

ASC
842

IFRS
16

LEASE ACCOUNTING

lease
accelerator

WHERE DO WE GO FROM HERE?

Leases Move onto the Balance Sheet



S&P 500

- 400** Have Filed 10-Qs under ASC 842
- 170** Added Balance Sheet Line Items for ROU Assets or Liabilities
- 330** Included Leasing Footnote



Agenda - Where Do We Go From Here?



**WHERE ARE
WE TODAY?**



Complexity &
Automation



**WHAT'S NEXT –
YEAR ONE?**



Lease
Accounting 2.0



**CASE STUDY:
S&P 500**



Journey towards
Compliance

Today's Speakers



Robert Kugel
SVP & Research
Director



Michael Keeler
CEO and
Founder



Len Neuhaus
Lease Accounting
Consultant





Poll #1

Which of the following best describes the approach you are taking to systems to perform lease accounting under ASC 842?

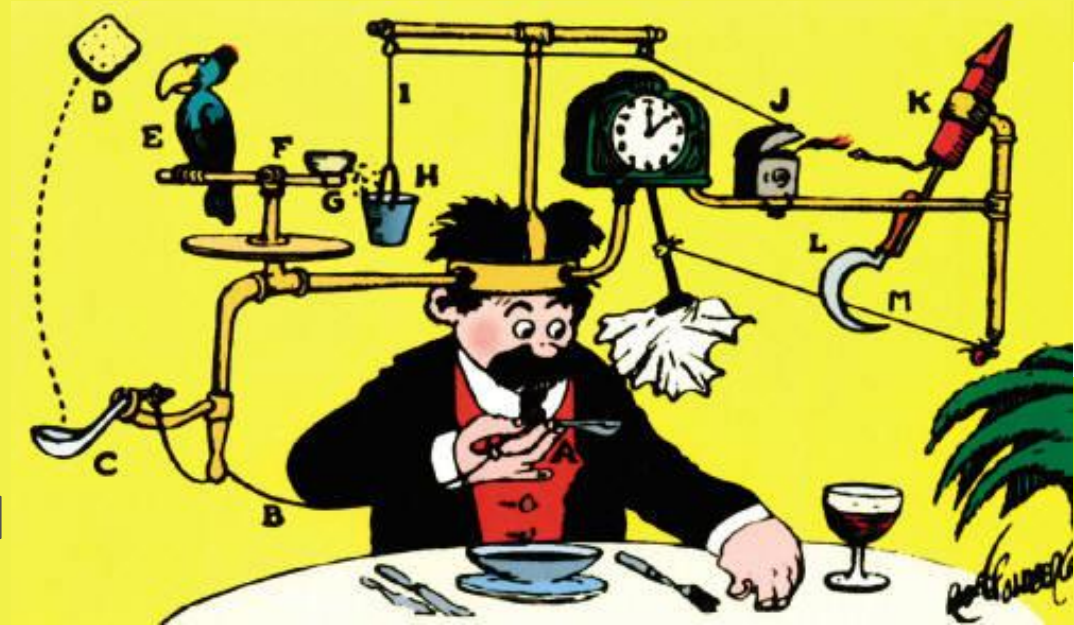
- a) Early in the project, no systems strategy yet
- b) Primarily spreadsheets
- c) Mix of spreadsheets and enterprise software
- d) Primarily enterprise software



A New Era Dawns in Accounting

The New Standards Add Complexity

- New conceptual frameworks
- Intricate transactions recording
- Analytical processes
- More interpretive
- Review and remeasurement required
- Principles based



"Professor Butts and the Self-Operating Napkin" (1931) by Rube Goldberg



OK.

**You can keep
your darn
spreadsheets.**

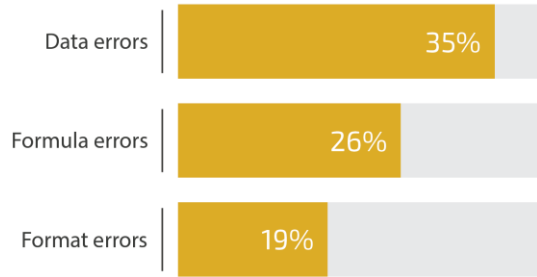
(Just not all of them.)

**Managing complicated
processes consistently with
controls while documenting
compliance requires
information technology.**

The Wrong Tool for the Job

Errors in Spreadsheets

Errors are more frequent than most assume



Source: Ventana Research Spreadsheets in Today's Enterprise Benchmark Research
© Ventana Research 2016; All Rights Reserved

- Revenue and lease accounting require a higher level of data collection.
- Companies must be able to reliably capture financial and non-financial data.
- Companies must be able to accurately and consistently perform analyses and calculations
- Spreadsheets are unreliable and time consuming.



Spreadsheets don't work.

1. Review and remeasure regularly
2. Cross-functional processes
3. Controlled and consistent accounting

What's Different?

- Complex, intricate transactions
- Cross-functional collaboration
- Control, review and approvals
- Consistency of treatments
- Consistency of process
- Consistency of analyses
- Defined roles and responsibilities
- Periodic remeasurement
- Disclosures

You need software.

(And more.)



Poll #2

What is your greatest challenge with lease accounting?

- a) Processes, policies, and controls
- b) Talent, staffing, and training
- c) Systems and automation
- d) Accounting complexity



JUNE 12TH

FORT WORTH, TX

ENTERPRISE LEASE ACCOUNTING SUMMIT '19

PRESENTED BY LEASEACCELERATOR

[Agenda](#)[Speakers](#)[Hotel](#)[Register Now](#)

Register Online at
www.leaseaccountingsummit.com

Enterprise Lease Accounting Summit 2019: **Dallas-Fort Worth**

June 11-13th, 2019 | **CPE Credits Available**

REGISTER NOW

A man in a grey suit and white shirt is running towards the camera with his arms raised in a celebratory gesture. He has a beard and is smiling. In the background, two women in business attire are also running, slightly out of focus. The scene is set outdoors on a paved path with trees in the background. A semi-transparent white banner with a red underline is positioned across the middle of the image.

RACE TO THE STARTING LINE



Day Two and Beyond - Key Issues

CENTER OF EXCELLENCE



- Talent
- Recruiting
- Training
- Turnover

LEASE ADMINISTRATION



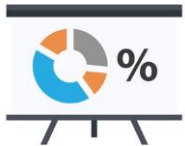
- New Leases
- Changes to Leases
- End of Term Decisions
- Reasonably Certain

QUARTERLY CLOSE



- Subledger Cutoff
- Cycle Time
- New Disclosures

VALUE & COST SAVINGS



- Cost Savings
- Performance Management
- Financial Position & Ratios

SYSTEMS & DATA



- Software Upgrades
- Regression Testing
- Data Integrity across Systems

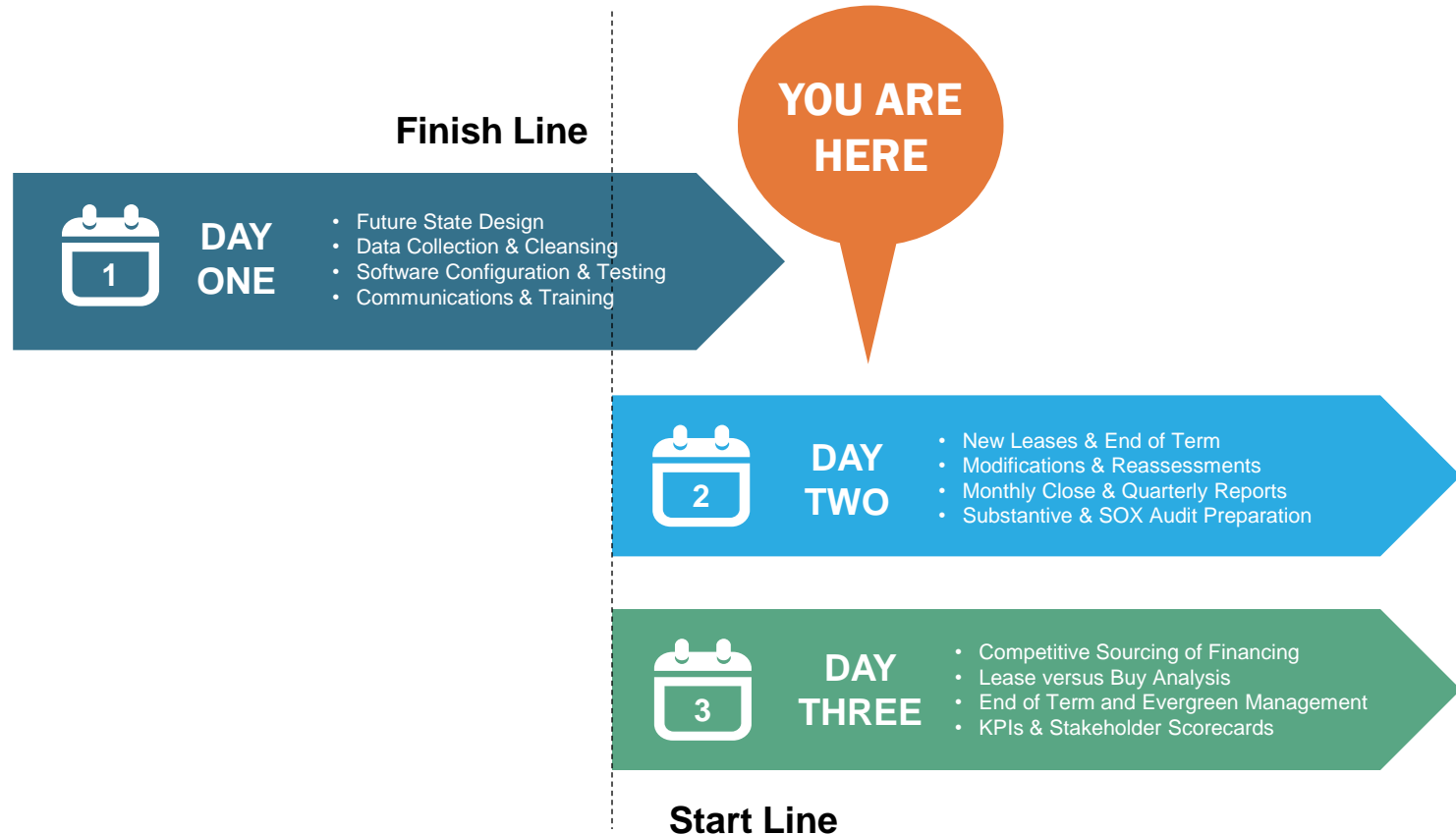
FINANCIAL & SOX AUDITS



- Completeness
- Accuracy
- Policies and Controls
- Statutory Audits



The Lease Accounting Journey





Preparing for the Audit

Assertions	LeaseAccelerator Control Features
Completeness and Accuracy	<ul style="list-style-type: none">• Automated Data Capture and Validation• Straight-Through Processing• Roll-Forward Reporting
Existence or Occurrence	<ul style="list-style-type: none">• Deal History• Document and Communications History• Asset Attestations
Rights and Obligations	<ul style="list-style-type: none">• Detail Lease Terms• Date Tracking (i.e., commencement, acceptance, booking, funding, original end, effective end)
Valuation or Allocation	<ul style="list-style-type: none">• Policy Settings (i.e., IBR, Reasonably Certain Holding Period, Reasonably Certain EOT Option, Classification Test Thresholds)• Asset Based• Rule-Based Accounting Engine (ROU Asset Adjustments, Modifications)• Embedded PV Calculations (Frequency, Adv/Arr)
Presentation and Disclosure	<ul style="list-style-type: none">• GL Configuration and Account Setup• Detail Classification Testing
Authorization	<ul style="list-style-type: none">• Audit Trail, Access Level, Scope of Access, and Segregation of Duties• Workflow

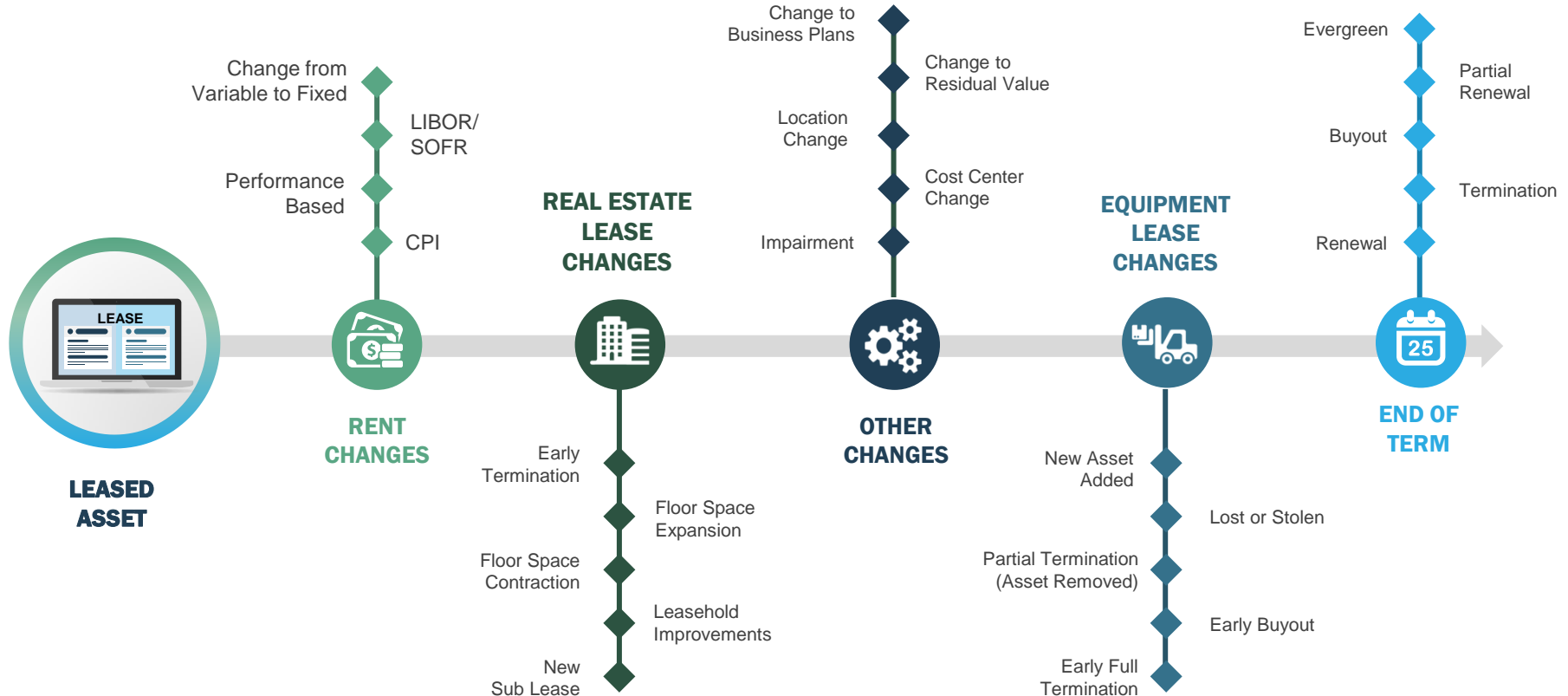


Is Your Lease Population Complete?

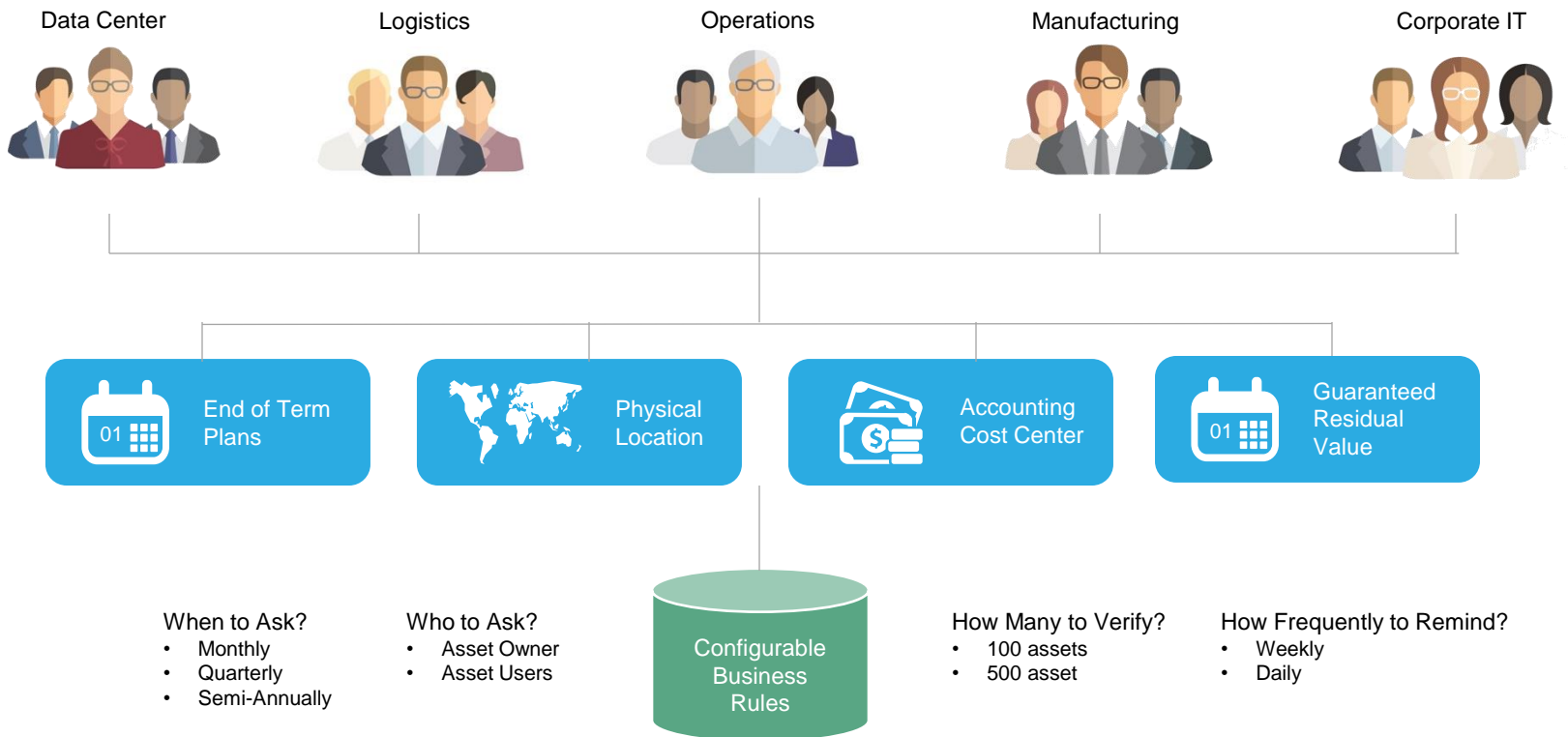




Tracking Events throughout Lifecycle



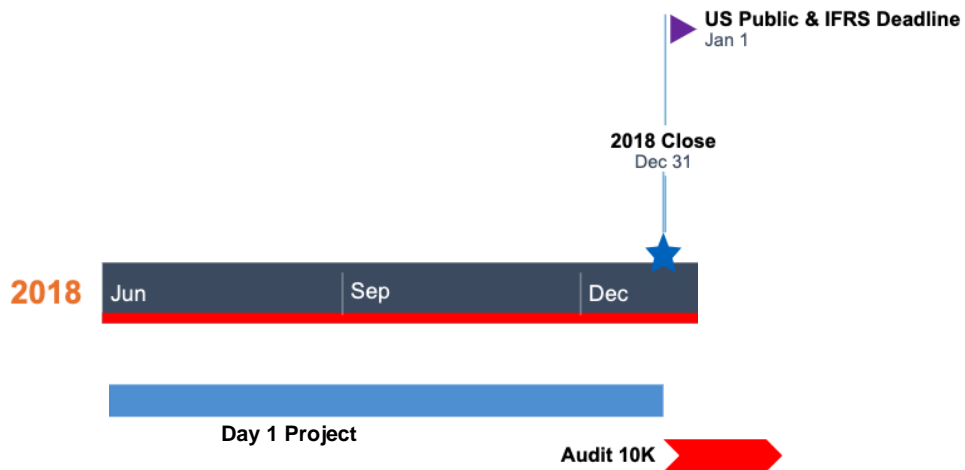
Periodic Attestation



Day 1 vs Day 2



Day 1 Objective: Get compliant = initial balance sheet entries for portfolio

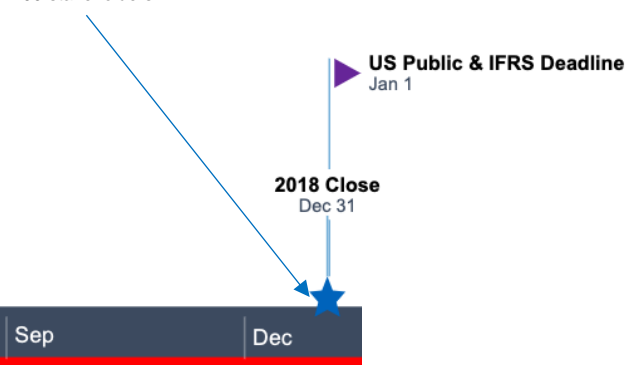




Day 1 vs Day 2

What is database?

- 2000 leases
- 47 countries
- 200 stakeholders



Objective: Get compliant = initial balance sheet entries for portfolio



Day 1 Project

Audit 10K



Day 1 vs Day 2

What is database?

2000 leases
47 countries
200 stakeholders

US Public & IFRS Deadline
Jan 1

2018 Close
Dec 31

2018



Objective: Get compliant = initial balance sheet entries for portfolio

Day 1 Project

Audit 10K



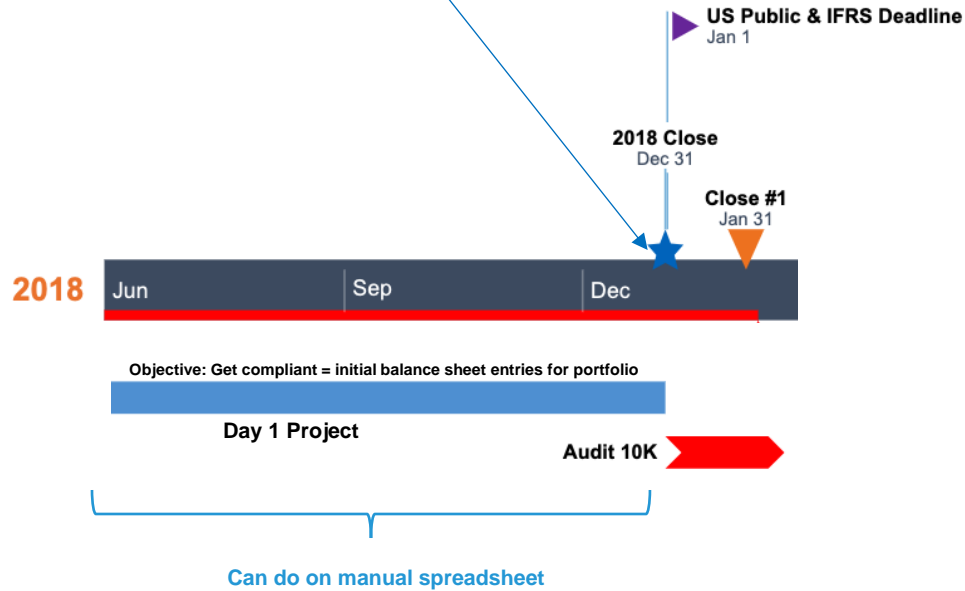
Can do on manual spreadsheet



Day 1 vs Day 2

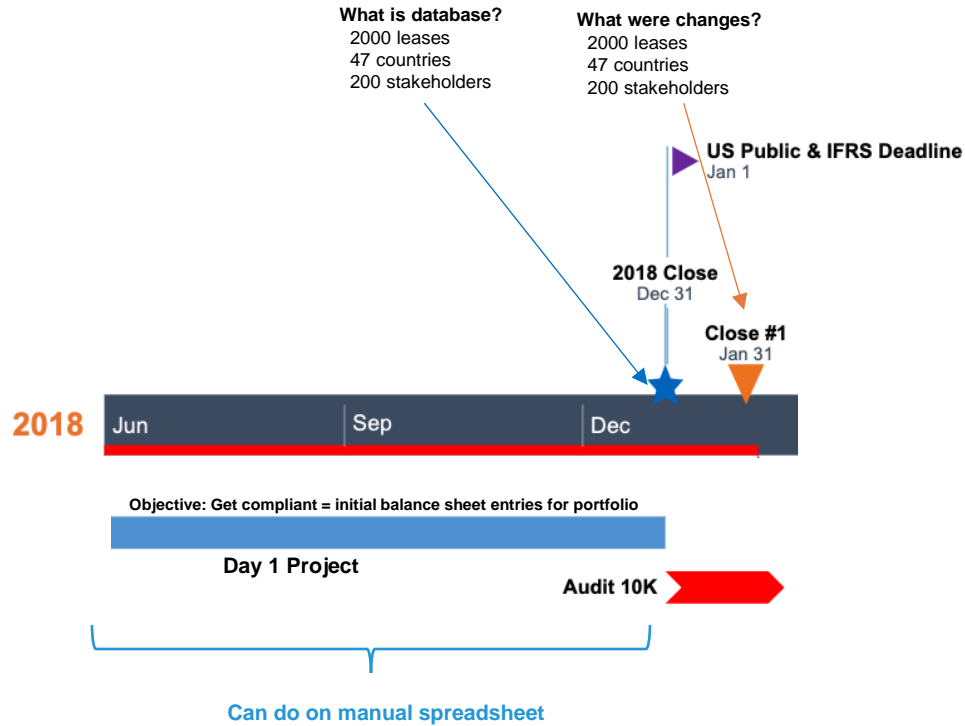
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47 countries
200 stakeholders





Day 1 vs Day 2



Day 1 vs Day 2

What is database?

2000 leases
47 countries
200 stakeholders

What were changes?

2000 leases
47 countries
200 stakeholders

Changes?
2000 leases
47 countries
200 stakeholders

Changes?
2000 leases
47 countries
200 stakeholders

2018



Objective: Get compliant = initial balance sheet entries for portfolio

Day 1 Project

Audit 10K

Jan 1 - Feb 15

Audit Q1






Apr 1 - May 16

Can do on manual spreadsheet



Example Lifecycle of One Lease

Subsequent to initial recognition of ROU asset and liability

	Change to Lease		Required Accounting
1	Payment adjustment due to contingency resolution		Remeasure ROU asset/liability
2	Mid-term partial termination		Remeasure ROU asset/liability (Gain or Loss)
3	Payment adjustment due to CPI change		Remeasure ROU asset/liability
4	Change reasonably certain options assessment		Remeasure ROU asset/liability
5	Renegotiate lease and modifications		Remeasure ROU asset/liability



2000
Leases



47
Countries



200
Stakeholders








Manual
Process



The Result = **Expensive Chaos**

Subsequent to initial recognition of ROU asset and liability

	Change to Lease		Required Accounting
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2000
Leases



47
Countries



200
Stakeholders



Manual
Process

Day 1 vs Day 2

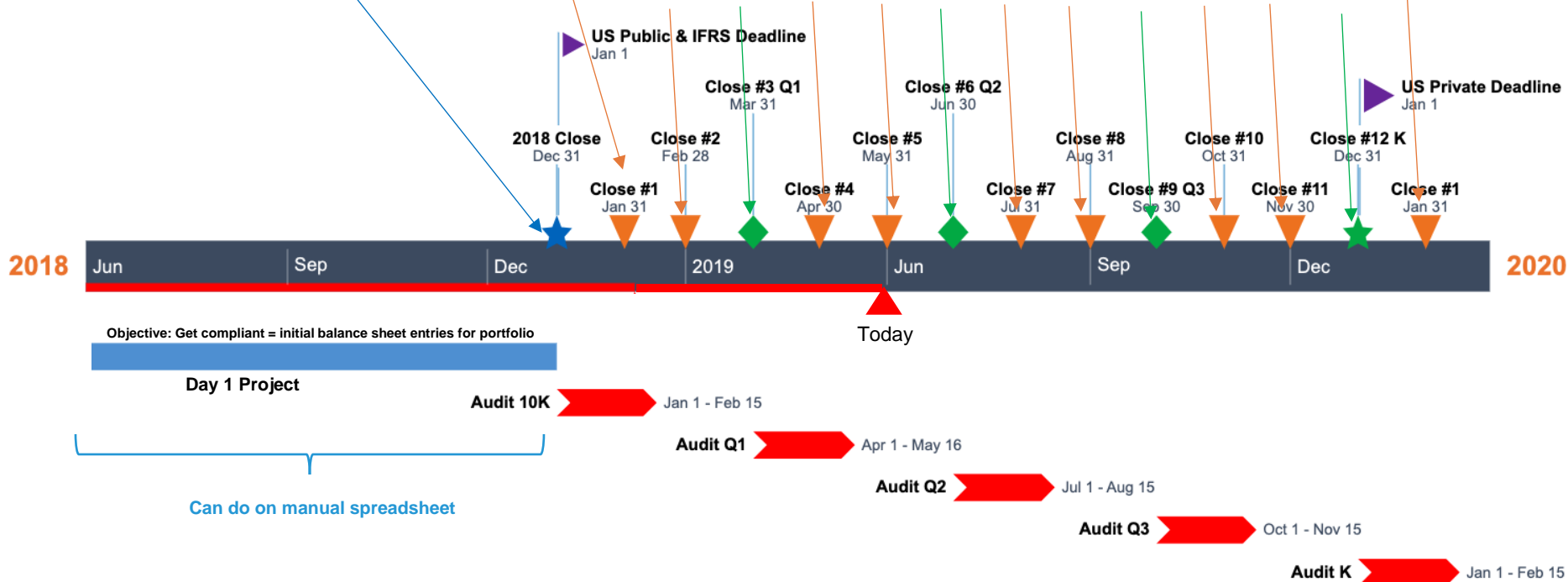
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Day 1 vs Day 2

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200 stakeholders

2018



2020

Today

Objective: Get compliant = initial balance sheet entries for portfolio

Objective: Take cost, risk, and time out of the monthly close process

Day 1 Project

Day 2 On-going Operations

Audit 10K

Jan 1 - Feb 15

Audit Q1

Apr 1 - May 16

Audit Q2

Jul 1 - Aug 15

Audit Q3

Oct 1 - Nov 15

Audit K

Jan 1 - Feb 15

Can do manual

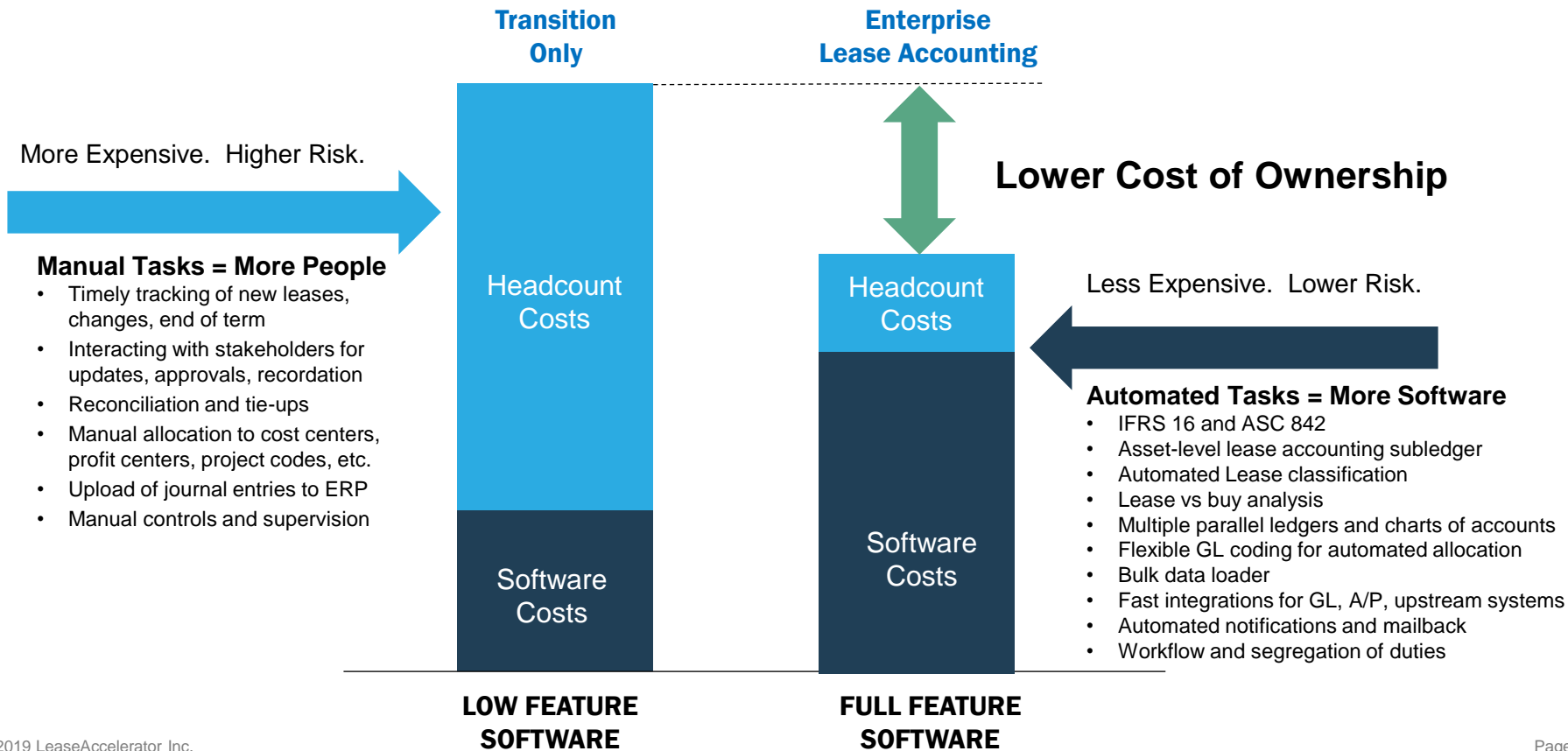
Can NOT do manual



Now It's Time for

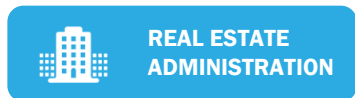
LEASE ACCOUNTING 2.0

Automation vs FTEs



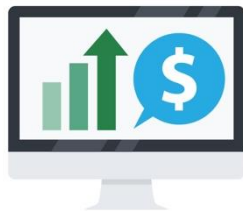
Straight Through Processing

ASSET MANAGEMENT



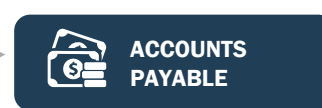
PROCUREMENT

LEASE ACCOUNTING SUBLEDGER



Reconciliations
Integration and APIs

ERP APPLICATIONS





The Leasing Center of Excellence

INITIAL RECOGNITION & MEASUREMENT

Classify and record initial journal entries after assessing commencement, term, payments, reasonably certain plans, IBR.

MODIFICATIONS & REASSESSMENTS

Rent and contractual changes. Reasonably certain end of lease plans.

END OF LEASE RECORDATION

Recording of journal entries to reflect end of lease renewal, termination, or buyout.

LEASE DEFINITION

Testing of embedded leases for inclusion. Classification as operating or finance lease.

MONTHLY CLOSE

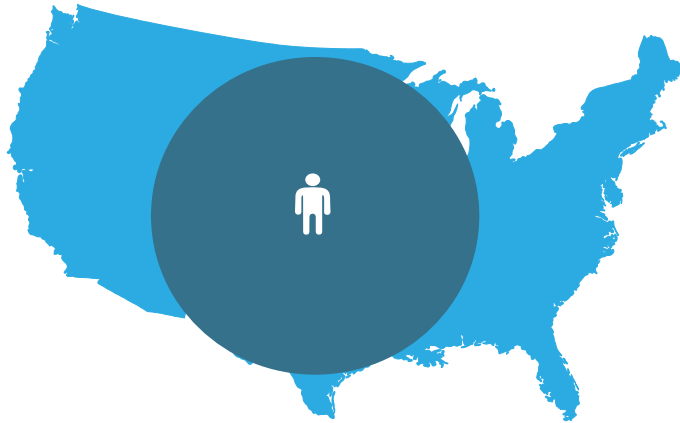
Subledger cutoff. Reconciliation and adjusting entries. General ledger upload.



The Big Challenge with Talent

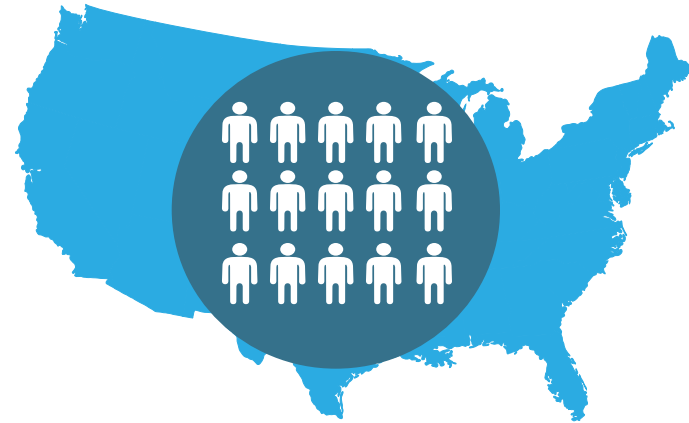


2015



250 Experts

2020



250,000 Experts



Developing a Training Strategy



What?

- Business Impacts
- New Software
- Process Changes
- Policies and Controls

Who?

- Center of Excellence
- Asset Users

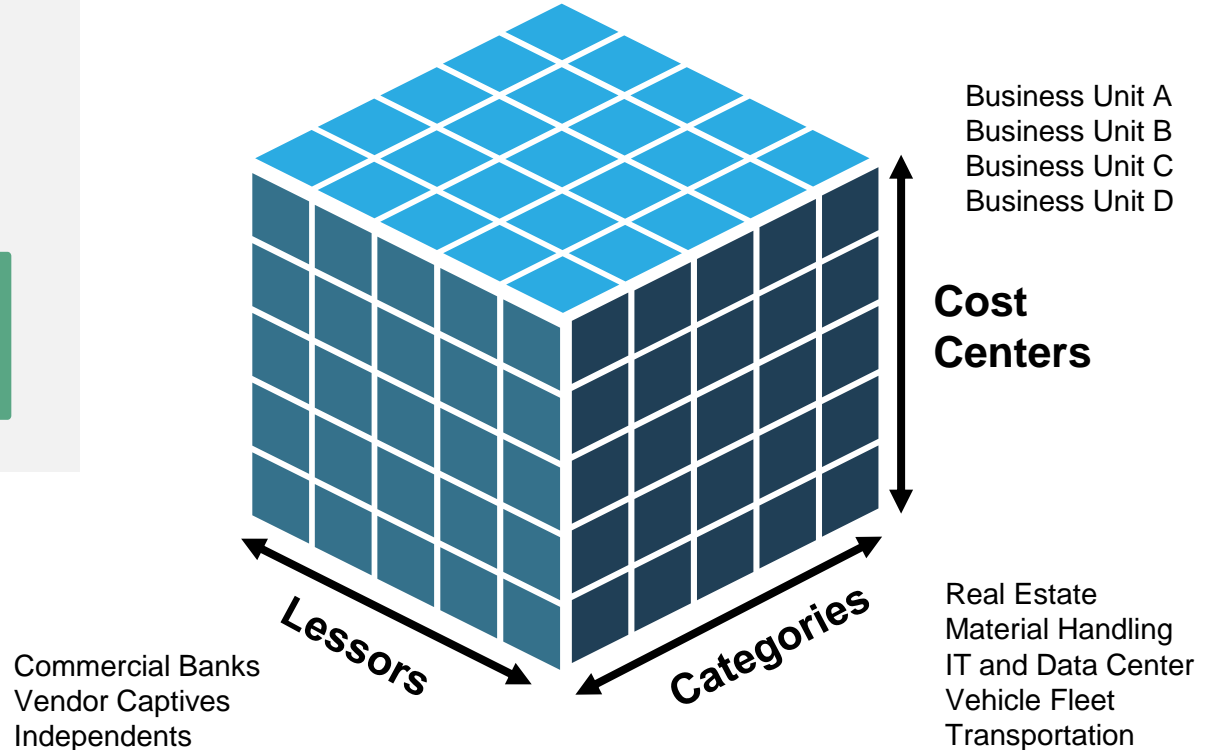
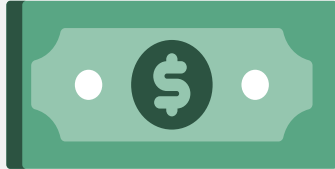
How?

- Online
- In Person Classroom



Potential Savings Opportunity

**Over 15 Cost
Savings
Opportunities**





Poll #3

How will the time and effort your organization spends on lease accounting change in the first year after adoption?

- a) Decrease - We will spend Less time
- b) Increase - We will spend More time
- c) No Change - We will spend the Same amount of time



IFF CASE STUDY

**LEASE
ACCOUNTING**

International Flavors & Fragrances, Inc.



NYSE: IFF

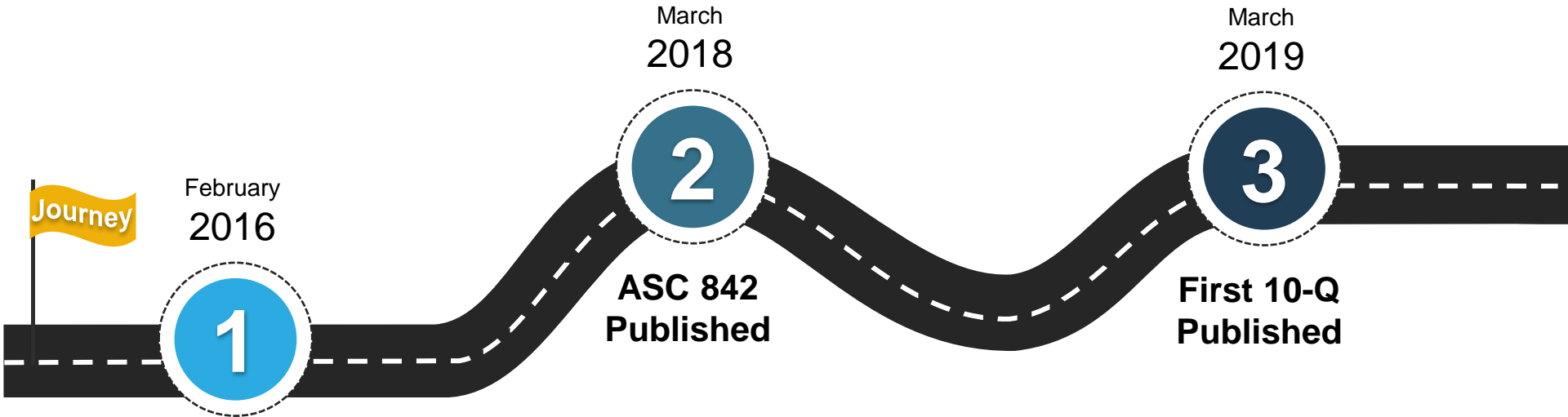
Listed 54 Years

Company Snapshot

- 130 Year History
- \$5 Billion Sales Revenue
- 13,000 Employees
- Located in 37 Countries
- Serving 162 Countries
- 90,000 Products
- 39,000 Customers



Successful Lease Accounting Journey



**ASC 842
Published**

**ASC 842
Published**

**First 10-Q
Published**

**IFF was successful in complying with
the new ASC 842 standard**

No concerns from PwC, the auditor for IFF



The Project Management Office

DATA COLLECTION

Trained 60 individuals globally to gather leases and lease information

SYSTEM EXPERTISE

Gained expertise on the use of system to accomplish the goal of creating lease accounting information

TRAINING

Training on both the accounting standard and how to best gather lease accounting information

COMPLIANCE

Complied with ASC842 and to generate the footnote disclosure for the Form 10-Q





Key Challenges to Overcome

60

GLOBAL
COLLEAGUES



50

LEGAL
ENTITIES



35

FOREIGN
CURRENCIES



CENTRALIZED
TREASURY



COMPLETENESS
& ACCURACY



Key Processes



Lease Info
from Local
Teams



Incremental
Borrowing
Rates



Completeness
of Population
in System



Disbursement
journals &
Accounts Payable



System
Inputs &
Outputs



Cradle-to-Grave
Ledger Export
Testing



Practical
Expedients



Recalculate
Lease Liabilities
& ROU Assets



Posting by
Entity in LC



IFF's March 2019 10-Q

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-4858

**INTERNATIONAL FLAVORS &
FRAGRANCES INC.**
(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

521 West 57th Street, New York, N.Y. 10019-2960
(Address of principal executive office) (Zip Code)

13-1432060
(L.R.S. Employer
Identification No.)

Registrant's telephone number, including area code (212) 765-5500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$12.12 per share	IFF	New York Stock Exchange
6.00% Tangible Equity Units	IFFT	New York Stock Exchange
0.500% Senior Notes due 2021	IFF 21	New York Stock Exchange
1.750% Senior Notes due 2024	IFF 24	New York Stock Exchange
1.800% Senior Notes due 2026	IFF 26	New York Stock Exchange

Number of shares outstanding as of April 24, 2019: 106,691,137

At the Transition Date

IFF recorded a

- Right of use asset of ~\$308 million
- Total operating lease liabilities of ~\$313 million

All the data was generated through the use of LeaseAccelerator



IFF Balance Sheet Highlights

Lease liabilities of ~\$390M

ROU assets, net of depreciation ~\$300M

Supplemental balance sheet information related to leases was as follows:

(DOLLARS IN THOUSANDS)

	March 31, 2019
Operating Leases	
Operating lease right of use assets	\$ 300,888
Other current liabilities	37,198
Operating lease liabilities	266,569
Total operating lease liabilities	\$ 303,767



IFF Footnote Disclosure

ROU Assets disaggregated by region for footnote disclosure

Right of use assets by region were as follows:

(DOLLARS IN THOUSANDS)

March 31, 2019

North America	\$	142,748
Europe, Africa and Middle East		120,785
Greater Asia		23,151
Latin America		14,204
Consolidated	\$	300,888



IFF March 2019 10-Q Highlights

Operating lease cost ~\$12.4M

Operating cash flows from operating leases ~ \$11.1M

<u>(DOLLARS IN THOUSANDS)</u>		Three Months Ended March 31, 2019
Operating lease cost	\$	12,469

Supplemental cash flow information related to leases was as follows:

<u>(DOLLARS IN THOUSANDS)</u>		Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	11,076

Supplemental balance sheet information related to leases was as follows:



IFF Quantitative Disclosures

Weighted average remaining lease term 11.9 years

Weighted average discount rate 3.75%

	Weighted Average Remaining Lease Term (in years)	Weighted Average Discount Rate
Operating leases	11.9	3.75%

Maturities of lease liabilities were as follows:

<u>(DOLLARS IN THOUSANDS)</u>	March 31, 2019
Less than 1 Year	\$ 37,680
1-3 Years	77,037
3-5 Years	65,087
After 5 years	211,387
Less: Imputed Interest	(87,424)
Total	<u>\$ 303,767</u>



Poll #4 - Presentation

How will you present your Operating ROU assets and Lease Liabilities on your statement of financial position?

- a. Separate line item for ROU assets and separate line items for the current and the long-term Operating Lease Liabilities
- b. Everything is combined with other line items on the statement of financial position (PPE, current or long term liabilities) and we disclose details in a separate Lease footnote only
- c. Our ROU Asset is separately disclosed, but only the long-term Operating Lease Liability is separately disclosed. We combine the current Operating Lease Liability with another line item such as “other current liabilities”
- d. Other presentation

(ASC 842-20-45-1 permits disclosure in the notes in lieu of separate presentation on the balance sheet)

Questions





JUNE 12TH

FORT WORTH, TX

ENTERPRISE LEASE ACCOUNTING SUMMIT '19

www.leaseaccountingsummit.com



Contact Information



Robert Kugel
SVP & Research
Director

robert.kugel@ventanaresearch.com



Michael Keeler
CEO and
Founder

keeler@leaseaccelerator.com



Len Neuhaus
Lease Accounting
Consultant

Len.neuhauss@iff.com