

IMPACT OF PROPOSED LEASE ACCOUNTING CHANGES

Proposed changes to current lease accounting standards could greatly impact businesses that are unprepared for the transformation. In December of 2011, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) will re-issue an Exposure Draft that will radically alter the present lease accounting model. If accepted, these changes could be effective as early as 2015 if issued by mid-2012. Some of the most significant proposed modifications include:

Elimination of off-balance sheet accounting for leases.

Virtually all leases currently accounted for as operating leases will be brought onto the balance sheet as right-of-use assets with a corresponding liability to recognize the obligation to pay rents.

Recognition of straight-line rent will be replaced by interest expense, plus amortization of the lease asset.

The impact of this change will be that the expense of the lease will be front-end loaded (similar to a mortgage) and have a negative impact on earnings in the early years of the lease, relative to current accounting treatment.

Calculation of new asset and liability.

The new lease assets and liabilities will be recognized based on the present value of the payments which will be made over the life of the lease. Renewal options are only included if the lessee has a significant economic incentive to exercise.

Amortization of asset and liability.

The right-of-use asset will be amortized on a straight-line basis and the lease obligation will be decreased utilizing the effective interest method if the liability meets proper classification.

IMPACTED STAKEHOLDERS

ACCOUNTING/FINANCIAL REPORTING

Significant changes in identifying the restated financial statement impact as well as the ongoing changes from straight-line rent expense to the new right-of-use concept.

CORPORATE REAL ESTATE

Real estate will require systems and procedures to effectively manage and control the information. All information will need to be identified and abstracted into a database.

TREASURY

Impact on debt covenants may be significant and the proposed standard may change the scorecard by which ratings, agencies and lenders evaluate your company.

OPERATIONS

Companies may consider purchasing real estate vs. leasing real estate due to the loss of off-balance sheet accounting

HUMAN RESOURCES

Will acceleration of interest expense create a negative P&L impact, which impacts compensation agreements?

INFORMATION SYSTEMS

As the demand for information to support the new accounting rules increases, efficiencies will be derived from having a database system in place to efficiently process ongoing entries as well as changes in assumptions which impact the financial statements. IT will be involved in analyzing new systems.

Does your company have data available for the new lease accounting entries?

- Are all of your company's leases abstracted into a database which can be used to analyze the impact of the proposed lease accounting rules?
- Have you identified all contingent rental payments from the individual leases?
- Has your company identified the systems and processes which will be utilized to keep this information current?
- Are systems in place to provide information for required disclosures?

Does your company have processes in place to update information?

- Has your company reviewed how information flows today and will the current system be sufficient for the future?
- Do you have the necessary expertise in-house to address this issue?
- Have you considered using an outside partner to assist with this evaluation and ongoing implementation of the program?

CASE COMMERCIAL LEASE ADMINISTRATION SERVICES / TCN WORLDWIDE

CASE Commercial Lease Administration Services is a woman-owned entity of CASE Commercial Real Estate Partners and the preferred lease administration providers of the TCN Worldwide -- a network comprised of over 1,200 brokers and salespeople in over 200 markets worldwide.

CASE Commercial Lease Administration Services has assisted companies with database analysis, data abstraction and ongoing maintenance of companies' real estate assets. There will be many stakeholders impacted by the transition to the new accounting standard. Let the CASE experts assist you with this challenge and ensure a smooth transition by providing accurate information to all parties and enhancing reporting processes and procedures in the same step.

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