

How can artificial intelligence enhance your lease accounting approach?

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The better the world works.

New lease accounting standards under both International Financial Reporting Standards (IFRS) and US GAAP become effective on or after 1 January 2019. Under the new standards, the definition of a lease, the recognition and measurement, and the disclosure requirements for leases are changing. Organizations should start preparing for this transition as soon as possible to assess how their lease agreements will be reported in the future.

EY has created a suite of tools to help organizations identify and organize their lease data to assist in assessing the impact of the new standards.

Most organizations' financial reporting will be affected by the changes to IFRS 16 *Leases* and ASC 842 *Lease Accounting*. Organizations should start assessing the impact of the new standards' adoption and the consequences these changes may have on the balance sheet.

Implementing the new lease accounting standards will likely require significant resources that have the appropriate skills to undertake the manual exercise of identifying affected leases and then understand the accounting implications of the new standards.

With the assistance of EY's lease accounting tool suite, we can help organizations understand the outcomes, compliance requirements, costs and risks associated with adopting the new standards. Our tools can help collect, sort and analyze lease data to support your preparations for this accounting change.

EY Lease Reviewer leverages artificial intelligence (AI) or machine learning to complement our suite of technologies for lease accounting. The tool can help improve the efficiency and accuracy in assessing large numbers of lease contracts.

How ready are you?

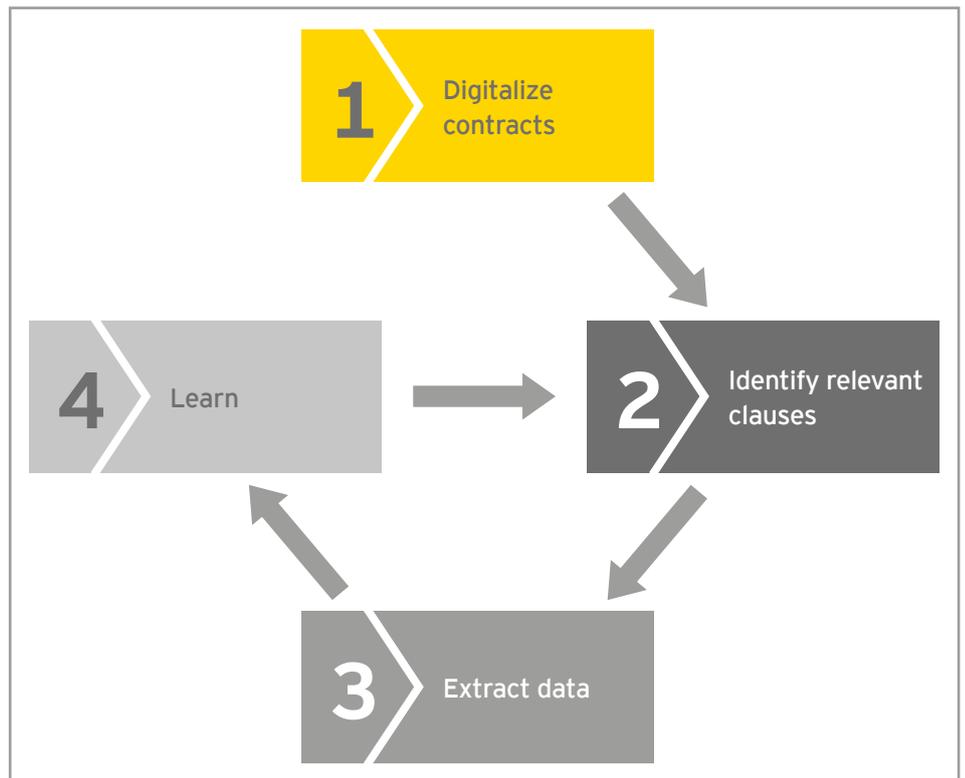
Do you have visibility over all your lease agreements, from machinery and real estate to office equipment and vehicles? Are these leases held in a central repository? Do you have all the data captured to apply the standards?

Between now and the effective date of the standards, much preparation will likely need to take place. This means identifying the types of arrangements that could be in the scope of the new lease standards and understanding how you should account for and manage your leases in the future.

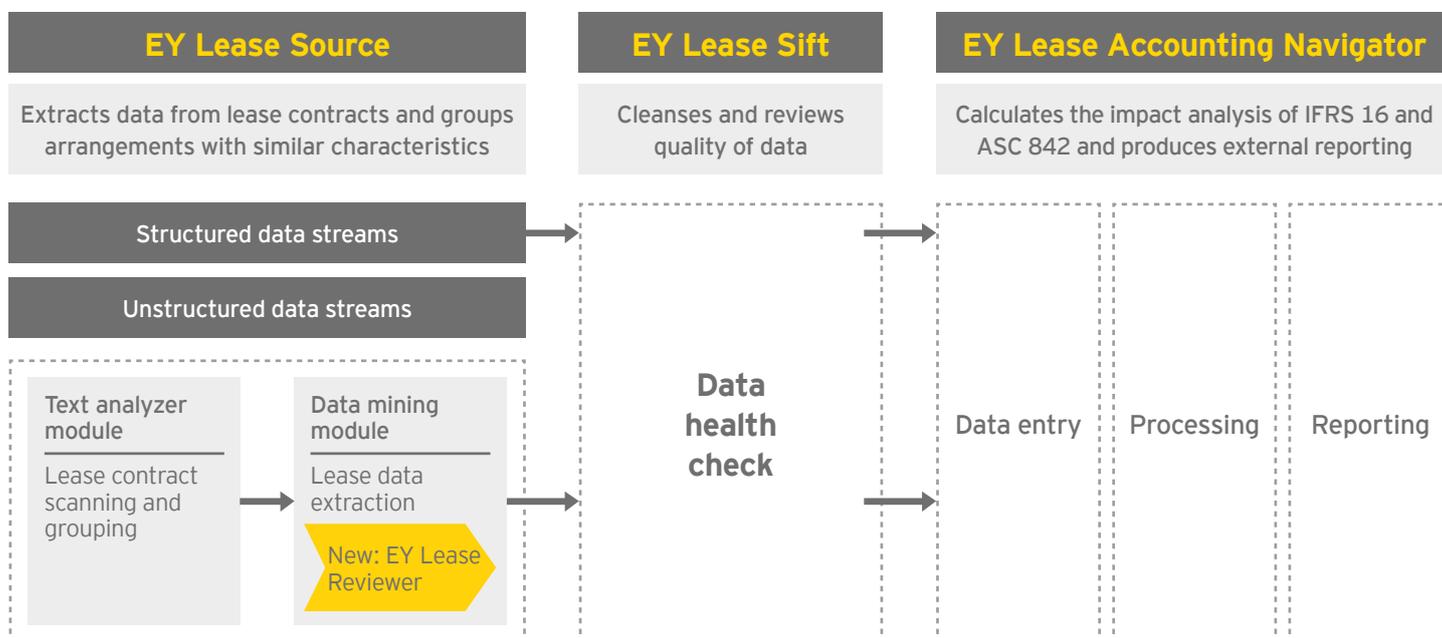
How EY can help

EY's multidisciplinary teams of accounting, tax, corporate real estate, systems and IT professionals can assist in assessing what the new leases standards may mean for you. We can work with your project teams to develop a customized approach that draws on our experience and considers common challenges and how to overcome them.

The analysis and review of contracts tend to be resource intensive activities that are currently performed manually on large amounts of contracts with related risk of human error, inconsistencies, impact on employee morale and inefficiencies. Our teams can support you as you perform a contract analysis using a suite of tools we have developed to search structured and unstructured data, sort the data by common characteristics and to help assess the impact of the new lease standards. Using AI methods to improve efficiency and quality, the classification and extraction of lease data attributes from contracts is typically performed in four steps:



EY Lease Reviewer complements our suite of technologies for lease accounting



EY Lease Reviewer complements these technologies to support and help increase the accuracy and consistency of the manual process of reading lease contracts.

EY Lease Reviewer has been developed by our Global AI Lab and Financial Accounting Advisory Services (FAAS) teams to:

- ▶ Help manage very large numbers of contracts (it is not rare for large multinational corporations to manage 100,000 to 200,000 lease contracts of more than 500 pages long)
- ▶ Reduce manual review and data extraction time to free up teams to assist in particularly complex areas

EY Lease Reviewer acts as a smart assistant, helping our teams to identify and extract information such as the lease commencement date, payment amounts, renewal and termination options that are required for transitioning to the new standards and for future lease accounting.

It uses AI to convert unstructured lease contracts into structured data to support the transition using supervised learning methods. This means that the models in the systems are “trained” on a set of examples, created by our teams.

This training set of data comprises of a number of actual leases to assist the system compute the parameters of a model that reproduces the manual work of a person. Your lease contracts are then presented to the system for processing using the model. The application provides a means for our teams to visualize the predictions. Any overrides are captured and used for additional system training.

EY Lease Reviewer has been designed to focus at first on real estate contracts and then expand to other lease types (e.g., vehicles and equipment) and to languages apart from English.

Potential benefits to your organization

Companies that appropriately plan for the new standards should have the opportunity to drive organizational improvements by leveraging upgraded systems, processes and controls. Some companies may be able to transform their operating model for leasing, which could result in time and cost savings through better lease procurement and end of lease decisions.

The amount of time remaining for organizations to prepare for the transition to the new lease standards is short. EY's approach of combining the accounting and IT skills of our teams along with innovative tools, including the EY Lease Reviewer, can support this transition, and help improve the speed, quality and accuracy of the contract reviews.

Our experienced teams can support you to address challenges in sufficient time before adopting the new standards.

Why EY?

EY's approach can help you navigate through the lease accounting change journey while keeping your business and strategic priorities in focus. Our teams comprise of professionals with a deep understanding of the lease accounting changes and an understanding of the processes and technology that support it.

You could benefit from the experience our teams already have in supporting organizations across the globe and across industries as they prepare for the new standards. Our accounting and IT teams have worked together to identify technology enablers, such as AI for EY Lease Reviewer, to support each stage of the lease accounting transition.

Certain services and tools may be restricted for EY audit clients and their affiliates to comply with applicable independence standards. Please ask your EY contact for further information.

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