<table>
<thead>
<tr>
<th>Objectives</th>
<th>Solution</th>
<th>Next Steps</th>
<th>Quick Facts</th>
</tr>
</thead>
</table>

**IFRS Leasing with SAP Real Estate Management**
New lease accounting regulations

The Financial Accounting Standards Board (FASB) and the international Accounting Standards Board (IASB) recently announced the converged standards on how organizations should account for leases. With these new standards, most leases will have to be reported on each company’s balance sheet.

The Financial Accounting Standards Board (FASB) and the international Accounting Standards Board (IASB) recently announced the release of new accounting standards that define how organizations must account for leases. The release of these new leasing standards is more than just an accounting change. It is an event that will have profound implications on lease/buy decisions, internal process coordination and financial reporting. Companies need to think about new processes, new systems, and new controls. The spreadsheets that many companies use track and calculate lease payments are no longer sufficient as they do not:

- Allow the close collaboration of information between the lease administrator, lease accountant and fixed asset accountant
- Provide adequate controls to ensure accurate calculations
- Automate the complicated financial postings that must be made to comply with the new standards
- Provide a mechanism to calculate multiple GAAP versions from the same abstracted lease data
Objectives

Essentially, these accounting standards stipulate most leases must be reported on each company’s balance sheet, increasing the risk of regulatory noncompliance and inaccurate statutory reporting. SAP Real Estate Management is used to optimize the portfolio of global assets and supports the regulatory compliance of these new accounting rules. This solution provides a single point of entry for collection, validation of lease contract data, performs valuation calculations and generates the financial postings derived from these calculations.

Next Steps

Quick Facts

Most companies rely primarily on spreadsheets to track leasing data …

| Manage lease agreements and related accounting in a decentralized manner. | 39% |
| Spread sheet tracking | 68% |

68% Spread sheet tracking

39% Manage lease agreements and related accounting in a decentralized manner.

Lease Accounting Survey | PwC/CBRE 2016
Managing your full lease contract lifecycle efficiently

The new leasing standards represent more than accounting changes. They force the adoption of new business processes and with any business or process change, there’s going to be some level of impact on systems and technology. SAP Real Estate Management enables close collaboration between the lease administrator, lease accountant and fixed asset accountant. They access the same lease record, with all calculations being based on the terms and conditions of the abstracted lease.

The lease transaction in SAP Real Estate Management provides separate authorizations to ensure a clear separation of duties. In addition to capturing contract terms and conditions, SAP Real Estate Management is specifically designed to support real estate leasing processes such as managing critical dates, exercising renewal options, early terminations, rent escalations, sales based rent, common area maintenance and service charge settlement. Lease administrators can attach all leasing documents to the SAP Lease Contact as well as store notes and generated correspondence.

The highly flexible and extendable forms collect industry- or business-specific attributes and enables users to stay ahead of the game. Periodic posting runs automatically generate all lease payments based on the terms of the current lease agreement with real-time integration into SAP Financials.
SAP Real Estate Management

Lease Portfolio
Lease Administration
Lease Review
Asset Classification
Asset Valuation
Reporting
Payment Generation
Lease Administrator

Statutory Reporting
General Ledger (Multi-GAAP Accounting)
Account Based
Parallel Ledger
FA
AP
CO

Figure: SAP Real Estate Management is fully integrated in SAP Finance and enables effective collaboration
The solution also provides lease accountants the ability to evaluate the financial impact of each lease and ultimately generates all valuation postings required by the new leasing standards. The systems calculates the present value of the lease, automatically creates the right of use asset and the corresponding liability.

Every month, the application will depreciate the right of use asset, generate the payments to the landlord and calculate the interest portion of the payment. If you have a change in the contract value due to a CPI increase, not to worry, the application will automatically revaluate the lease, post the incremental difference and track all the calculated and posted values for each period.

SAP Real Estate Management even manages the postings for multiple lease accounting standards simultaneously, regardless if the general ledger account or parallel ledger methodology is utilized.

This solution is part of SAP Finance and is completely integrated, helping avoid the kind of costly disruptions that can derail critical business processes, operations and costly noncompliance events. Because reporting and analysis is critical to compliance, accountants can run simulation and posting reports to evaluate the impact of each accounting standard on both the individual lease or for the entire lease portfolio.

The pervasive impact of these rules requires companies to transform their business processes in many areas, including finance and accounting, IT, procurement, tax, treasury, legal, operations, corporate real estate and HR.
Comply today and save costs tomorrow

The effective date of IFRS 16 Leases is 1 January 2019 but early adoption is possible. Whether you choose to be an early adopter or comply by the deadlines, there are certain things you can do today to prepare for these new leasing standard. Actions such as:

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Solution</th>
<th>Next Steps</th>
<th>Quick Facts</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you are an SAP Real Estate Management customers, implement the new leasing enhancements as soon as possible to begin evaluating the impacts to your financial statements. Even if you do not intend to be an early adopter, the loading of the leases and analyzing the results will pay big dividends in the future.</td>
<td>If you use SAP Financials, you can quickly implement SAP Real Estate Management for real property leasing to give you a fully integrated leasing solution. SAP currently has and will roll out new accelerators helping customers to quickly implement a leasing solution.</td>
<td>Once SAP Real Estate Management has been implemented, begin abstracting existing lease agreements to ensure the lease terms and conditions you have abstracted are correct. For most organizations, this will be the most time consuming portion of the lease compliance project. All calculations are dependent on accurate lease information. Any inaccuracy in probable end dates and payment amounts for example, will have an impact on the posted valuations.</td>
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</tr>
</tbody>
</table>
Summary
The Financial Accounting Standards Board (FASB) and the international Accounting Standards Board (IASB) recently announced the release of new accounting standards that define how organizations must account for leases. Essentially, these accounting standards stipulate most leases must be reported on each company's balance sheet, increasing the risk of regulatory noncompliance and inaccurate statutory reporting. SAP Real Estate Management is used to optimize the portfolio of global assets and supports the regulatory compliance of these new accounting rules. This solution provides a single point of entry for collection, validation of lease contract data, performs valuation calculations and generates the financial postings derived from these calculations.

New Objectives
• Prepare for new accounting standards and adopt the right tools for reporting compliance
• Consolidate all lease contract data into a single repository
• Obtain required legal, financial, and business validations quickly and efficiently
• Gain visibility into lease exposure for better strategic planning and decision making

Solution
• Centralized information management for all lease contracts
• Calculations and financial postings based on abstracted lease data
• Highly flexible and extendable forms to collect industry- or business-specific attributes
• Collaboration throughout the data collection process

Benefits
• Streamlined, more cost-effective compliance
• Greater visibility into lease data company-wide
• Improved decision making
• Reduced business and financial risks
• Improved bottom line with better control