

# Walmart's Journey to Compliance: Successful Adoption of IFRS 16 and ASC 842

4 April 2019 | 1:00 – 2:00 PM ET



NAKISA  
LeaseAdministration



# Speaker

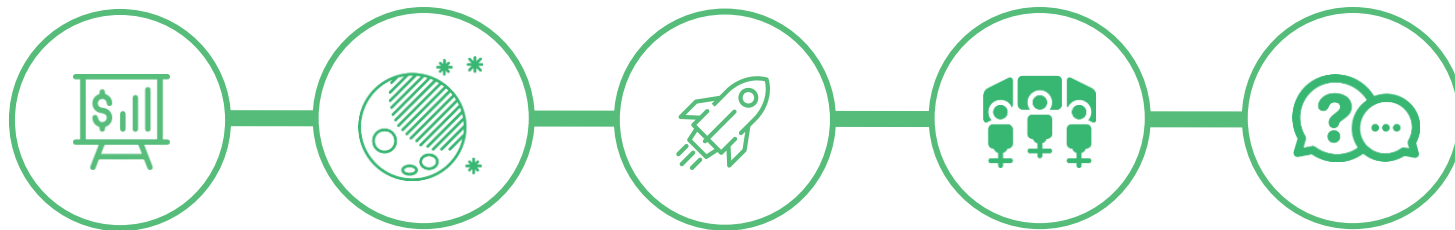


## Shawn Husband

Senior Director, Lease Center of Expertise at Walmart

Shawn Husband is the Senior Director, Global Lease Center of Expertise at Walmart. In his role, Shawn oversees accounting for all leases executed, provides accounting guidance on leases and is leading the adoption of the new IFRS and US GAAP lease standards while guiding markets on internal controls and processes related to leases. During Walmart's transition to the new lease accounting standards, Shawn has taken on leadership roles to chair the FEI Leases Working Group as well as Nakisa's Lease Accounting Software User Group.

# Agenda



Accounting  
Complexities

Landscape

Walmart's  
Journey

Lessons  
Learned

Q & A



# Accounting Complexities

# Regulatory Changes for Lease Accounting

Impact of the New Standards

## Current

IAS 17

ASC 840

- Leases reported off balance sheet
- Disclosed as notes in the financial statements

\*Excludes short-term leases (both) and low-value assets (IFRS 16 only)



The new compliance regulations have a **significant** impact on how businesses account for their leases

## New

IFRS 16

ASC 842 (US-GAAP)

- Capitalize all leases\*
- Recorded as assets and liabilities on the balance sheet

### IMPACT

- ✓ New Processes
- ✓ Training
- ✓ Upgrading Technology
- ✓ More Detailed Reporting Requirements
- ✓ Technical Accounting Assessment

IFRS 16 effective date: January 1, 2019  
ASC 842 effective date: December 15, 2018

## Polling Question

Have you adopted the new lease accounting standard(s) or is your date of adoption in a future periods?

- a) Adopted
- b) Adopt in 1-3 months
- c) Adopt in 4-6 months
- d) Adopt in 6+ months

# Complexities of the Lease Accounting Standards

Initial Measurement	ROU Asset & Lease Liability	
Subsequent Measurement	Periodic Postings	
Event Management	Lease Modification & Remeasurement	
Index & Rate Changes	IFRS 16	ASC 842
Quantitative Disclosures	IFRS 16	ASC 842

- Prepaid
- Initial Direct Cost
- Free Rent Periods
- Cash Incentives
- Base Rent
- Extensions
- Termination Option
- Purchase Option

- Payments
- ROU Asset Depreciation
- LT to ST Liability Reclassification
- Interest Accruals

- Increase or Decrease in Scope
- New Terms
- Modify Existing Terms
- Impairment
- Casualty
- And many more

- Remeasurement of ROU Asset and Lease Liability

- No Remeasurement of ROU Asset and Lease Liability
- Apply Amount Difference to Variable Lease Expense

- Finance Lease Cost
- Short-Term Lease Cost
- Low-Value Asset Lease Cost
- Variable Lease Cost
- Cash Paid for Amounts Included in the Measurement of Lease Liability
- Total Cash Flow for Leases
- Additions of all ROU Assets
- Carrying Amount of ROU Asset
- Maturity Analysis
- Certain of the above disclosures required by class of assets

- Finance Lease Cost
- Operating Lease Cost
- Short-Term Lease Cost
- Variable Lease Cost
- Cash Paid for Amounts Included in the Measurement of Lease Liability
- ROU Asset Obtained in Exchange for New Finance or Operating Lease Liability
- Operating Lease Liability
- Weighted-Average Remaining Lease Term
- Weighted Average Discount Rate
- Maturity Analysis



**Facilitated  
by  
specialized  
leasing  
software**

# Initial Recognition

The lease liability is initially recognized at the commencement day and measured at an amount equal to **the present value of the minimum lease payments** during the lease term that are not yet paid;

The right-of-use asset is initially recognized at the commencement day and measured at cost, consisting of the amount of **the initial measurement of the lease liability, plus any lease payments** made to the lessor at or before the commencement date, **plus any initial direct costs incurred by the lessee** and **less any lease incentives** received.

## Lease Liability

Present Value of  
Minimum Lease  
Payments

## ROU Asset

Lease Liability

(-) Incentives

(+) IDC/Prepayments



# Lease Payments



Fixed Lease Payments



Variable Lease Payments



Guaranteed Residual Value



Termination Penalties



Purchase Options

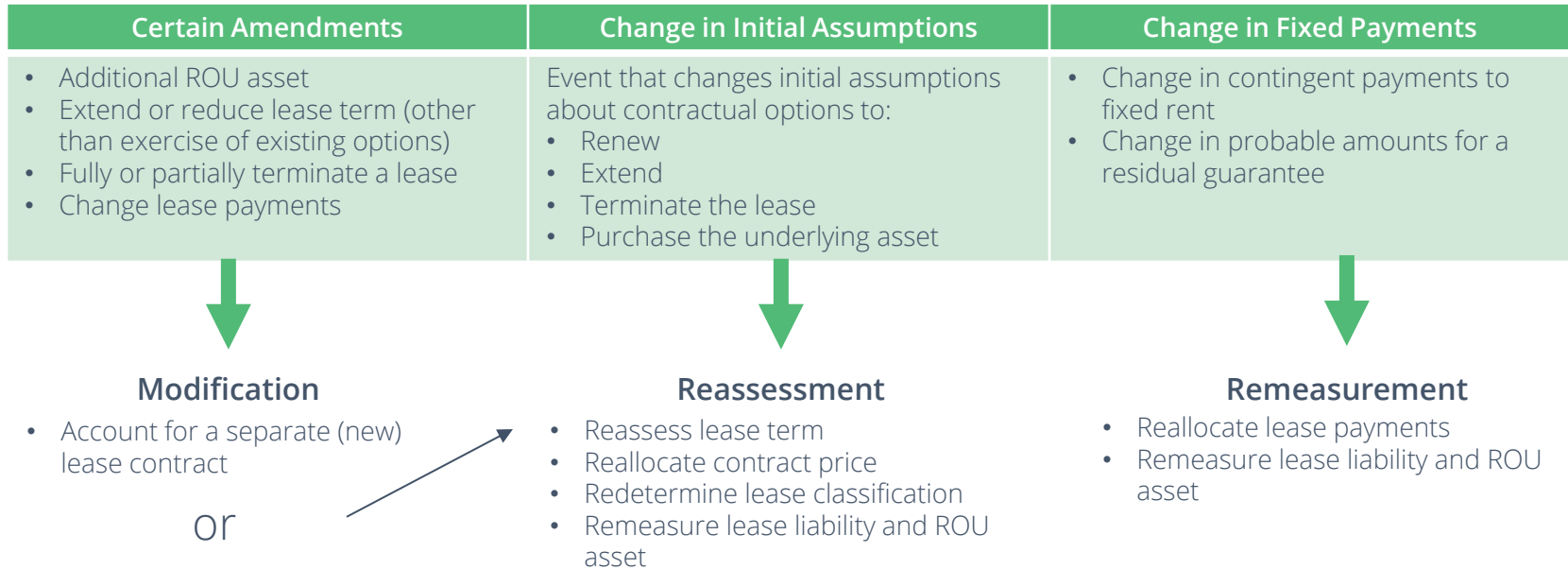


IDC/Prepaid/Incentives

Calculation of **ROU asset** and **lease liability** on commencement date using discount rate and terms that are likely to be exercised

# Lease Modifications and Reassessments

The following are some of the common lease changes that could occur subsequent to initial measurement and recognition of a lease that would require accounting evaluation:



# IFRS 16 & ASC 842: Quantitative Disclosure Requirements

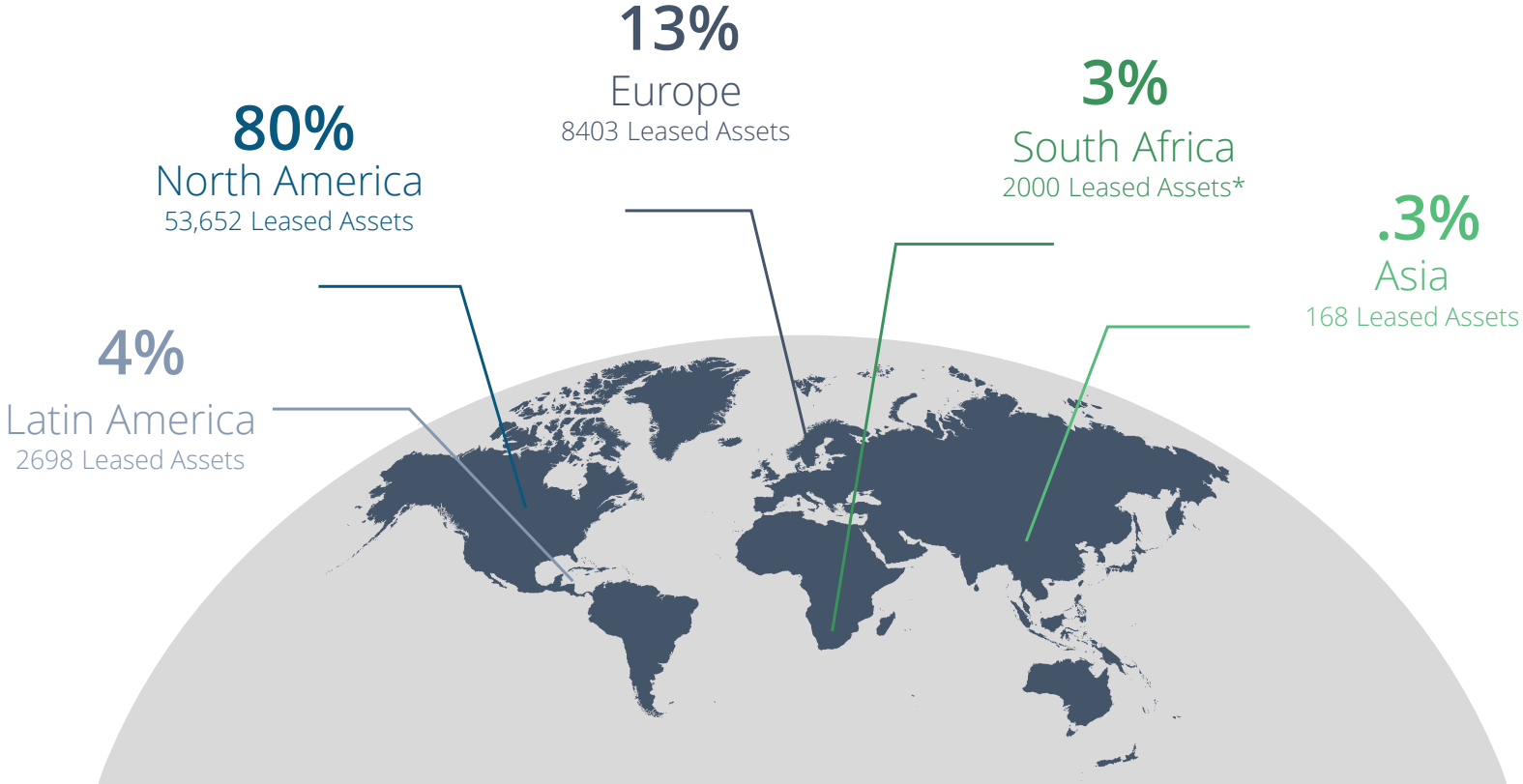
List of Quantitative Disclosures	IFRS 16	US GAAP ASC 842
<b>Lease Cost</b>		
Finance Lease Cost		
Amortization of right-of-use assets	✓	✓
Interest on lease liabilities	✓	✓
Operating lease cost		✓
Short-term lease cost	✓	✓
Low-value asset lease cost	✓	
Variable lease cost	✓	✓
<b>Quantitative Disclosures – Other</b>		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	✓	✓
Operating cash flows from operating leases		✓
Financing cash flows from finance leases	✓	✓
Total cash outflow for leases	✓	
Additions of all Right-of-use assets during the period, inclusive of ROU in exchange for Cash (Prepaid leases)	✓	
Right-of-use assets obtained in exchange for new Finance lease liabilities		✓
Right-of-use assets obtained in exchange for new Operating lease liabilities		✓
Carrying amount of Right-of-use assets disclosed by underlying asset classes	✓	
Weighted-average remaining lease term - finance and operating leases		✓
Weighted-average discount rate - finance and operating leases		✓
Maturity Analysis of finance and operating lease liabilities for each of the first five years after the balance sheet date and in total thereafter (undiscounted cash flows reconciled to the amounts presented in the balance sheet)	✓	✓



Landscape

# Global Landscape

## Contract Breakdown



\*Estimate

# Unique Regional Requirements

1

## High Volume & Diversity

10's of thousands of assets and contracts  
Nonstandard agreements and terms  
Many asset classes, including equipment, movables and real-estate leases

2

## Tax Complexity

Complex VAT environment in many countries with unique number required or paper documents  
Sales tax complexities in some markets requiring different rates by location and asset type

3

## Accounting Periods

4-5-4 Calendar in South Africa  
Other markets have different year ends

4

## Number of Ledgers

Markets with up to 3 ledgers (ASC 842, IFRS 16, and/or IAS 17)  
Combination of connected and disconnected ledgers





Walmart's Journey

# Journey

Key Milestones





# Walmart Activities to Adopt

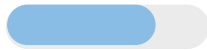
## Abstraction & Data Quality Checks

- Ongoing catch up
- Standard data quality checks
- Analytical checks



## Drafting Accounting Policy (with practical application)

- Adoption policy
- Lease policy (US GAAP and IFRS)
- Index/Rate at Transition
- Lease/Nonlease elections
- Materiality (embedded)
- Portfolio Approach



## Accounting Processes

- GL accounts
- Transition requirements
- Transition entries
- Ongoing processes



## Controls

- Threshold development
- One-time adoption
- Ongoing
  - Abstraction
  - Management review
  - ITGCs



## Trainings

- Monthly technical trainings
- Deep dive training
- Operational processes
- Systems



## Disclosure Approach

- Drafting "mock" disclosures 1 year in advance
  - Quantitative
  - Qualitative



## Systems Implementation

- Configuration
- Data migration mapping
- Cutover testing
- User acceptance testing



## Operational Processes

- Data abstraction
- Lease identification ("find")
- Lease versus buy
- Structuring agreements



# Vendor Selection

## Walmart's Unique Requirements

Key Requirements	Met by Nakisa
Integration with SAP ERP Systems (ECC and S/4 HANA)	✓
Read and write capabilities between accounting system and SAP GL and Fixed Asset Module	✓
Ability to manage more than 65,000 leased assets in a single system	✓
Ability to automatically post more than 200,000 journal entries per month to ERP systems	✓
Ability to capture terms and conditions (prepayments, IDC, free rent period etc.)	✓
Ability to handle lease modifications and reassessments	✓
Ability to handle different year ends per company code	✓
Allow for multiple ledgers per company code	✓
Ability to handle multi-currency through fx remeasurement and translation	✓
Ability to handle real-estate and equipment leases	✓
Complete and accurate calculations and disclosure reporting	✓

# Why Nakisa?

Nakisa Lease Administration streamlines and simplifies lease accounting operations while enabling compliance.



Robust accounting capabilities covering complex use-cases



Knowledgeable team of technical experts



Complete and accurate IFRS 16 & ASC 842 disclosure reports

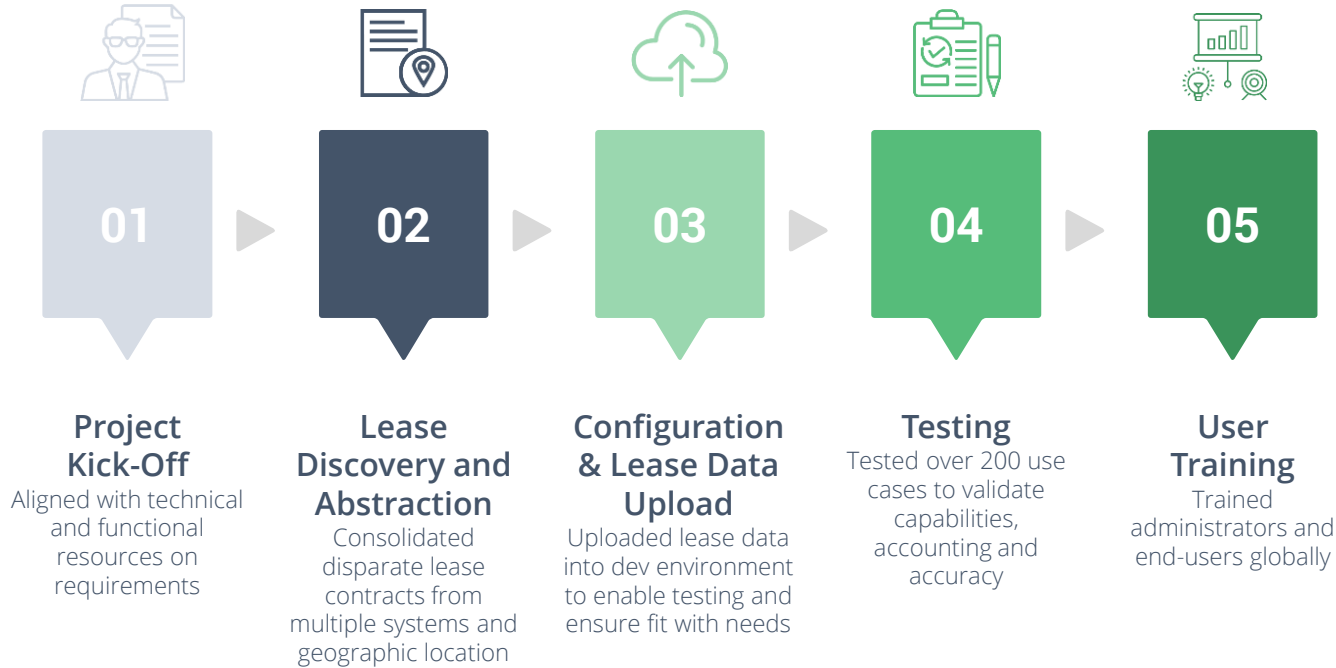


Native SAP integration and option to use disconnected mode



# Implementation

## Project Overview



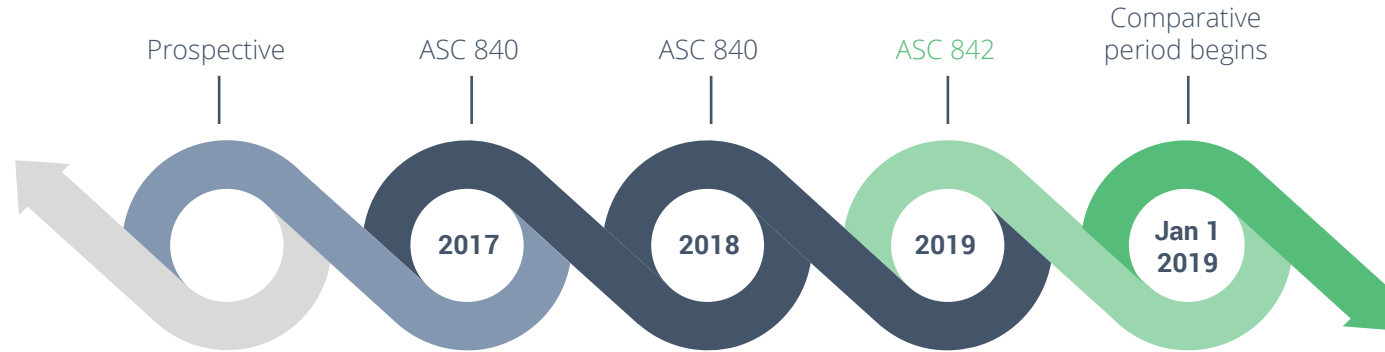
## Polling Question

What has been your biggest challenge associated with adopting the new lease accounting standards?

- a) Creating an inventory of all lease data
- b) Developing and implementing new policies, processes and controls
- c) Managing differences between the new standards for US GAAP vs IFRS
- d) Implementing lease system solution
- e) Ongoing contract management and lease accounting

# Transition Approach

## ASC 842 Prospective Method with Relief

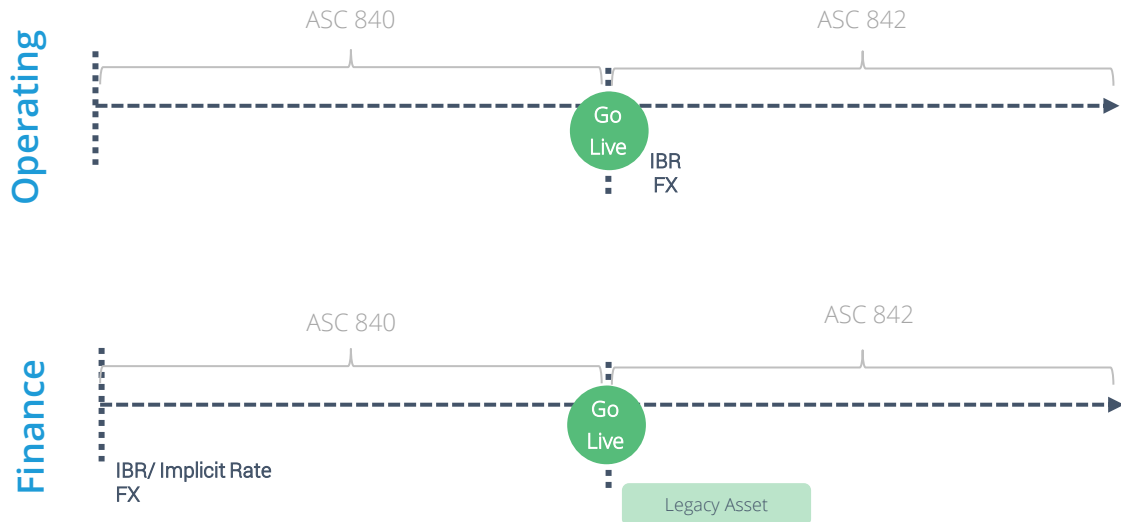


2017-2018 under prospective approach: Apply ASC 840 in the financial statements and apply ASC 842 starting the effective date (1/1/2019)

- ✓ No comparative reporting for previous periods
- ✓ All leases are entered based on remaining lease payments at transition date

# Transition Approach

## Operating and Finance Leases



# Technical Landscape

NAKISA

## LeaseAdministration

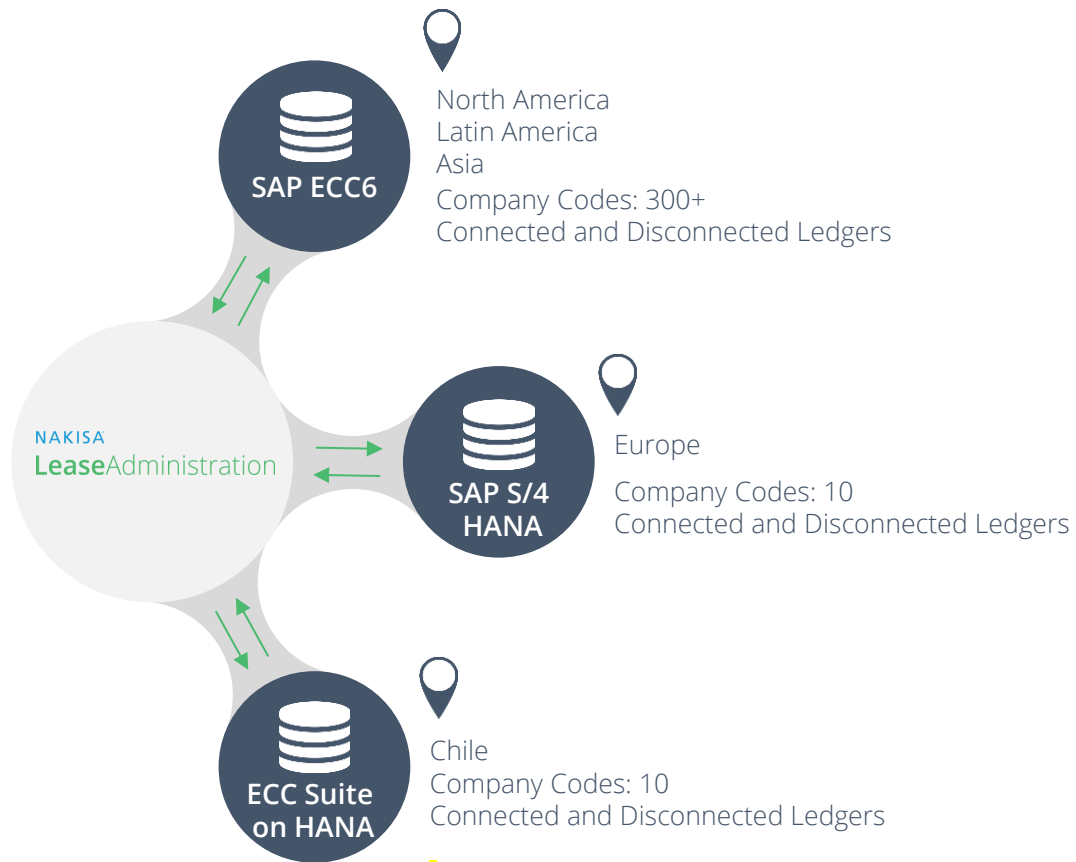
### Data Read from SAP ERP Systems:

- Master Data
  - Vendors
  - Currencies
  - Exchange Rates
  - Cost Objects (cost centers, profit centers, WBS, internal orders)
  - Asset Class

### Data Written to SAP ERP Systems:

- Data for up to 3 Accounting Standards\*
- Postings to AP Subledger (direct payments in Japan)
- Journal Entries
- Asset Master Records

\* Primary Accounting Standards: US GAAP (ASC 842)  
Secondary Accounting Standard: IAS (IFRS 16)  
Third Accounting Standard: IAS (Local GAAP – IAS 17)





## Polling Question

What are you using to support accounting under the new standards?

- a) Excel or in-house solution
- b) Use existing software
- c) Select a new lease accounting solution
- d) Consultants/accounting firm
- e) Haven't decided

## Polling Question

Follow up: Is this your long-term solution?

- a) Yes
- b) No
- c) Not sure



## Nakisa Advisory Council

A group of customers, partners and solution experts who meet to discuss Nakisa Lease Administration and advise on future roadmap items.

## Co-Innovation

Upcoming Features and Functionality

- ▶ Intercompany Leasing (Subleases)
- ▶ Asset Impairment
- ▶ Lessor Accounting
- ▶ Evergreen Leases
- ▶ Activity Analysis & Reconciliation Reports
- ▶ Asset Retirement Obligation

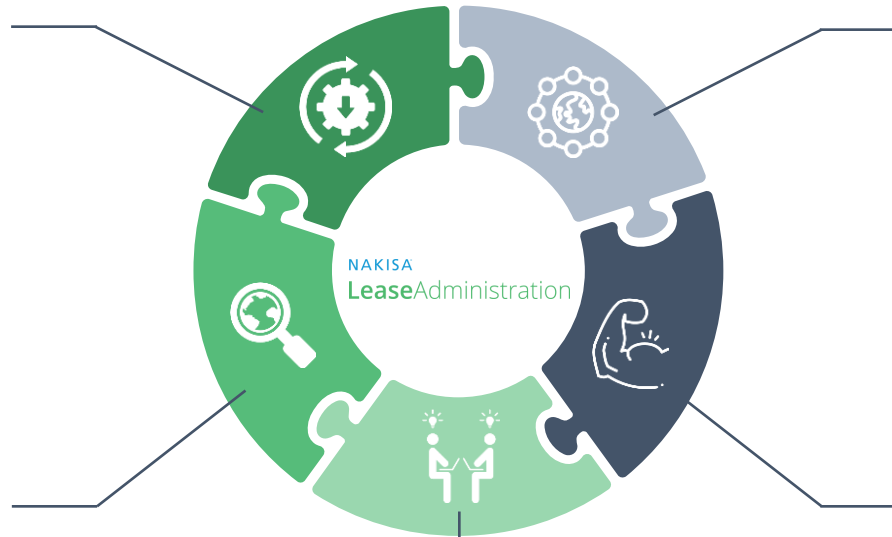
# End Result

## Seamless Integration

- Global ERP landscape connected to one single system for lease accounting

## Scalable Solution

- Ability to handle lease management and accounting for a global lease portfolio, at scale



## Global Visibility

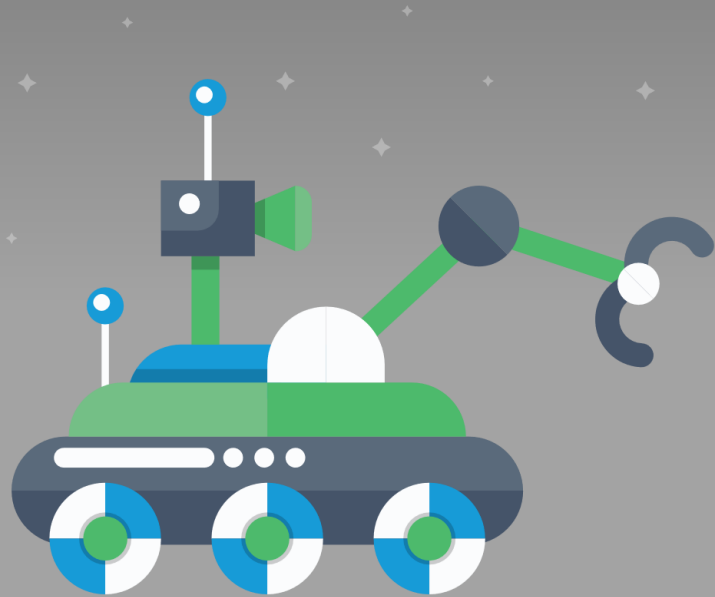
- Centralized all lease data from disparate systems and geographic locations

## Robust Accounting

- Easily facilitate lease reassessments and modifications
- A full set of quantitative note disclosures

## Co-Innovation

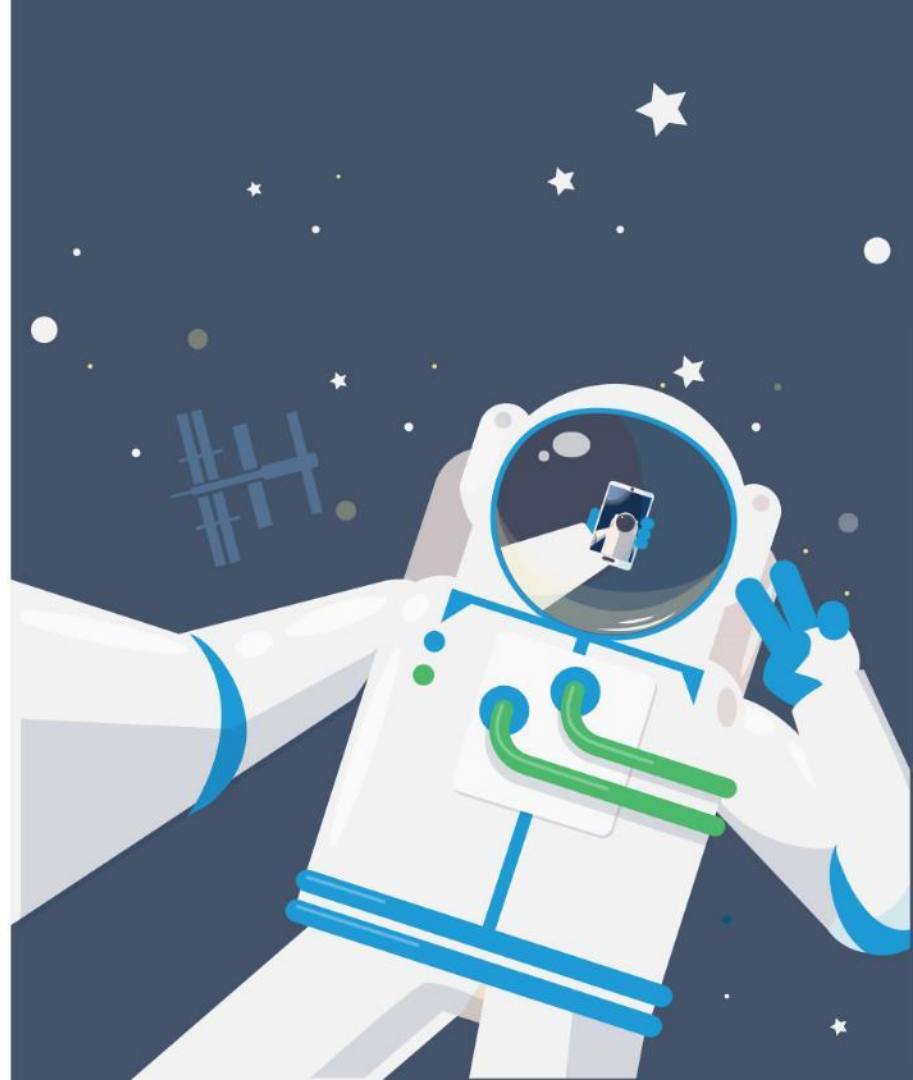
- Walmart led Nakisa User Group
- Opportunity to advise on roadmap items



Lessons Learned

# Words of Wisdom

- 1** Start as Early as Possible  
Data collection, software selection and migration processes will take longer than you think
- 2** Get Data Collection Right the First Time  
Leases can have hundreds of different variables and missing any the first-time might mean data needs to be re-gathered. Policy decisions have to be made upfront or can change abstraction requirements (e.g. index/rate at commencement or transition?)
- 3** Enable Global Teams to Participate  
Teams need to be enabled on sharing lease accounting data and how to use new lease accounting technology. Training needs are robust and need to be started early and reinforced.
- 4** Assemble a Large Support Team  
The compliance process requires support from across your organization from Finance and Accounting to IT and Business Operations
- 5** Pick a Vendor to be Your Partner  
Adopting the new lease accounting standards can take months, it's important to pick a vendor you can trust





# Q&A

For any questions about the webinar or its content please contact Sarah Sternberg, Marketing Product Owner at

[sarah.sternberg@nakisa.com](mailto:sarah.sternberg@nakisa.com).