

PWC SURVEY HIGHLIGHTS READINESS FOR NEW LEASE ACCOUNTING

In February, 2011 Price Waterhouse Coopers (PWC) conducted a survey on the impact of GAAP and IFRS convergence, with a specific segment of the survey dedicated to the proposed changes to the standard for accounting for leases. With the scheduled release of the final standard in the second quarter of 2011, it is interesting how many businesses have not begun the process of evaluating or preparing for the impact of the changes. A few of the highlights of the survey are outlined below:

Highlights of PWC Survey on Impact of Proposed Changes to Lease Accounting

- 1,400 Respondents
- 62% >than \$1.0B in Revenue
- 65% expect “High Level of Impact” on organization
- 63% expect to need additional resources
- 60% have not completed even a high level assessment or analysis
- 64% do not have a centralized system to track leases
- 60% are using a spreadsheet or manual system
- 9% have calculated an estimate of Lease obligations at the effective date
- 10% have educated most of the stakeholders outside finance
- 47% have performed a preliminary Lease inventory

While approximately two-thirds of respondents expect a high level of impact and will need additional resources for compliance and analysis, less than half have even performed a preliminary inventory of their leases. Only 10% have begun the process of analysis and education of the various stakeholders making leasing decisions in their organization.

There is still an element of “hopeful neglect” among many business leaders that these changes may be delayed, or may not even occur. However, the processes and information that would be necessary for compliance are also beneficial from an overall management standpoint. The preliminary exercise of assessment has pointed many businesses to focus on the fact that they are managing hundreds of millions of dollars in annual spending without functional systems. Sixty percent (60%) of respondents said that they were currently managing their leases with Excel spreadsheets! Since over 60% of respondents were multi-billion dollar companies, that should be a frightening revelation to any CFO.

A complementary question to the issue of systems is the location of the lease information. Only 36% of respondents said the information is in a central location. With the new standard having a significant impact on Profit & Loss and Balance Sheets from quarter to quarter, centralization of the information will be a critical component of compliance and strategic planning.

The uncertainty of the elements or timing of a final standard supports a measured approach to immediately committing resources to assess and analyze the potential impact. However, the base assessment of readiness and gathering of information will be critical not just to compliance, but also to planning and executing the best strategy for an individual business under the new rules.

Jackson Cross Partners’ Advisory Group has developed a Readiness Assessment as well as Analytical Modeling for corporate clients to begin the process of locating and building lease inventory, assessing information gaps and analyzing the financial impacts under various scenarios. JCP also specializes in office/industrial brokerage, property management, multi-family investment sales, as well as, advisory services.

PWC SURVEY HIGHLIGHTS READINESS FOR NEW LEASE ACCOUNTING

For More Information, Contact:

Louis J. Battagliese, Jr. SIOR

ljb@jacksoncross.com

Catherine S. Sennett, Esq.

cseneett@jacksoncross.com

David B. Dilworth, Esq.

ddilworth@jacksoncross.com