Complying With Changes in Contract & Lease Administration

A Guide for Managers Considering SAP RE-FX-CLM Implementations

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OXYGEN FOR PEAK PERFORMERS℠

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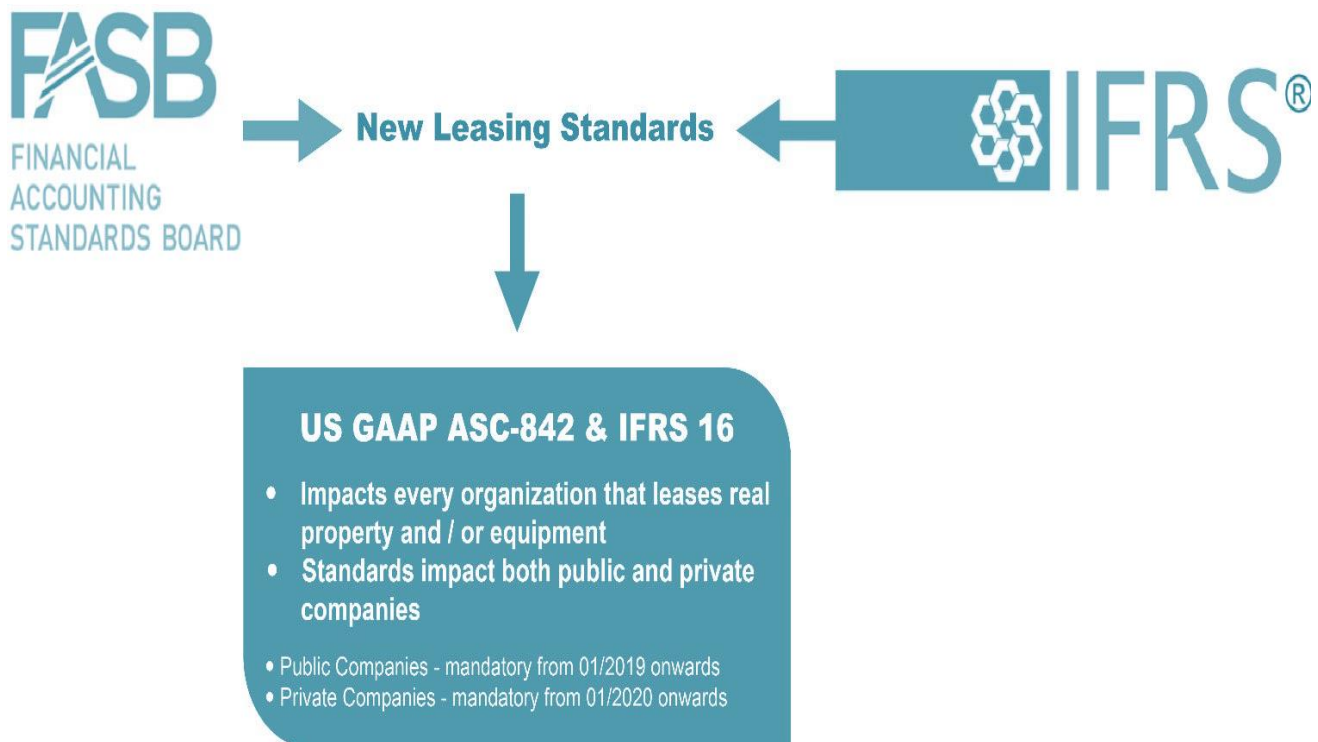SAP Silver Partner

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1. Why Introduce New Leasing Standards

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

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

2. SAP RE-FX-CLM (Contract & Lease Management)

The **SAP Lease Administration solution** is a full "End to End" Lease accounting lifecycle management solution specifically designed to manage accounting and compliance to both the current and new Lease Accounting standards. The solution is designed to control all aspects of the accounting required for both US GAAP and IFRS current and new standards and as such will provide the required accounting entries, fixed asset entries, and disclosure/parallel reporting. The solution has been reviewed by one of the Big 4 Accounting firms and certified for meeting compliance with current and new accounting standards. The New Common Regulations for Contract and Lease Management drives significant change as follows

- New standard on leasing released by FASB and IASB
- Every IFRS/ US-GAAP reporting company renting real estate or leasing equipment will be impacted
- Large companies with big property portfolio are affected most and need to react quickly to prepare

Capitalization of Leases

- Need to capitalize most operating leases and record these lease obligations on the balance sheet as assets and liabilities
- US GAAP requires classification of leases of operating or finance lease with different accounting treatments
- Short term and low value leases are excluded from capitalization but must be disclosed

Transformation of Processes

- Besides affected accounting, new standards will transform corporate business processes in many areas
- Lease Administrators and Accountants must coordinate efforts and operate without business silo
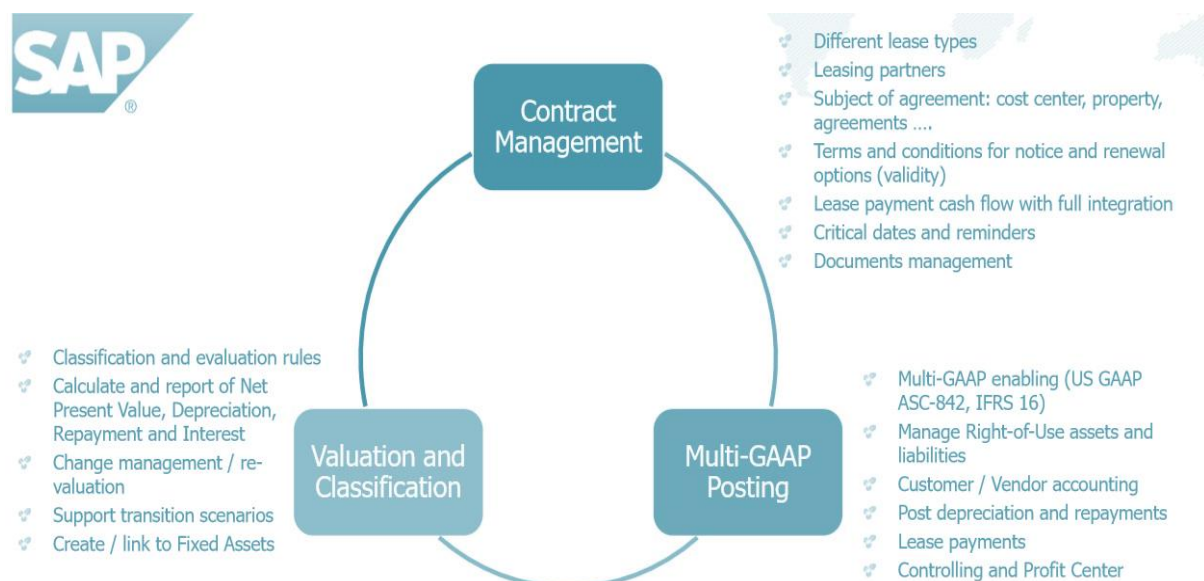
3.   Why SAP RE-FX-CLM?

Using a comprehensive end-to-end solution has a number of benefits. It allows companies to be scalable and consistent as they grow and handle complex leases (e.g., multiple schedules), reduces the risk of penalties due to noncompliance, provides a global view of all lease data and the associated impact on financial statements, and supports statutory lease reporting. A few of the key reasons' companies are choosing SAP RE-FX-CLM:

- **Product is developed by SAP with leases in mind:**
- **Meets SAP premium qualification requirement:**
- **Integrates with SAP ERP Central Component (ECC and S4)**
- **This product will be supported long term**.

The following are the factors to consider before making a decision to Implement CLM.

- SAP CLM – scalability – volume, performance and speed of HANA advantages
- Error Handling – Big issue with other applications that are not integrated with SAP
- Ability to handle USGAAP, IFRS and Local GAAP etc. all
- ROI from an overall support and maintenance – there is no need for extra resources to support
- Lessor (lease-out) functionality is inherently available (unlike other competing products)
- Inter-company, sub-lease is part of CLM
- Can be implemented as stand-alone (yet integrated) by using SAP Cloud CLM as side car approach
- Integrated with S/4 Simple/Central Finance
- A/P, R2R, A2R and P2P and integration with Ariba for Contract management is available out of the box
- Multi-currency (contract current, company currency to group currency) ease of conversion and implementation
- SAP Support – errors to functionality is addressed with OSS note application and not an upgrade
- Single Point of contact for Supporting the Enterprise
- End to End – Regression Process testing is in a single place (unlike add-on 3rd party solutions)
- Software lifecycle – SAP transport management is used for code / configuration migration
- DR process can be leveraged with the SAP Application process
- System refresh (quarterly cycle) is a non-event.
- Master data management is simplistic as you are integrated with SAP
- Reconciliation accounting- when you post items to subsidiary automatically posts the same data to the general ledger at the same time. Each subsidiary ledger has one or more reconciliation accounts in the general ledger. These reconciliation accounts ensure that the balance of G/L accounts is always zero. This means that you can draw up financial statements at any time without having to transfer totals from the subledgers to the general ledger.
- Audit trail- the ability to follow records back to their origin provides numerous benefits, including transparency and a defense of records for compliance, record integrity and accuracy, system protection from misuse or harm, and security of sensitive or vital information.

Futuristic –

- With AI and Machine learning and Advanced Analytics – it will be scalable journey ahead

4. Why Sierra?

Sierra supports companies in meeting their lease accounting standard requirements beyond the capabilities that traditional contractors, system integrators or accounting firms provide. We bring deep cross-functional expertise in financial accounting, business process improvement and systems implementation, among other competencies. This combined with our SAP Partner Status, expertise in SAP RE-FX and Other Leasing products allows us to create a uniquely qualified, comprehensive approach to projects to comply with the new lease accounting standard and achieve the necessary business transformation.

We assist companies in the following areas:

4.1.   Impact Assessment and Solution Design

We perform a gap analysis to understand your current state and design the road map for implementing SAP RE-FX-CLM.

4.2.   Lease Discovery and Data Collection

The initial discovery of all the leases can be a significant task depending on the number, locations and variety of leases; whether they exist electronically or on paper; and other factors. Our proven methodology, combined with our proprietary accelerator tools, allows us to efficiently identify and capture all data from leases globally within a Short time.

4.3.   Process and Reporting Optimization

To maintain the lease accounting standard over the long term, companies will need to implement new financial policies and processes, train accounting staff on these changes, and generate new types of reporting based on each company's business requirements. Sierra is a leader in financial and business process optimization, and our SAP visualization technical experts can support reporting requirements of any complexity.

4.4.   System Implementation

As a Gold partner with SAP and a leader in the SAP compliance and finance community, Sierra can be your single qualified partner in the implementation of SAP Lease Administration using CLM.

4.5.   Control and Process Documentation and Training

Large-scale changes to processes and controls require retraining of individuals and significant amounts of new documentation and training materials. Sierra can assist with the development of these materials, including online learning scenarios, and facilitate employee training sessions.

4.6.   Project Management

The timelines for adoption of the new lease accounting standard are firm, and companies increasingly are becoming aware that the complexity is higher than expected. Sierra can provide project management expertise and the required compliance, financial and systems implementation knowledge to successfully assist companies in meeting the deadline.

5. Our Methodology

Given the nature of continuous development of the tool, we understand the REFX Solution is changing while we are implementing. Also, per our past implementations we have seen that some requirements evolve as we implement and test the tool and business understand the tools in more details.

Now the two most popular mythologies are water fall and Agile. The **waterfall** is a traditional approach, where the next stage is started after each stage is frozen. If it is a large Enterprise led Development effort and is led by a standardized process, then this is the best method and **Agile** Method involves multiple iterations of same tasks to achieve best design.

A Hybrid is a way that includes the best of Agility and Formality. In one of the processes that we have been involved in, the formal process of documentation of analysis and design was very much there, with iterations, feedback and a scope of iterative development. The below mentioned diagram will explain the situation.

In project management, a 'sprint' refers to a set period during which a certain task or activity is completed and then reviewed.

Like the beginning of any project, at the beginning of an agile methodology sprint a meeting is held during which the sprint itself is planned. The customer and project team discuss the work that needs to be completed during the sprint. It is down to the project team to determine how much time they will need to complete certain amounts of work and up to the customer on the type of work that needs to be completed.

A Sprint refers to a set period of time during which a certain activity is completed and then reviewed.

Every sprint duration is different and each one is determined by the **Scrum Master who acts as the team's facilitator**. Sprint durations should be kept consistent after deciding on the first one. Generally, and on average a sprint lasts 30 days.

During a sprint, the customer is expected to step back and allow space for the project team to work. Daily stand up meetings are held to ponder the project's progress and to **make decisions and face challenges**. The customer can attend, but only for an observing purpose. Only the scrum master or project manager has the power to interrupt the sprint.

When the agile methodology sprint comes to an end, the project team presents its completed work to the customer/project owner and the project owner uses the initially established criteria against which to compare if the work has been a success or failure.

The Agile approach enables you to react decisively and effectively to change. In contrast to other methods there is no blueprint that serves as the basis for the entire implementation. Agile is based on the assumption that requirements will change with time. Therefore, changes can still be proposed and effected during the implementation.
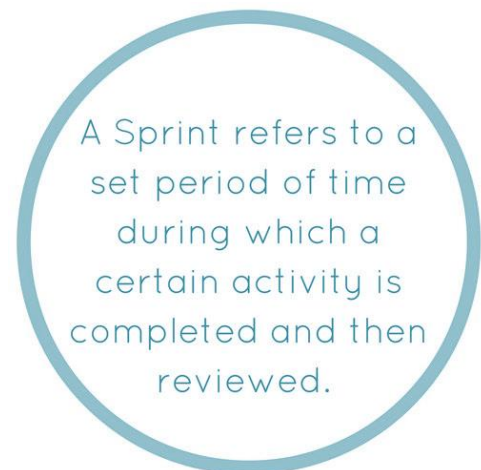
6. CLM Proprietary Tool ware and Accelerators

6.1. Data Validation and Discovery

Trustworthy information is critical in enabling corporate executives to meet organizational and business

needs. Sierra's SAP Leasing Solution Extension for Data Management Framework helps in mitigating lease accounting data challenges such as.

- **Data Collection:** Takes significant time to collect accurate and adequate lease data across different leasing systems, leasing processes and financial ledger systems (ex: lease term, base rent, extensions, buyout, asset, lease liability, cost center, and etc.)
- **Data Preparation:** Integrating data across different data format, data structure and data source becomes a very complex task to implement within the allocated project timeline (ex: data mapping, data integration, data conversion, data completeness and etc.
- **Data Validation:** Unable to accurately convert current lease structure (ex: IAS 17 & ASC 840) to new IFRS 16 & ASC 842 lease structure due to different type leases (ex: equipment, vehicle, building, land, and others) and leasing standards/rules.
- **Financial Reconciliation:** Unable to reconcile financial data across different leasing systems and financial ledger systems (ex: gross book value, net book value, fair market value, carryover balance, etc.)

Our solution has out of the box built-in interface to SAP, Non-SAP systems, legacy leasing systems, big four leasing tools, excel file, text files and other systems to extract necessary master data and lease data to create a valid contract template. The solution provides dynamic data mapping and repeatable process, simple steps and validation rules for each data field across different datasets.

Our solution provides real-time data collection and in-memory data processing. The solution also provides Out of the box interfaces to SAP, Oracle, MS SQL, IBM DB2, File, Web Services and other data sources

Reporting and Analytics

Our SAP CLM Proprietary Analytic Solution provides

- Pre-built centralized reporting and unified advanced analytics solution on one single platform at a global scale
- Provide audit, statutory, management, operational and strategic reporting, analytics and predictive model all under one roof
- Built in accounting calculations and business rules for reporting, analytics, data analysis and self-servicing
- Cost effective subscription model with zero footprint and web-based access to realize measurable business values from day one - real-time
- Out of the box role-based information model and data connector to connect to any source data, including SAP HANA, Oracle, MS SQL, Open Source, File and Others which includes both LIVE and IMPORT Connection.
- Mobile Compactable CLM reports for Top level executives which can be accessed through SAP Analytics (IOS Mobile App)

6.2. Contacts

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