

Smarter Lease Accounting for the Chemicals Industry

An industry focus on lease accounting and compliance with
IFRS 16 and ASC 842



NAKISA[®]

LeaseAdministration



Navigating Shifting Landscapes

The new standard on leases—IFRS 16 and ASC 842—issued by the IASB and FASB, respectively, to replace existing lease accounting standards will have significant implications for lessees in the chemicals industry. Requiring that all lessees review their lease arrangements, the adoption of this accounting reporting model will significantly impact contract negotiations, key metrics, pre-existing software capabilities, and business controls for the industry. With the changes effective January 1st, 2019, it is important that companies in the chemicals sector are cognizant of the impact on their industry and of the strategies to comply by the deadline.

A large proportion of fixed assets in the chemicals industry are leased and have been classified as operating leases. Moving forward under the new standards, the leases will not only have an impact on the balance sheet, but also on the operating costs. Many chemicals companies enter into lease contracts to gain access to storage tanks, pipelines or other assets. IFRS 16 and ASC 842 bring most of these leases onto balance sheets, exposing billions in lease liability across the industry. One of the biggest impacts on this industry is going to be a compliance exercise. Lease accounting technology can help identify everything that meets the definition of a lease, determine if any contracts meet any of the exemptions, such as low value or short-term leases, and perform necessary disclosures. Once this process is complete, it becomes a complex operations exercise to manage the lease lifecycle.



The financial reporting effects are just the most obvious of the impacts the new standard will have on companies in the chemicals sector. Companies will need to analyze how the new model will affect contract negotiations as well as the impact on key metrics, whether systems are equipped to generate the data requirements of the new reporting and disclosure model, and the impact on business processes and controls around operating leases that will now be **subject to recognition on the balance sheet** – A Look at Current Financial Reporting Issues – Chemicals Industry Supplement, PwC

The new lease accounting standards will fundamentally change the accounting for lease transactions across all industries, and is likely to have significant business implications for organizations in the chemicals sector. The primary challenge for the chemicals industry will be arrangements involving fixed assets, which have previously been categorized as ‘operating leases.’ Especially in the chemicals industry where a number of fixed assets are leased, common resources that fall under this category include storage, pipelines, transport hubs and manufacturing molds.

Similarly, the chemical sector’s capital-intensive nature and traditional use of off-balance sheet operating leases for assets means that there will be challenges specific to this industry, such as customer supply contracts and tolling agreements (e.g. storage tanks, pipeline and transport hubs, etc.). From a financial perspective, median debt will increase to 13% and median EBITDA will increase to 6%, due to the capitalization of lease obligations as outlined in the PwC Global Lease Capitalisation study. For the chemicals industry, this means carefully considering the contracts where an asset may not be obvious to determine the party with economic benefit. Common arrangement examples where lessees must establish a process of evaluation for their lease include pipelines in a supply arrangement; the storage of hazardous chemicals; or the use of precious metals.

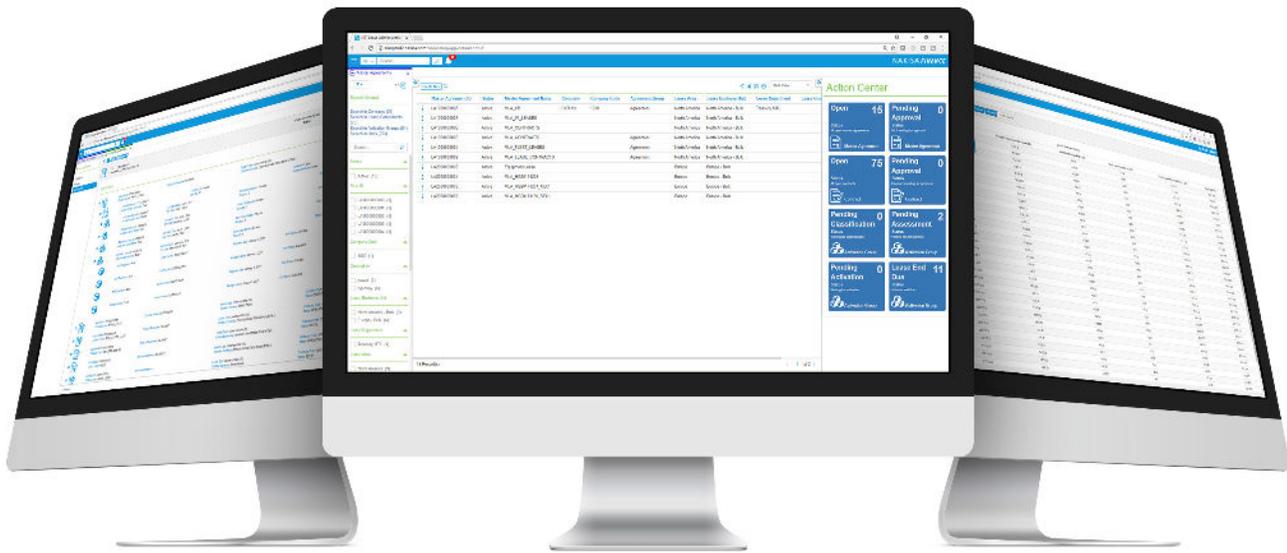


Paving the Road to Compliance

Chemicals companies require access to accurate, real-time leasing data. Organizations must be able to identify leases, including value, payments and depreciation, and be able to produce required disclosure reports. This information is crucial in order for organizations to comply with the new standards. However, time is running out for organizations to gather, analyze and report on leases before the effective dates. How can organizations meet compliance deadlines in a timely and accurate manner? The challenges facing the chemicals industry is immense.

The most efficient way for accounting and finance to manage accounting challenges and achieve compliance is to leverage lease management and accounting technologies that centralize lease data and automate lease accounting. Instead of sifting through spreadsheets with duplicated or lacking information, a single system for lease management helps to streamline and simplify accruals, payments, reconciliation, and financial reporting on leases.





Benefits of Lease Accounting Software



Insights

Gain insight into contractual data to identify lease exposure and analyze the impact on financial statements. Understand financial implications and make informed decisions.



Visibility

Centralize contract data in a single repository to provide a global view of lease contracts. Gain clear visibility into leasing data including liabilities and commitments.



Compliance

Handle comprehensive lease accounting requirements and support compliance. Software allows organizations to transition to the new standards, process required accounting lookback, and fulfill reporting requirements.



Efficiency

Reduce costs by making lease data accessible and actionable for stakeholders. Automate finance and accounting through push and pull ERP integration.

Nakisa Offers a Smarter Solution for Lease Accounting

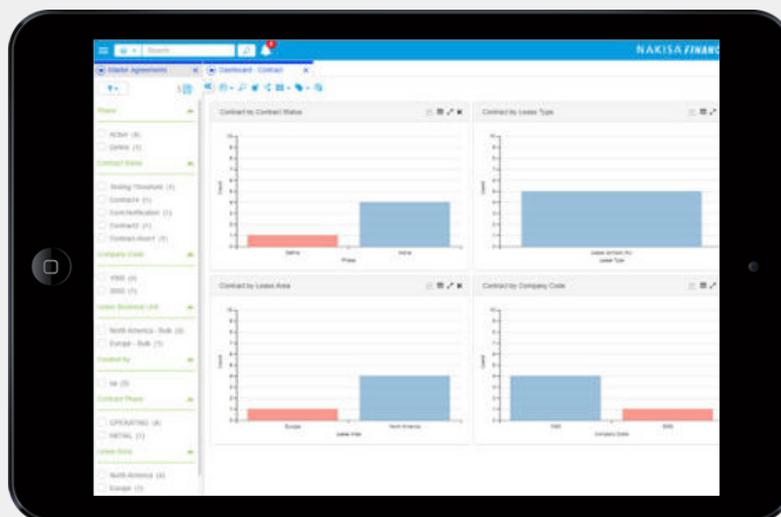
Nakisa Lease Administration is a lease management and accounting solution designed to accelerate compliance with IFRS 16 and ASC 842 by automating, centralizing, and simplifying lease accounting operations. The ability to consolidate data, group together leases, and provide disclosure reports in compliance with leasing standards, makes it the solution of choice for leading chemicals companies.

Key Value Drivers of Nakisa Lease Administration

Nakisa Lease Administration enables accounting and finance teams to centralize and optimize their global lease portfolios while assisting in compliance efforts with the new lease accounting regulations, IFRS 16 and ASC 842. With Nakisa Lease Administration, lease accounting is simplified and streamlined. Leveraging a single system for accruals, payments, reconciliation, and financial reporting on leases, chemical companies can use the solution to maintain an audit trail of all changes and decisions for traceability.

With Nakisa Lease Administration, you can:

- ✓ Enable compliance with new lease accounting standards IFRS 16 and ASC 842
- ✓ Achieve global visibility through end-to-end lease contract management, compliance reporting, and audit trail maintenance
- ✓ Streamline contract management, lease accounting, and compliance reporting efforts
- ✓ Reduce costs by leveraging powerful automation and ERP integration technology





Shorten Implementation Timelines with Cloud Technology and Phased Deployment

Nakisa Lease Administration is deployed in the cloud to help streamline implementation and accelerate adoption. With initial focus on meeting compliance deadlines, phased deployment leveraging standalone mode can be used to shorten timelines. In this scenario, deployment is simplified by abstracting data from specific organizational units using a combined effort from project teams and ready-to-use configuration templates. Before integration is configured, lease accounting technology can be used to amortize ROU assets and lease liability schedules internally. Once deadlines have been met, integration can be configured in order to eliminate manual work and simplify lease accounting. As lease liabilities and ROU assets go through frequent remeasurements due to changes in the lease terms and conditions and also due to changes in user decisions in terms of extension and termination, direct communication with ERP systems is paramount.

Why Industry Leaders Trust Nakisa

- ✓ Global leader in enterprise business solutions for accounting and compliance
- ✓ Experience with the world's most renowned brands
- ✓ Proven solution for end-to-end lease management and accounting
- ✓ Validated by the Big 4 accounting firms

About Us

A global leader in cloud business solutions for Organization Transformation and Accounting & Compliance, Nakisa delivers innovative, forward-thinking and robust human resource and financial management solutions that advance your business strategies.

Nakisa serves 800+ enterprise customers and over 4 million subscribers in 24 industries. Nakisa is proud to work with some of the world's most renowned brands

Contact Us

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