SAP REAL ESTATE MANAGEMENT (RE-FX)

New Leasing Standards at a Glance
Peter Tabone – Principal Consultant
Vesta Partners is a global professional services firm focused on SAP EAM solutions for customers in asset intensive industries.
Vesta Partners has deep domain experience in asset intensive industries:

- CPG
- Energy & Utilities
- Facilities
- Life Sciences
- Mining
- Oil & Gas
- Transportation
WHY INTRODUCE NEW LEASE ACCOUNTING STANDARDS?

Creating a New, Global Converged Standard

In the aftermath of Enron and WorldCom’s collapse in 2001/2002, the U.S. Securities and Exchange Commission’s (SEC) began investigating their off-balance sheet transactions, and they discovered a loophole with operating leases. The SEC asked the Financial Accounting Standards Board (FASB) to work with the International Accounting Standards Board (IASB) to develop a new standard that would provide transparency on companies’ lease assets and liabilities.

Started as a joint project, IASB and FASB each published their own standards on January 13, 2016 and February 25, 2016, respectively:

- IASB’s IFRS 16 leasing standard is mandatory from January 01, 2019

- FASB’s US GAAP ASC-842 is mandatory from the fiscal year after December 15, 2018

Both standards mandate that real property and equipment leases must be recorded on balance sheet
NEW LEASE ACCOUNTING STANDARDS USHER IN A NEW ERA

US GAAP ASC-842 & IFRS 16

- Impacts every organization that leases real property and/or equipment.
- Standards impact both public and private companies.
  - Public Companies – mandatory from 01/2019 onwards
  - Private Companies – mandatory from 01/2020 onwards
SAP has developed an integrated solution (RE-FX-LA) that simplifies compliance with US GAAP ASC-842 and IFRS 16 lease accounting standards.

<table>
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<tr>
<th>Leasing</th>
<th>Property (non-movables)</th>
<th>Other Than Property (equipment, movables)</th>
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<td><strong>Lessor</strong></td>
<td><strong>1</strong></td>
<td><strong>2</strong> SAP Leasing</td>
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<td>SAP Real Estate Management (enhanced for IFRS 16 and US GAAP ASC 842)</td>
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<td><strong>Lessee</strong> (Biggest impact of IFRS 16 US GAAP ASC 842)</td>
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<td><strong>4</strong> SAP Lease Administration by Nakisa</td>
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INTEGRATED LEASING SCENARIO FOR REAL PROPERTY MANAGEMENT

- Different lease types
- Leasing partners
- Subject of agreement: cost center, property, agreements ...
- Terms and conditions for notice and renewal options (validity)
- Lease payment cash flow with full integration
- Critical dates and reminders
- Documents management

Classification and evaluation rules
- Calculate and report of Net Present Value, Depreciation, Repayment and Interest
- Change management / re-valuation
- Support transition scenarios
- Create / link to Fixed Assets

Multi-GAAP enabling (US GAAP ASC-842, IFRS 16)
- Manage Right-of-Use assets and liabilities
- Customer / Vendor accounting
- Post depreciation and repayments
- Lease payments
- Controlling and Profit Center Accounting

Vesta can leverage our deep domain experience in asset intensive industries, including geographical enablement (SAP Geo Framework), to help customers become compliant with the new leasing standards.

**Prepare & Plan**
- Setup internal project
- Analyze & plan IT landscape
- Define business process & change management roadmap

**Implement Business Processes, Systems, & Controls**
- Upgrade SAP Systems
- SAP Lease Contract Management* installation & initial configuration
- SAP Lease Contract Management* customer-specific enhancements
- Analyze and (re-) design business processes impacted
- Implement changes (Change Management)

**Capture & Manage leases & Analyze Impact**
- Capture, create and manage relevant leases
- Analyze leases
- Estimate balance sheet impact

**US GAAP ASC 842 IFRS16 Go-live**
- Go-live with IFRS 16 and US GAAP ASC 842

*SAP Lease Contract Management Refers to functionality to handle lease-ins within SAP RE-FX in conjunction with SAP FI, SAP FI-AA.
WHAT IS INVOLVED?

Property leases must be reported on balance sheets as assets or liabilities. This means that leases need to be capitalized.

Signed lease (obligation to pay rent) = *Lease Liability*

Asset (ability to use space in a building) = *Right-of-Use (RoU) Asset*

Options for Organizations

- Implement RE-FX functionality [includes RE-FX contract]
- Implement RE-FX contract only [New Option]
BASIC STEPS INVOLVED IN CREATING A CONTRACT

1. Create a new lease agreement (contract)
2. Valuate the lease
3. Post lease payments and valuation
4. Revaluate contract following a CPI adjustment or contract change
UNDERSTAND IMPACT OF NEW GUIDELINES

SAP CUSTOMERS

Gain an Understanding of the New Guidelines

GOAL IS TO MINIMIZE THE IMPACT ON THE BALANCE SHEET

1. Capitalization term - lease term, renewal and cancelation options
2. Expenses to be capitalized
3. Discount rate (for calculating Present Value and Interest on lease liability)
4. Deductions that are allowed
5. Landlord allowances (TI, etc.)
6. Initial direct costs (payments to 3rd parties, etc.)
7. Impairment of Right of Use asset (reduced value in books, decide to sublease)

CONDITION VALUATION PROPERTIES

MEASUREMENT OF THE LEASING LIABILITY
A = Lease Installment
E = Remaining value guarantee
D = Cash Surrender Value
S = Penalty Payment
I = Incentive
V = Subletting

MEASUREMENT OF THE RIGHT-OF-USE
B = Initial Costs
R = Asset Retirement Obligation
G = Extraordinary Depreciation

OFF BALANCE-SHEET ACCOUNTING
U = Transfer Posting or Linearization

TRANSITION APPROACH
C = Present Value Specified
F = Net Worth Value Specified

NOT TO CONSIDER
X = Miscellaneous
PARTNER AND VALUATION CASH FLOWS

Revaluate after contract’s annual CPI or percentage adjustments, as well as any other change to the contract’s cash flow.

Financial and Fixed Assets Postings
REAL ESTATE LIFE-CYCLE

Optimize → Acquire → Build → Operate → Dispose

Plan & Optimize  Investment Idea  Acquisition  Construct & Refurbish  Real Estate Operations  Facility & Service Mgmt  Disposition

PPM  IM  RE-FX  RE-FX  RE-FX  PM  RE-FX

New Lease Accounting Standards
