

A Starter Guide to System Compliance under the New Lease Accounting Rules

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April, 2011 World Leasing News

With the onset of the proposed lease accounting changes, the last few months in the leasing industry has been a whirlwind. The voluminous amount of opinions and analysis, coupled with the seemingly daily changes to the standards proposed in the exposure draft has caused businesses to struggle to figure out what the changes will really mean to their business and how to prepare to comply with the accounting changes.

The initial proposed changes went well beyond the simple capitalization of operating leases on a lessee's books. The exposure draft laid the framework for wholesale changes to the industry which brought into question leasing system capabilities, business processes, and most importantly, the leasing industry's ability to remain a viable financial product. Fortunately, the standard setters have taken note of many of the objections identified in the over 700 responses to the exposure draft and have dropped some of the more complex attributes making the changes more reasonable and in-line with the true economics of a lease. Needless to say, through all the discussions and analysis one thing remains clear, the standards committee is committed to publishing new lease accounting guidelines. So then the questions become, "What do the changes mean, how do they affect me, and what do I need to do to prepare for them?"

In a recent study by Deloitte & Touche, almost 80% of respondents said they were not confident in the capability of their companies' information technology provider to comply with the new accounting regulations. The amount of uncertainty regarding system compliance is alarming. The good news is by proactively engaging with your technology solution provider you should be able to assess their ability to comply with the lease accounting changes. In this article, I will discuss the basic steps needed to proactively begin the evaluation process.

The first, and most important step, is to open a line of communication with your technology solution provider. As part of your initial inquiry, you should focus on: your provider's timeline for delivering software that is compliant with the new accounting guidelines, the transition plan to convert to the new software, the costs associated with the conversion and how the solution provider will educate and train employees on the accounting changes. These details should provide you with an understanding of their

overall project plan, which will help you gauge your confidence and comfort level with their approach. At this stage, the critical piece of information is to identify when your solution provider plans to release a compliant product. You will need this information in order to factor software conversion into your overall compliance strategy. Not planning for this component, could result in costly delays.

Next, it's important to assess how the lease accounting changes will impact your entire enterprise so you can develop a sound project plan to comply with the accounting changes. The lease accounting changes will have impacts well beyond accounting entries. Therefore, you'll need to gain an understanding of how your various business processes and practices will be impacted. Areas such as sales, credit adjudication and reporting requirements are all ripe for review. This step is critical as it will put you in a good position to, not only develop a sound project plan to comply with the accounting changes, but also to arm you with information so you can effectively collaborate with your technology solution provider. It is important that your technology solution provider looks beyond just the accounting entries and develops functionality that takes into account the overall changes in your business processes. You may choose to simply communicate your requirements to your technology solution provider or you can take a more active role by participating in a user/advisory group. No matter your level of involvement in the development process with your technology solution provider, it is critical that you and your solution provider communicate regarding the desired functionality needed. Ultimately, this line of communication is what will ensure you are transitioning to a product that accommodates the lease accounting change needs of your entire enterprise.

Once you've opened up communication with your technology solution provider and you're comfortable with the functionality they plan to build for the accounting changes, the next step is putting together an action plan for transitioning to the new software. The final accounting change requirements and the compliance deadline is still being finalized, but the most recent information cites January 1, 2015 as a potential deadline for compliance. The biggest mistake companies will make is viewing this project as something that can be addressed in the future. Depending upon the number of comparative periods you are required to report and the possibility of complete retrospective transition reporting, the transactions you are booking today could be impacted by the new accounting standards. Therefore, as the new accounting

guidance and transition plan becomes more defined, it is important to assess the new reporting requirements and work with your solution provider to ensure that the appropriate data is being captured today in order to promote a smooth transition to the new accounting standards.

The final step is to keep your eye on the ball! It is important to keep informed of the progress your solution provider is making towards compliance. You should ask your solution provider for regular updates. This communication can take on several different forms: articles, newsletters, webinars, conferences, etc. While your solution provider should be accountable for providing regular updates, you must be diligent in reviewing the progress to ensure that the project is on track and continues to be aligned with your internal timelines.

After completing these basic steps, you should have a good idea as to whether you can rely on your solution provider to comply with the new lease accounting guidelines. You do not want to be one of the 80% that is not confident in their solution provider's ability to comply with lease accounting changes. If you take action now, you can be one of the 20% who has shifted their focus from accounting regulations and compliance to more important endeavors, such as growing your business.

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