th>
<th>Election considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Package of practical expedients (all or nothing)</td>
<td>— An entity may elect <em>not to reassess</em>:</td>
<td>— Need to apply two models (840 and 842)</td>
</tr>
<tr>
<td></td>
<td>- Whether expired or existing contracts contain leases under the new definition of a lease;</td>
<td>— Do you expect significant changes in classification?</td>
</tr>
<tr>
<td></td>
<td>- Lease classification for expired or existing leases; and</td>
<td>— Do you have significant capitalized IDCs?</td>
</tr>
<tr>
<td></td>
<td>- Whether previously capitalized initial direct costs would qualify for capitalization under ASC 842</td>
<td></td>
</tr>
<tr>
<td>Use of hindsight</td>
<td>— Hindsight allowed when considering lessee options to extend or terminate a lease or purchase the underlying asset</td>
<td>— Cannot finalize before effective date</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Significant effort at the effective date</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Future expense / income pushed into equity</td>
</tr>
<tr>
<td>Land easements</td>
<td>— An entity may elect not to reassess whether land easements <em>not previously accounted for as leases under ASC 840</em> would be leases under ASC 842 or were assessed incorrectly under ASC 840</td>
<td>— Comparability</td>
</tr>
</tbody>
</table>
Policy elections and conventions: Ongoing
## To elect or not to elect

**CPE code: 671b**

<table>
<thead>
<tr>
<th>Expedient*</th>
<th>Description</th>
<th>Election considerations</th>
<th>Company elections</th>
</tr>
</thead>
</table>
| Lessee option not to separate lease and non-lease components | Lessees may elect by class of underlying asset not to separate non-lease components from lease components | May simplify application of the guidance  
- *No need to estimate stand-alone prices*  
- *No need to allocate variable payments*  
Downside is larger lease liability | Many companies electing this practical expedient despite the larger lease liability result.  
Most of those think they can explain as simply a gross-up and worth saving the effort. |
| Short-term lease exemption | Lessees may elect by class of underlying asset not to recognize ROU assets and lease liabilities for short-term leases | Disclosures mean leases must be identified and lease cost tracked  
Election will require additional, separate process for short-term leases that may be manual  
Evergreen vs. short, fixed term | Recent discussions with many large companies suggest many will not elect now that they intend to use an IT leasing solution. |
Recognition thresholds

— Using a recognition threshold is generally acceptable, but establishing and monitoring the amount of that threshold will require judgment.

— In transitioning to Topic 842, companies have asked whether they should:

 Evaluate the effect of non-recognition on a ‘net’ basis (ROU asset – lease liability = net effect) or separately?

Base this threshold on one used for another non-GAAP policy (e.g. capitalization threshold for PP&E)?

Consider the effect of excluding non-recognized leases on their topic 842 lease disclosures?
Quantitative considerations

- Do not Evaluate the effect of non-recognition on a 'net' basis (ROU asset – lease liability = net effect)
- Evaluate effects of non-recognition separately for ROU assets and lease liabilities

- Do not default to a threshold used for another non-GAAP policy (e.g. capitalization threshold for PP&E)
- Non-recognition of liabilities generally has greater effect on financial statements than non-recognition of assets

- Do not evaluate the effect of the threshold without considering the effect on disclosures
- Should consider effect on the completeness and accuracy of disclosures

CPE code 671b
Practical implementation considerations

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Where the work is...

**Low**
- Assess the impact of the new standard
- Identify project team and objectives and establish governance protocols

**Medium**
- Identify and gather in-scope population of lease agreements
- Define requirements for the new lease accounting solution
- Select new technology to support the future state process (if required)

**High**
- Develop new policy, processes and procedures
- Consolidate or implement new lease accounting systems / spreadsheets
- Create and populate a database of salient lease terms
- Validate and reconcile lease population
- Change management

**Transition**
- Prepare transitional financial statements and disclosures
- Train and transition to future state leasing process

How to get there...
Where to begin: Develop a structured approach

After identifying a project team, determine the best approach to achieve your objectives...

Centralized

**Advantages:**
- Supports consistency of data capture
- Controlled, easy-to-oversee
- Establish center of excellence
- Streamline timing of data

**Disadvantages:**
- May not be a viable go-forward model
- Challenges presented with leases in other languages
- Requires full-time project team

Considerations:
- Personnel & other resources
- Timeline
- Nature of operations
- Risks
- Current location/state of lease data

Decentralized

**Advantages:**
- Establishes a viable go-forward process
- Easier for individual BU reconciliations/processing
- Eliminates language challenges
- Obtain greater buy-in across the organization

**Disadvantages:**
- Requires extensive training and communication
- Difficult to ensure consistency of data capture
- Prolonged close process

Hybrid Approach

Outsource Lease Abstraction

Considerations:
- Personnel & other resources
- Timeline
- Nature of operations
- Risks
- Current location/state of lease data

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KPMG accounting transition methodology

Manageable phases

Assess
- Identify the complete lease population
- Understand the impacts and where gaps exist
- Systems review

Design
- Create a roadmap to connect the starting point to end goals, considering each end users’ needs
- Align priorities, resources, and timeline
- Identify efficiencies

Implement
- Execute the implementation plan and optimize sustainability

LEARN
“How’s out there?”
De-construct | Inquire Investigate | Learn | Analyze

DRAFT
“How do we get there?”
Think | Imagine | Plan | Map | Strategize | Connect

EXECUTE
“Let’s go!”
Initiate | Adjust | Perform | Reconcile | Advance
Assessment activities and timeline

Illustrative timeline for assessment

<table>
<thead>
<tr>
<th>Assessment Phase</th>
<th>Month 1</th>
<th>Month 2</th>
<th>Month 3</th>
<th>Months 4 - 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning &amp; Scoping</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting Policy &amp; Reporting Analysis</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Systems &amp; Process Analysis</td>
<td></td>
<td></td>
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<tr>
<td>Pilot Contract &amp; Embedded Lease Review</td>
<td></td>
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</tr>
<tr>
<td>Reporting &amp; Presentation of Findings</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Integrated Program Management

- Analyze Lease Portfolio(s)
- Develop project structure and plan
- Conduct Diagnostic Questionnaire
- Perform walk-throughs & inquiries
- Review lease reporting & policies
- Identify disclosure gaps
- Identify tax impacts
- Define lease life cycles including key activities and roles
- Identify process, systems, and key control impacts
- Review sample contracts
- Identify arrangements prone to embedded leases
- Perform transition analysis
- Finalize gap analysis and related process and system impacts
- Final Assessment Report

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Design activities and timeline

**Technology Design¹ or Define Requirements**
- Complete configuration and security workbooks
- Determine integration points and design integration plan
- Define business and system requirements
- Define data and integration requirements

**Policies, Disclosures, & Develop Training**
- Draft lease accounting policies
- Draft disclosures
- Design accounting training materials
- Design lease abstraction process

**Design Future Processes & Controls**
- Design process documentation & flowcharts
- Identify risks and design controls to address significant risks

**Create Roadmap to Implementation**
- Finalize transition analysis
- Create timeline to adopt new lease accounting standard
- Create system implementation plan

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**Integrated Program Management**

**Illustrative timeline Design**

<table>
<thead>
<tr>
<th>Design Phase</th>
<th>Month 6</th>
<th>Month 7</th>
<th>Month 8</th>
<th>Month 9</th>
<th>Month 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define System Requirements</td>
<td>![Define System Requirements progress bar]</td>
<td>![Define System Requirements progress bar]</td>
<td>![Define System Requirements progress bar]</td>
<td>![Define System Requirements progress bar]</td>
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<tr>
<td>Create Roadmap to Implementation</td>
<td>![Create Roadmap to Implementation progress bar]</td>
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</table>

¹ or Define Requirements

² w/o Tool

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Implementation activities and timeline

**Detailed Design**
- Design data integration and technical architecture
- Create software configuration design
- Design integration security protocols for lease accounting system, GL, etc.

**Construction & Configuration**
- User and roles setup
- Interface database and field mapping(s)
- Configure custom fields, reports, and hierarchy
- Integration Adapter(s) configuration
- Draft process and system(s) training documentation

**Quality Assurance & Testing**
- Execute lease accounting system test phases
- Data loads and manual lease abstraction
- Facilitate user acceptance testing
- Test effectiveness for transition accounting and new process controls
- Assess Deployment Readiness

**Training & Communication**
- Create process documentation & test manual, general IT & application controls
- Conduct training workshops
- Document implementation process & steps
- Facilitate organizational communications

**Deployment, Transition & Support**
- Auditor preparedness
- Generate financial reports & disclosures
- Obtain SOC report for lease accounting systems
- Ongoing review and reconciliation

### Illustrated timeline Implementation

<table>
<thead>
<tr>
<th>Implementation Phase</th>
<th>Month 8</th>
<th>Month 9</th>
<th>Month 10</th>
<th>Month 11+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed Design</td>
<td></td>
<td></td>
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<tr>
<td>Construction &amp; Config</td>
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</tr>
<tr>
<td>Quality Assurance &amp; Test</td>
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<tr>
<td>Training &amp; Communication</td>
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<td></td>
</tr>
<tr>
<td>Deployment, Transition &amp; Support</td>
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</tbody>
</table>

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Where lease accounting fits in a systems landscape
Taking A Holistic Approach

Surprising challenges and unexpected complications in implementing the new leasing standards

Broad impacts to accounting, operations, and business decisions, requiring significant cross-functional company effort

Opportunity to reevaluate processes and technology to increase value add to the business

1. Financial Reporting and Compliance
2. Process Improvement
3. Systems and Technology
4. Internal Controls
5. Transition Readiness
### Operationalizing the New Lease Standard

#### Accounting
- Impact of new lease standard and mapping to new rules
- New accounting policies – historical results and transition
- Reporting differences and disclosures

#### Data
- Define new data requirements
- Assess lease agreements in multiple, decentralized locations
- Assess data kept in spreadsheets and other manual or offline documents

#### Systems
- Assessing existing systems functionality
- Selecting new technology to support new requirements (if required)
- Inventorying of all leases across the organization

#### Process
- New processes to execute, account for and manage leases
- Make vs. Buy decisions
- Process for reconciling leases with AP and other admin systems

#### Controls
- Establish new controls for new systems and processes
- Establish centralized procedures
- New audit and regulatory focus

#### Other Org. Impacts
- Governance organization and changes
- Impact on internal resources
- Project management
- Training (accounting, sales, etc.)
- B/S Ratios and KPI’s
Lease Life Cycle

Overview: Leasing is a long-standing business process within organizations today, and all leases follow a standard lifecycle.

**PROCESS**

1. **Lease Origination**
   - Sourcing of a lease contract based on business need (Buy vs Lease decision made)

2. **Lease Contract Management**
   - Development of lease contract with project management tools, processes, and stage gates

3. **Lease Administration**
   - Signed contract details entered into system of record. Lease payment schedules created

4. **Lease Accounting**
   - Lease identification and classification; ROU asset and liability journal entries posted to General Ledger

5. **Reporting**
   - Financial reporting and account reconciliation between General Ledger and lease payment system

**ROLE/TEAM**

- Sourcing/Legal
- Project Management/Real Estate
- Lease Abstraction
- Lease Administration
- Lease Accounting
Lease Systems Landscape

**Systems & Data Across All Lease Portfolios**

- **Existing Lease Information** *(Excel, Abstraction)*
- **Lease Administration** *(System)*

**Manual Inputs**

- Renewal or extension terms
- Discount rates
- Flat file uploads

**Lease Accounting Tool**

- **Lease Tool Reports**
  - Detailed lease population
  - Management reports
  - Disclosure report

**Journal Entries** *(Automated or Manual)*

**ERP**

**Financial Reporting Tool**

Integrate with your current financial reporting systems *(ASC 842 & IFRS 16)*:

- Balance Sheet
- Income Statement
- Statement of Cash Flows
- Journal Entries

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Lease accounting software overview
# Lease Tool Selection Considerations

<table>
<thead>
<tr>
<th></th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Integration with existing ERP and other systems</td>
</tr>
<tr>
<td>2</td>
<td>Dual reporting capabilities</td>
</tr>
<tr>
<td>3</td>
<td>Foreign currency support</td>
</tr>
<tr>
<td>4</td>
<td>Disclosure requirements</td>
</tr>
<tr>
<td>5</td>
<td>Availability of lease administration</td>
</tr>
<tr>
<td>6</td>
<td>SaaS vs. On-Premise</td>
</tr>
<tr>
<td>7</td>
<td>Ability to provide support for ongoing updates (i.e. additional interpretive guidance, best practices)</td>
</tr>
<tr>
<td>8</td>
<td>Tracking and recording impairment of the ROU Asset</td>
</tr>
<tr>
<td>9</td>
<td>ASC 842 and IFRS 16 compliance</td>
</tr>
<tr>
<td>10</td>
<td>Ability to support management of multiple lease types</td>
</tr>
</tbody>
</table>
# Common Challenges of Implementing a Lease Accounting System

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Action to Mitigate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated Program Management</td>
<td>A central Project Management function is needed to manage the different groups/teams within the organization to work seamlessly together in implementing the new leasing standard.</td>
</tr>
<tr>
<td>Data Readiness</td>
<td>All source data issues (such as data gaps, poor data quality or improper data formatting) need to be fully remediated before lease data is migrated into the new lease accounting solution and system integrations are activated.</td>
</tr>
<tr>
<td>Financial Controls</td>
<td>All IT and Business controls need to be fully defined and tested prior to go-live.</td>
</tr>
<tr>
<td>Business Requirements</td>
<td>Business requirements covering all leasing business scenarios must be defined before configuration and testing of new lease accounting solution.</td>
</tr>
<tr>
<td>Communication and Training</td>
<td>Impacts of the leasing standard must be effectively communicated to all upstream and downstream business functions. Additionally, all impacted teams must be trained to handle new business processes developed to ensure compliance with the new standard.</td>
</tr>
</tbody>
</table>
Process & Controls
Lessee (and to some extent, lessor) accounting will require new significant judgments and reassessments at lease commencement and during the lease term, which will require changes in processes and internal controls.

Examples of areas where new or modified processes and controls need to be designed:
- Lease identification
- Capturing lease data
- Lease modifications
- Option reassessment
- Short term leases
- Operating lease ROU asset measurement method
- Financial and disclosure reporting

Key elements in designing your new accounting process and internal controls:
- Understanding of the process
- Identifying the risks
- Selecting, developing, and deploying control activities
- Identification and classification of management review controls, and
- Information produced by the entities
When documenting processes, a SIPOC can be a powerful tool to establish a common high level understanding of the core process within a cross-functional team. SIPOC stands for Supplier, Input, Process, Output, Customer

The SIPOC Process:

1) A SIPOC starts with a simple definition of the process.

2) The 4-6 key steps of the process are then expanded at the bottom of the SIPOC.

3) The main inputs and outputs of the process are then listed.

4) The suppliers of each input and the customers of each output are then identified.
Lessee Accounting Process and Controls

**PROCESS**

- **Start**
  - Identification and recognition of new leases
  - Subsequent accounting for leases
  - Validating completeness of the lease population
  - Quarterly and annual presentations and disclosures
  - Lease modifications and terminations
  - Lease reassessments
  - Identification and recognition of new leases

**CONTROLS**

- **C1**: AM reviews and approves contract analysis
- **C2**: AM reviews and approves identification of lease and non-lease components, allocation of consideration
- **C3**: LC reviews input of contractual lease terms from lease contract into LMS
- **C4**: LA reviews estimated inputs/assumptions and rationale prepared by LC
- **C5**: LA reviews estimated inputs/assumptions used to determine lease classification in LMS
- **C6**: AM reviews and approves initial recognition journal entries prepared by LA

**PEOPLE & SYSTEMS**

- **AM**: Accounting Manager
- **LC**: Lease Accountant
- **LA**: Lease Administrator
- **LMS**: Lease Management System
Managing Lease Data

Entities will need to completely and accurately capture the lease data necessary to prepare financial statement notes and provide expanded disclosures as required by the new lease accounting standard.

<table>
<thead>
<tr>
<th>Data Analysis</th>
<th>Gap Remediation</th>
<th>Abstraction</th>
<th>Migration / Validation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define current system landscape and identify data gaps</td>
<td>Develop remediation plan and bridge data gaps</td>
<td>Analyze lease population and develop abstraction strategy</td>
<td>Extract, stage, transform, load, and validate data</td>
</tr>
</tbody>
</table>

- Review system and data flows
- Understand each data source, data elements, attributes & availability, and data format and frequency considerations
- Generate metadata
- Plan for data retention, extraction and storage

- Data remediation approaches:
  - Business process development
  - Accounting method/policy elections
  - Standard/default value identification
  - Contract abstraction plan

- Analyze type and volume of contracts needing abstraction, categorized by level of effort and type
- Determine automatic or manual abstraction
- Develop data verification process

- Preparation (extract and stage)
- Execution (transformation)
- Finalization (load and validation)
An end-to-end data management approach ensures a comprehensive analysis of your data, setting up for timely adoption of ASC 842 & IFRS 16

1. Pre-developed ASC 842 & IFRS 16 logical data model
2. System extracts
3. Automated comparison using available tools
4. Data analysis
   - Data gaps
   - Format issues
   - Data quality
5. Determine data remediation approach
   - Business process development
   - Accounting method/policy elections
   - Standard/default value identification
   - Contract abstraction plan for SI
6. Aggregate & prepare data
   - Data cleansing
   - Data enrichment
   - Data validation
   - Data migration

Advanced Data Analytic tools such as:
- Alteryx
- MS Access

Feedback from:
- Technical Accounting
- Lease Administration
- Lease Accounting
Lease Abstraction

Develop strategies to abstract data from lease contracts when data is systematically unavailable. Data abstraction analysis includes the following key steps:

— **Scoping:**
  — Analyze the type and volume of contracts that are required for data abstraction, categorize contracts by level of effort and type
  — Analyze each lease portfolio to fulfil data requirements using business rules, default values, and calculated fields (*with the intent of reducing or eliminating data abstraction*)

— **Mechanism:**
  — For data elements that must be abstracted:
    — Evaluate any automation mechanisms (ex. OCR) to abstract data automatically
    — For manual abstraction, determine the volume of data and resource requirements.

— **Verification:**
  — Develop a data verification process to ensure that abstracted data meets data quality parameters. This will require collaborating with key SMEs to develop data validation processes for each lease portfolio
Data Migration - Extract, Stage, Transform

Data migration strategy will focus on the following key areas:

Preparation (extract and stage)
— Confirm target data model on the software solution
— Complete source to target mapping exercises between source systems and the new lease accounting solution (once solution is selected)
  - Determine data transformation requirements to ensure source data elements meet system specifications
  - Identify formatting discrepancies or unexpected data gaps and develop action items to remediate issues
— Stage and validate source data
— Prepare and execute overall data validation queries to ensure quality and completeness
  - Run reports on historical data to provide additional checks on data reliability particularly for older data from legacy systems or archives
— Run existing internal controls related to data validation and documentation
— Determine data integration mechanism (file transfer, direct database transfer/replication or other)

Execution (transformation)
— Identify, implement, and unit test all requirements to transform source data
Data Migration - Load and Validate

Data migration strategy will focus on the following key areas:

Finalization (load and validate)

— Pilot data load and processing of lease contracts through the solution for each lease type, and each transaction type

— Run reports to produce results for review by Finance, Accounting, and IT SMEs and make necessary changes/enhancements

— Perform interim reviews with Finance and Accounting SMEs throughout the data migration process to correct data load errors and monitor overall execution

— Validate migration results and Procure sign-off from the client
Change management & operational readiness
Prepare all stakeholders and business users for the new Lease Standard

- **Training by Geography:**
  - Develop customized GAAP and IFRS training materials for countries in all regions
  - Develop and conduct separate training sessions for each country/region for new business process adoption

- **Operational procedures:**
  - Create plan to deliver operational procedures - by country/region, by lease accounting impact
  - Create/revise the operational procedures and process flows to be executed for ASC 842 compliance
  - Review operational procedures with Technical Accounting, Functional SMEs and Business Units
  - Complete transition of operational procedures to Business Leads
  - Work with Business Leads to guide the institutionalization of these procedures
  - Monitor execution of operational procedures during soft Go-Live period and modify if needed

- **Change Management activities:**
  - Create a Change Communication strategy and plan for different audiences (roles and geographies), to ensure the successful adoption of ASC 842 operational procedures
  - Create the communications per the plan and review with appointed Business Leads
  - Work with Business Leads to communicate the plan and answer follow-up questions
Thank you
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