WALKING THE FASB RED CARPET

AN INTERVIEW WITH CARGILL'S JON MCWILLIAMS AND AIMEE BRESZEE

With most projects, the success is measured by the opinions of the different stakeholders often yielding different or skewed results. However, throughout Cargill's Lease Accounting Implementation Project, the ongoing partnership and collaboration of all parties and stakeholders involved has created a unanimous opinion, that their project was without a doubt, a huge success.

To show their appreciation for hard work, determination, ongoing collaboration, and willingness to share knowledge and expertise, the Cargill Project Sponsors put on a Virtual Red Carpet Event : "***Cargill's New Lease Accounting Oscar Party".***

After the virtual red carpet event, Jackson Cross asked the Cargill Project Sponsors to participate in an interview that highlights the journey of this "award winning" project at a very high level.

Jon McWilliams: Cargill's Technical Accounting COE team- 24 years in Standards and Policies

Aimee Brezee: Cargill's Dir. of Technical Accounting- 10 years in Global Accounting Policies

Lou Battagliese: JCP Founding Partner - 36 years in Commercial Real Estate Practices

Zach Forrest: JCP Sr. Dir. of Client Services - Five years in Lease Accounting Implementation

TOPICS COVERED:

Getting Started   -   Resourcing (Internal & External)

Lease Discovery & Document Collection   -   Non Contract Data

Accounting Policy   -   Best Practice/Advice For Public & Private Companies

Zach Forrest   Jon McWilliams   Aimee Breszee   Lou Battagliese

Lou Battagliese, JCP (LB): Being such a large private company and given the complexity of the organization and decentralized culture, when your folks were starting this project, what was going through your head from the standpoint of what's realistic and how are we going to do this with the company environment and culture?

Jon McWilliams (JM): The first thing that came to mind as you ask the question, Lou, I have to think about it in the mindset of where we were three, four years ago. And a big part of it is, I don't know we knew how big this was going to be. It was one of those things that, as we went through it, we learned a lot and started to understand how big of an effort this was going to be to bring this system up and get the data loaded into the system. But when I think back to where we were and when we started talking about the complexity of Cargill, we have seventy different business groups across seventy different countries, which created a large matrix of possibilities of where we may have had leases. The challenge was that we didn't have a system in place at that point of time that could identify or

JM (con't): collect all of those leases. One of the first conversations we had was whether or not we had a centralized payables system where we can identify lease payments. We didn't have that either. So we didn't have the system, and we didn't have any great way to track where our leases were and how much we were paying for those leases. We were so decentralized. I recall when we identified Jackson Cross as one of our leading partners for the project, and one of the first meetings we had together, Jackson Cross orchestrated a guessing game amongst the Project Team as to how many leases we thought we truly had. With internal guesses ranging from 5,000 to 80,000 – it confirmed we were a ways away from our compliance goal.

Aimee Breszee (AB): I'm thinking along the lines of what Jon said. We are just a large, decentralized company, working towards putting in centralized processes, data and systems. Part of the reason why we didn't know our lease population and we couldn't get it out of our payable systems is we have **over thirty-five different ERP systems at Cargill**, and all of our separate businesses separately governed their lease data. We have not centrally governed our data at Cargill historically

AB (con't) but, we are moving towards more of a centralized model. It was nice with this project that we established that model from the beginning and along with help from our partners, we built the process in a way in which we will continue to be able to maintain that. Knowing we had hundreds of people involved across the globe in just identifying and gathering the initial lease population and documents, Jackson Cross helped us create the Discovery Projects to engage with and question the different points of contact on their lease populations.

LB: it was fascinating to see as an outsider all the variability and diversity in Cargill's day-to-day business activities. So much of the business is built on transactional and commodity-driven activities that vary by the hour. As a result, when we got to talking about Leases, it was apparent Leasing was a cultural occupancy decision that people with authority simply decided to do as a normal activity, with little to no focus on managing it. Understandably, the focus was on managing the day-to-day business activities.

Zach Forrest, JCP (ZF): With that said, going in to this project, with a highly decentralized environment, no visibility to leases, how did you even begin to plan for internal and external resources that could handle this?

AB: Great question. We knew we were certainly going to need help from a third party. A third-party vendor who would not just bring a skill set like abstraction, but rather a partner who would bring a strategic plan, help figure out the complexity of our organization, a plan to identify leases, collect documents, abstract the data, validate the data – the full end to end process solution. We have had previous projects at Cargill

AB (con't): where internal people had experience working with the global contacts and so we figured we would want those individuals to be part of the team as well, if available. We've also had previous efforts to find our locations in which we operate from and so those individuals were also on our radar to add to the team... While we are decentralized, we do have a very strong network of finance people, and while other companies may have driven this lease accounting project through their sourcing functions or businesses, we decided to drive it more through finance. Jon and I sit in the finance function and we have strong connections and networks there. We know they understand what a finance compliance project means and that helped us drive this forward with a good amount of success.

LB: One of the things that was most impressive to us, was the sponsorship you had from an organization hierarchical standpoint. Can you touch on the importance of having buy-in from the highest levels?

AB: There was definitely a strong sponsorship all the way up through finance, from the Corporate Controllers, through the CFO. They really helped set the tone for making sure other functions within the organization were aware of the compliance requirement and that finance was going to need help from other functions as well.

> **"** **AS MORE PEOPLE GOT INVOLVED AND LEARNED OF THE PROGRESSION OF THE PROJECT, WE STARTED TO SEE FOLKS GETTING EXCITED ABOUT SOME OF THE VALUE CREATION OPPORTUNITIES GOING FORWARD.**

JM: You know, Aimee, one of the other things I was thinking about in addition to what you mentioned above, was the fact that you held regular stakeholder meetings throughout the project to keep them informed of the Project's progression. We realized that in addition to those working on the project, there was a broader network of stakeholders that may not have been responsible for helping get the data together, but were impacted by the results of the project. This thing really was much larger than an accounting exercise and a much broader effort than just data findings.

LB: One of the areas that was unique on this project was in the discovery and document collection. Creating this interface with fax machines with Cargill's Boomi through to JCP's MCS Relativity where Cargill people across the globe could literally go to a fax machine and send lease documents through to the central Cargill Team and JCP. We didn't have to send people out in the field to do all of this discovery, and collection. This was unique for us to see in a project. Can you expand on how we did that?

AB: Some of it was invented on the fly. Some of it we used before in our service centers. How we get documents is a challenge for us. Most of our documents reside at the plant level, all around the world. But we have six service centers around the world, and how do we get those documents into those service centers and auto-process those, was the question for us. Leveraging some of that technology that we use to get documents from our plant level into our service center is somewhat how we came up with that solution.

LB: Jon, what were some of the biggest surprises on the discovery of leases that when we found or saw specific things, you said "Jeez, I didn't know that"?

JM: Lou, that was an everyday thing. One of the things early in the process that you and I talked about on one of JCP's other projects, and a piece of advice you gave to us, was that you can't go about this discovery and collection of information by doing it for everybody across the organization at the same time. You really need to break this up into pieces. When we started the Discovery, you advised us to stratify our businesses. We broke out our businesses within countries, making up a matrix of roughly 270 different combinations of a business group – country ("BGC"), across 5 different waves. Our Pilot Group consisted of countries that had an IFRS compliance deadline sooner than those following US GAAP. By the time we got to Wave 5 countries, we had a pretty well-oiled process. This helped from a communication and training standpoint across the organization as well.

ZF: Aimee, you mentioned roughly 35 different ERPs, and as you know, what comes with that is what we refer to as "Non-Contract Data". Many companies starting this Lease Accounting project think of it as a simple abstraction project where you get the data from the leases, the accounting teams can use that information to come up with their beginning balances for Right of Use Asset and Lease Liability. However, we brought this up early in the project as being an equally important data collection point to abstracted data. Can you touch on the difficulty of collecting this information in parallel to the lease document data?

Aimee Breszee: Like you said, Zach – given all the different systems in the different countries and different businesses that we operate in, created a lot of different elements of finance. Getting the contract and abstracting the critical data points only made up about 70% of what is needed for lease compliance. The remaining 30% was outside the contract in finance master data. And then there were things like accounting assumption data points, like discount rate and likely lease term. All of those data points came from outside the contract. We had to develop robust processes to collect that data, validate it, and get it loaded to TRIRIGA. This finance master data was critically important so when we would send journal entries to the respective ERPs, they went where they were supposed to go. As you know, we collected these data points through what we called our Non-Contract Data Form and our Accounting Policy Questionnaire. We required these submissions to your team along with the lease documents. Building the templates and having processes to review and validate that information was also important.

Zach Forrest: The other thing we did quite a bit down the stretch, as we got closer to Go-Live, and realized the incompleteness of the Non-Contract Data was strategically segregate the critical data points from those not as critical from a compliance perspective. We created a lot of business rules to simply get all leases loaded, knowing we had an element of clean-up after Go-Live for those leases where business rules were utilized. We did this for Real Estate, Non-Real Estate, and Embedded Leases. Can you comment on the strategy around this topic?

Jon McWilliams: You know, Zach – I was thinking about all the decisions we made on the fly from a practical outcome and practical expedient standpoint. Some of the decisions we had to make from a practical standpoint to get the data loaded to the system. We knew, and Aimee mentioned this many times, our realistic goal was to not have everything in the system 100% complete and accurate, because we would never get across the finish line, on time.

> " **Our goal was to get as close to 90-95% completeness and accuracy knowing that we would have clean-up afterwards**

AB: Some of the other things we did on our lease population and creating practical rules were around Evergreen leases for our Non-Real Estate. We decided we would not continue to renew those and that those were generally short-term leases. If we had Evergreen Real Estate leases, we assumed a two-year renewal term so that would buy us enough time in the system to make a decision. Some of these Project Team decisions helped us move forward faster, rather than going back to all the businesses for everything.

Lou Battagliese: Aimee, we talked about Non-Contract Data, and a little bit about the Accounting Policy Questionnaire...as you know, our teams have worked to build a solid process around lease change management from a document standpoint, using a mechanism for document delivery and Non Contract Data delivery. Is TRIRIGA going to become the source of truth, or is aggregating of the data from all the disparate systems and ERPs going to continue to follow "a chase it to the source" until there is some centralization of accounting across Cargill?

AB: I think it will be a combination. We are trying to centralize what we can. I would say a lot of the Finance Master Data is now centralized. Our vendor master data is one that we have not fixed yet, and we're going to, but we'll continue to work on that. The Accounting Policy Questionnaire, which are assumption based questions on a lease by lease level, will be hard to centralize due to its nature. Local teams will have to continue to provide this level of detail, as the subjectivity to acounting changes across the globe.

LB: On the Accounting Policy Questionnaire, I recall people wanting to say their likely term was 99 years, 50 years, 40 years, etc. for automatic renewals or implied renewals – since these assumptions are locally driven, how did you police that from a technical accounting perspective?

JM: Depending on the type of lease, if it was Real Estate lease, we said we were going to exercise two renewal options, even if it had multiple options. But you know, the devil is in the details. As we learn more about our leases, I think we're able to make some of those practical decisions around how we're going to set those leases up.

AB: And Jon, we did this not only for the type of lease, but the type of asset that was being leased. For example, for office spaces, we generally assumed one renewal term, but for locations that are more critical to our business, that's where we went back to the business and worked with them on how many renewal options they thought they would exercise due to the importance of this location to our business.

LB: I can't let that go without another compliment for you. All of these different learnings and things that came up, you were able to decide so quickly and definitively. From an accounting perspective, you were always willing to listen to the pros and cons and say, "let's go this way" and keep it moving. Even though it feels like a long time (3 years), this doesn't get accomplished without these firm decisions.

AB: Thanks, Lou. We had some idea of how big this project was and even though we had 3 plus years to do it, we were going to need that whole time and need to made decisions quickly to keep on track.

JM: And Aimee, the role our partners played in this and the experiences they had were important as well in helping make some of those critical decisions timely. And that's one of things we really liked about working with Jackson Cross, was that you didn't sugarcoat anything. You told us what you learned, how you learned it, and made recommendations on how we should think about it as well.

LB: We're not good at sugarcoating.

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> WE PICKED JACKSON CROSS BECAUSE OF YOUR EXPERIENCE ON OTHER LARGE PROJECTS. AND IT WAS VERY CLEAR AND EVIDENT THAT DURING THE PROJECT, THAT EXPERIENCE WAS EXTREMELY USEFUL.

AB: But again, picking the right partners is critically important. JCP was able to spot problems and issues early on, even before we could identify them ourselves. You wouldn't just say you have this problem coming, what are you gonna do about it. JCP would say "we see this issue, we thought about it, here's a couple of different alternatives, Cargill, of what we've seen work in the past. Which one would you like to chose". I think that's incredibly important and it brought huge value to the project and helped keep us on track. I always like it when somebody brings not just a problem, but a solution. There were times throughout the project where the momentum really shifted when you guys helped bring a solution to light, and I don't know that we would have made as much progress or have made it to the end on time without making those specific changes.

LB: Thank you, Aimee

ZF: We are coming up to the end of the interview. Last question we have for the both of you is: If you could summarize some of the best tips and words of advice for Private Companies, who are soon going to embark on this compliance project with a compliance deadline of 2022, what would you say to them?

JM: Treat this as an Organizational Project. Some companies have only one or two functional teams involved, but the Cross-Functional Team involvement is critical in building a lasting process for years to come.

AB: I would tell them the following:

• Start Early – the project will take longer than you think. Get Started Early.

• Get the Right Sponsorship from your Company Leaders – get buy-in all the way up to the board of directors. It is going to take longer and be more expensive than you expect. Get buy-in early on.

• Pick the Right Partners – the right partners are invaluable. Don't chose your partners based on the thought that this is just a data project or just a technology project. You need to change your end-to-end processes, and make sure you're picking the right partners that have that same view and have experience with end-to-end processes and can help you establish those. This is not just a one-time effort. The process needs to be built to last.

• Compile The Data Early- The earlier you can get your hands on the data, the better decisions you'll be able to make throughout the project.

ZF: Thank you, Aimee & Jon. We could not have said it any better ourselves.

LB: That is a great summary and great words of advice. Thank you both for your participation in this interview. We are hopeful both of our internal teams will find enjoyment taking a Walk Down Memory Lane in reading through this and we're hopeful other companies out there who are facing post-compliance hurdles, or who are yet to adopt the new standard, will find this interview valuable.

JM: Thank you, Lou and Zach.

AB: Thank you for asking us to participate. This was a great opportunity.