



Privately Speaking

Insights on private company growth
from private company insiders

Issue 40 | Strengthening your business | November 2018



Lease accounting: The clock is ticking

The new lease accounting standards come into effect for private companies in just over one year. And our survey suggests that, while private companies are making decent progress, many may not be ready in time for the compliance deadline. In this edition of Privately Speaking, we look at progress to date, learn lessons from public company experiences, and offer some tips to help private market leaders manage the looming implementation and its impact.

What are the new leasing standards?

The new leasing standards were issued by the Financial Accounting Standards Board (FASB) in 2016. They essentially move operating leases onto a company's balance sheet. Public companies have until January 1, 2019 to comply with the rules. Privately held companies have an extra year.



Even though private companies have an extra year to adopt the new leasing standards and given the struggles faced by many public companies over the past year, private market companies may want to start thinking carefully about how achievable their current roadmap actually is.

—**Brian Hughes**, National Private Markets Group Leader and National Venture Capital Coleader, KPMG LLP



A long way to go in just a year

Based on a recent survey of 100 private companies in the United States conducted by KPMG, most private companies will struggle to achieve a proper implementation by the compliance date. Our survey found that:



Just **30%** have completed their lease inventory



28% have selected a lease accounting software solution



11% have developed appropriate systems and process requirements



9% have collected and validated all of their data.

Lessons from public company implementations

What can private company leaders learn from their public company peers about implementing the new Leasing Standards? Here are five tips from our experience:



- 1 There is no time to waste.** Complete a detailed assessment as soon as possible and then move on to design and implementation.
- 2 Take a holistic approach.** Make sure all stakeholders are involved and providing input and expertise right along the implementation journey.
- 3 Understand the complexity of the process.** Be realistic when assessing availability of your resources and estimating budget costs.
- 4 Simplify the approach.** Consider how cloud-based tools might simplify the setup, updating and maintenance processes.
- 5 Take it seriously.** Provide the resources required to ensure the project can succeed and appoint a professional project manager to keep the project on track.

VCs and PEs beware!

The new lease accounting standards will apply to your venture capital (VC) and private equity (PE) portfolio companies and may impact their valuations and reporting. Particularly if you are preparing a company for public offering or looking to make a new acquisition or investment, you will need to pay attention to the new lease accounting standards.

“Investors will want to start looking carefully at how private market companies have accounted for their various leases. For private equity and venture capital investors, lease accounting will need to become a critical part of the due diligence process.”

—Marybeth Shamrock,
Partner, Accounting Advisory
Services, KPMG LLP

Have you considered the full complexity and cost?

Based on our survey, the need for lease accounting software is causing many companies to reconsider their implementation budgets.

	Public	Private
What do you expect the total cost (internal and external) will be for the implementation of the new leases standard?	2018	2018
Less than \$499,999	54%	71%
\$500,000 to \$999,999	14%	5%
\$1 million to \$2,499,999	12%	5%
\$2.5 million to \$4,999,999	5%	0%
\$5 million or more	2%	0%
Do not know/Not sure	13%	19%

Did you know?

KPMG professionals have the skills and experience to help you go from assessment through to implementation on the new lease accounting standards. We also offer a web-based SaaS leasing tool that can help you transition to the new standard. To learn more about the tool, [click here](#).

What are the big challenges facing public companies today?

Watch for these common pitfalls

- 35%** **Identifying embedded leases:** *All contracts will need to be read line-by-line and page-by-page to identify potential areas that must be included in the new standards.*
- 28%** **Abstracting and entering leases into a leasing system:** *This is about having the manpower to manually enter all of the data that you uncover in your contracts.*
- 24%** **Establishing an appropriate incremental borrowing rate (IBR):** *While most companies plan to make an internal estimate of the IBR for each lease, getting the calculations right isn't easy.*
- 24%** **Integrating a lease accounting system to the existing system environment:** *Take the time to understand all of the interdependencies and ongoing requirements of the new system.*
- 22%** **Selecting and implementing an adequate leasing system:** *Make sure you are getting the right system using the right model for the future growth of your company.*

Want to learn more?

Check out the results of our 2018 Lease Accounting Change Survey to learn more about the challenges, opportunities, and experiences facing public and private companies or contact Marybeth Shamrock at 216-875-8158.

[Read more >>](#)



Private companies: What steps should you take now?

- 1 Understand the added cost of delay and the risks of not being able to implement the standard in a timely manner
- 2 Start (or complete) your impact assessment
- 3 Compile your inventory of leases with an understanding of how complex and time-consuming the process is
- 4 Review lease reporting and policies, disclosure gaps, and tax policies
- 5 Identify process and key control impacts
- 6 Perform contract reviews by asset classes and analyze areas for embedded lease arrangements
- 7 Understand practical expedients that are available upon transition
- 8 Plan for your implementation
- 9 Analyze system options by also considering current process and reporting needs
- 10 Develop a high-level solution blueprint
- 11 Map a future-state process, including system output to meet end-user needs
- 12 Document system and integration requirements
- 13 Document a detailed plan to transition

We can help!



Regardless of where you are in your transformation journey, KPMG professionals are available to prepare you for the transformation journey, assist in responding to the associated challenges, and help you realize the significant value from your investments. [Click here](#) to contact your local KPMG member firm.

How KPMG can help

Our Accounting Change specialists combine industry knowledge and technical experience to provide companies with holistic advice that allows decision-makers to understand and manage the new accounting and financial reporting policies, processes, and systems that will be required.

Our experience with accounting change allows us to provide private market companies, PE and VC leaders with timely advice and practical support on the impacts of the new leasing standards.

Don't miss a thing

The environment for private companies is changing rapidly, and new opportunities are emerging every day.

Do not let an opportunity pass you by—sign up to receive KPMG's **Privately Speaking** series and make sure you are making the best decisions possible for your private company.

Register here to subscribe to KPMG's *Privately Speaking* series:



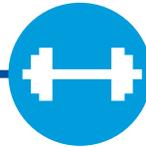
Starting your
business



Growing your
business



Strengthening
your business



Transitioning
your business



Privately Speaking focuses on the issues that matter most to privately held entities, including PE- and VC-backed companies.

KPMG LLP's (KPMG) Private Markets Group understands what it takes to drive private company growth. In each edition of **Privately Speaking**, we share our insights—along with practical and actionable tips—to help boards, executives, and management grow, strengthen, and transition their privately held businesses.

For more information, click here to visit our **Privately Speaking** web page.



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