



Incremental borrowing rates



KPMG is ready to help you estimate incremental borrowing rates as you prepare to adopt new reporting requirements in ASC 842¹

Almost all operating leases will now be recorded on companies' balance sheets. In order to determine whether a lease must be recorded and to record lease values, most lessees will be required to discount expected lease payments at Incremental Borrowing Rates (IBRs), defined in ASC 842 as:

...the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

Indications of this type of borrowing are typically not readily available in the market. The IBR should be based on the credit risk of the lessee as reflected in market yields, adjusted for collateralization and the time to lease expiration.

How can KPMG help you?

KPMG can develop simple and robust estimates of IBRs by:

- Analyzing a company's lease portfolio and considering update frequency needs
- Reviewing lessee's debt issuances for useful market indications
- Performing credit rating assessments where a company's own debt issuances are not available
- Applying simple, robust methods for any adjustments for the effects of collateralization
- Applying currency adjustments for leases denominated in different currencies.

KPMG finds the simplest IBR estimation method by starting with a thorough understanding of our client's lease portfolio. A review of any debt issuances by our client helps KPMG establish the most direct market reference, whether that comes from the client's own traded credits or from a proxy market indication.

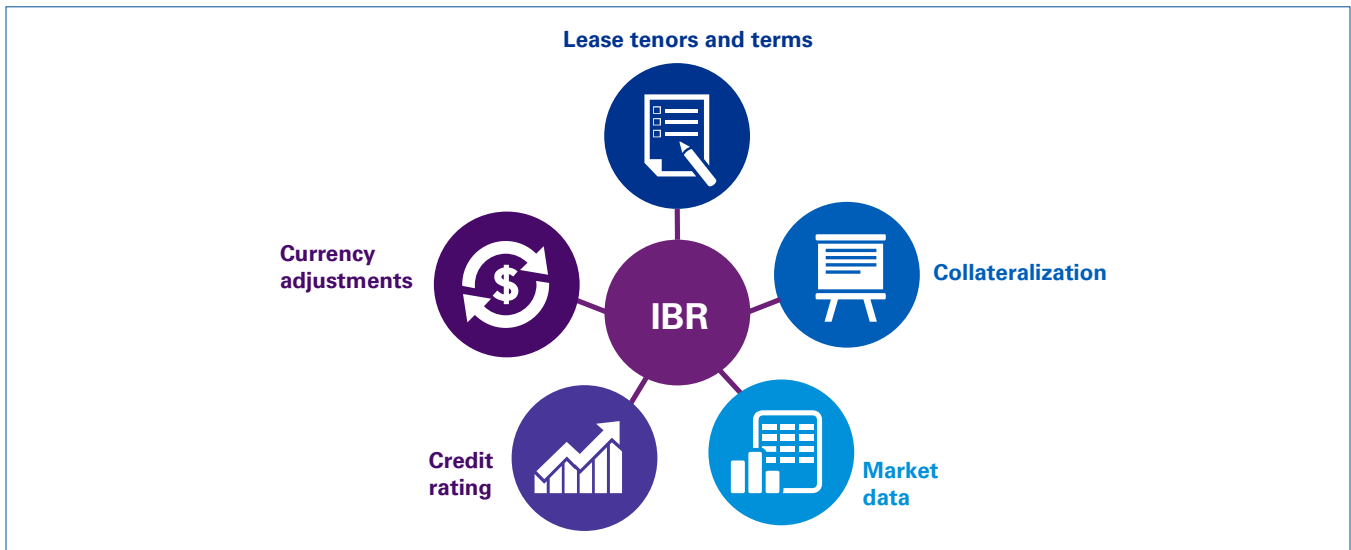
KPMG applies leading practice methods for estimating a quantitative reference credit rating for cases where no credit rating indication is available for a lessee from the market. We bring our deep experience with all types of debt to the evaluation of client-specific and market indications of credit.

Ways KPMG can help

KPMG provides a range of service options to help you with the IBR under ASC 842:

- Insight and documentation
- Initial IBR estimates and as-needed review
- Periodic update of a curve of IBRs, with report
- Custom model development and technical support.

¹ Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases (Topic 842)* (ASC 842)



What are the possible challenges?

KPMG helps clients find the simplest approach to address the following challenges:

- Making collateral adjustments
- Extrapolating beyond market data
- Adjusting for foreign currency
- Applying foreign discount rates
- Incorporating lease options
- Differences in IFRS vs International Financial Reporting Standards vs. U.S. Generally Accepted Accounting Principles.

Differentiated service offerings

We know our clients have a range of requirements and we offer a suite of services tailored to meet their needs. Some clients have sophisticated treasury teams with easy access to market data. These clients may only need hourly consultation, one-time

assistance estimating IBRs, or as-needed reviews. Others may want a custom-designed model to assist their internal team with the calculation of the IBRs. Some clients with ongoing leasing programs may need our continued assistance with estimating IBRs accompanied by a full report delivered on a quarterly basis. KPMG tailors our offerings to meet a range of needs.

Why KPMG?

KPMG has a national team of debt valuation practitioners and is one of the leaders in market experience. As a result, KPMG analyses are produced using a straightforward practical approach to provide simple market data-driven results. KPMG continues to communicate with other national accounting firms and industry practitioners as we provide approaches and methodologies that are consistent with the expectations of your auditor.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

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