

EFFECTIVE USE OF **AI & MACHINE LEARNING**

AND THE NEW **LEASE STANDARD**

Presented by:

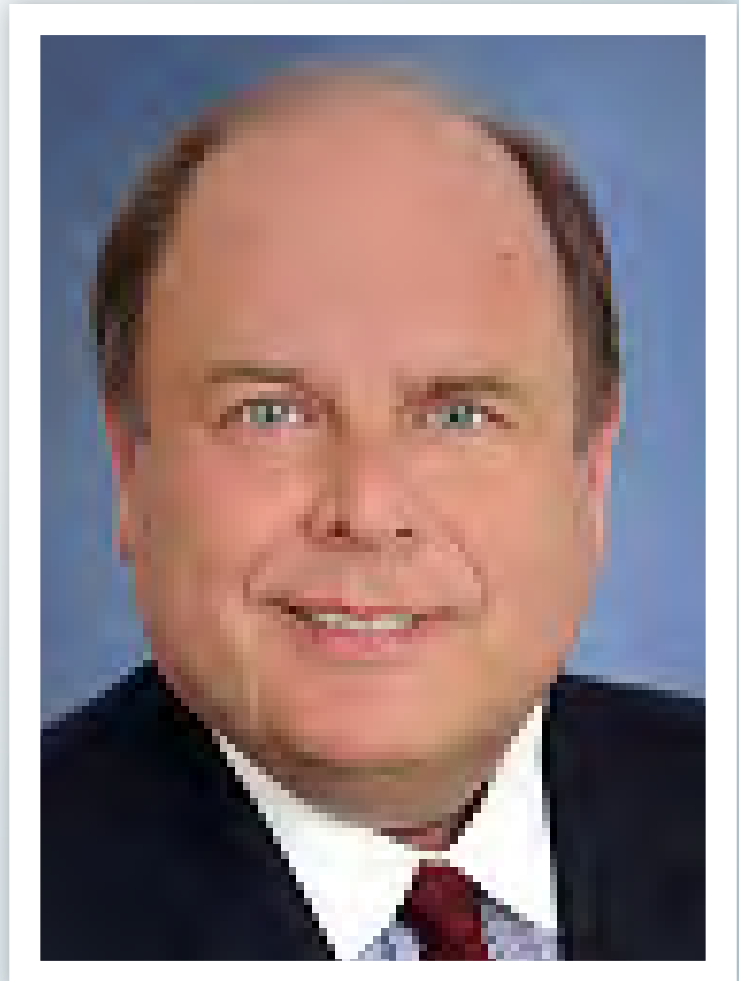


INTRODUCTIONS



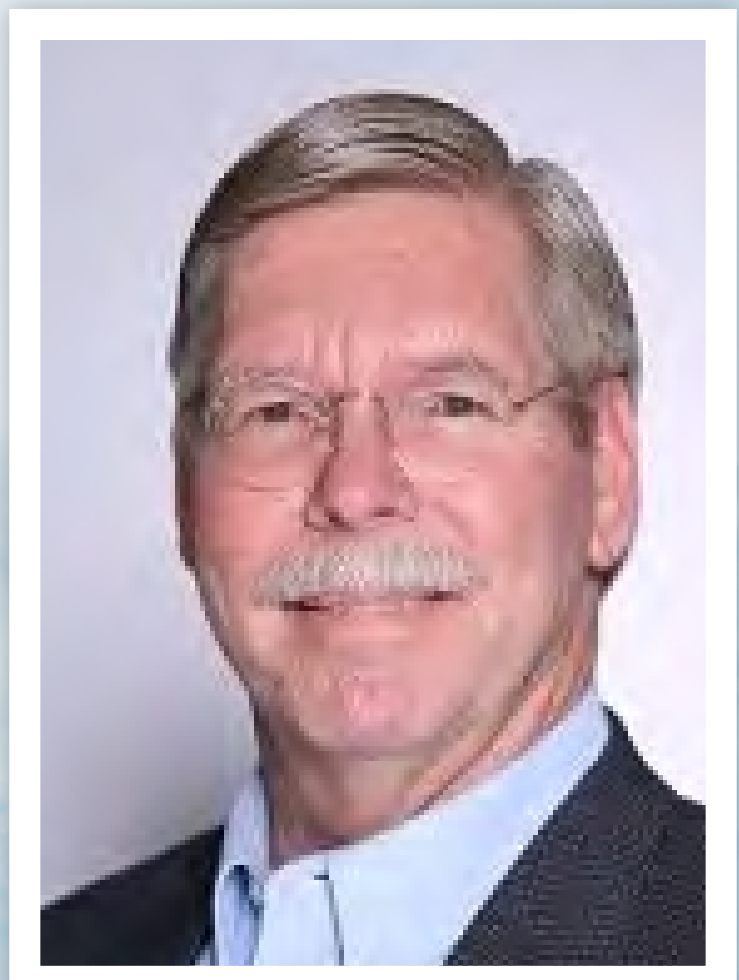
STEPHEN G. AUSTIN
CPA, MBA

Managing Partner



JOEL C. COLBOURN
MBA

Lease Accounting Director



INTRODUCTIONS



Swenson Advisors, LLP (Swenson) is a full service accounting, tax, and consulting firm. Since 1998, the Firm has provided comprehensive services to middle-market public and private companies, as well as high net worth individuals throughout Southern California.

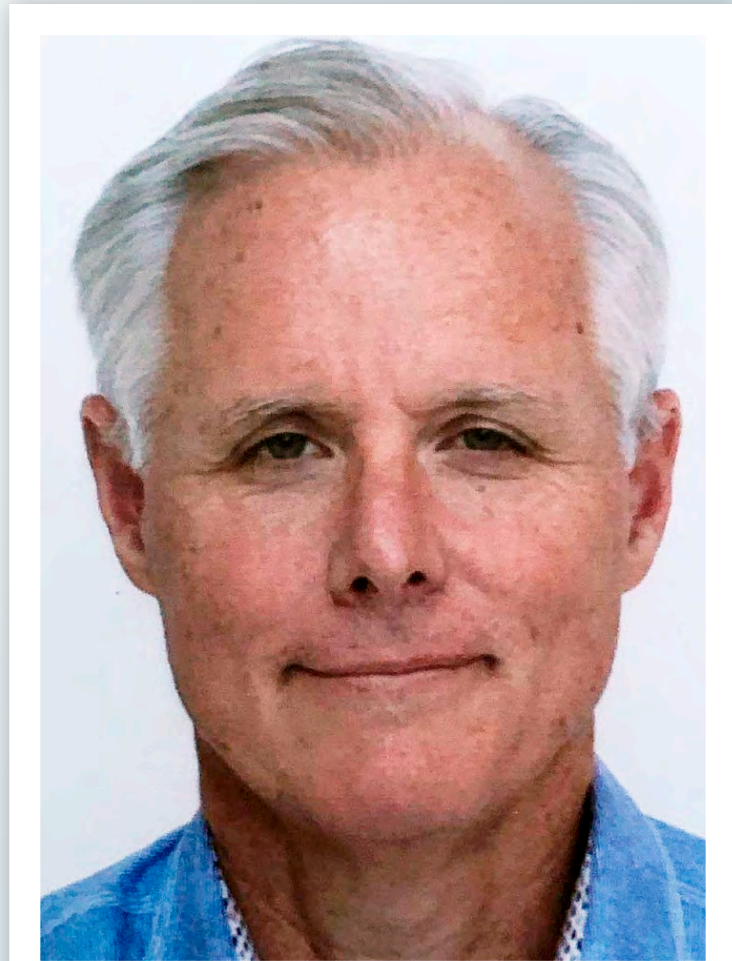
The Firm services a variety of industries including technology, real estate, manufacturing, distributing, biotechnology, and non-profits.

INTRODUCTIONS



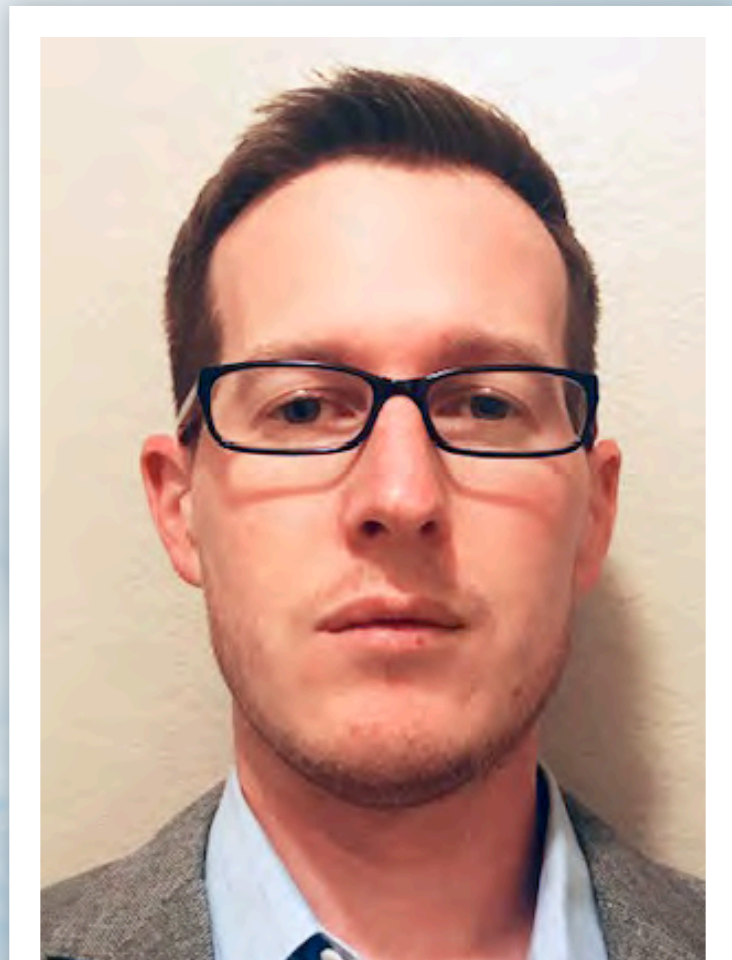
MICHAEL FRAUNCES, JD

President, Md7



JARED WILLIAMS, JD

Director of Strategic Initiatives, Md7



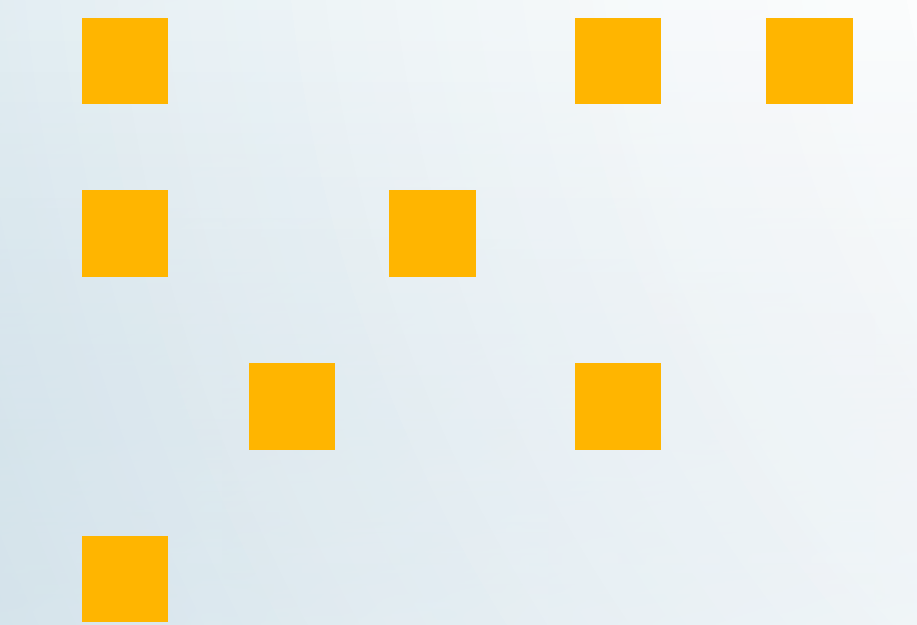
INTRODUCTIONS



Md7 is a turnkey site development and real estate management company serving the telecommunications industry since 2003.

Md7 is an invaluable partner to wireless companies offering deep industry expertise, integrity, technical know-how and innovative solutions. We help wireless operators manage their cell site leases, landlord relationships and all their real estate-related issues. With offices in the US and Europe, we are uniquely positioned to expertly manage any and every lease portfolio.

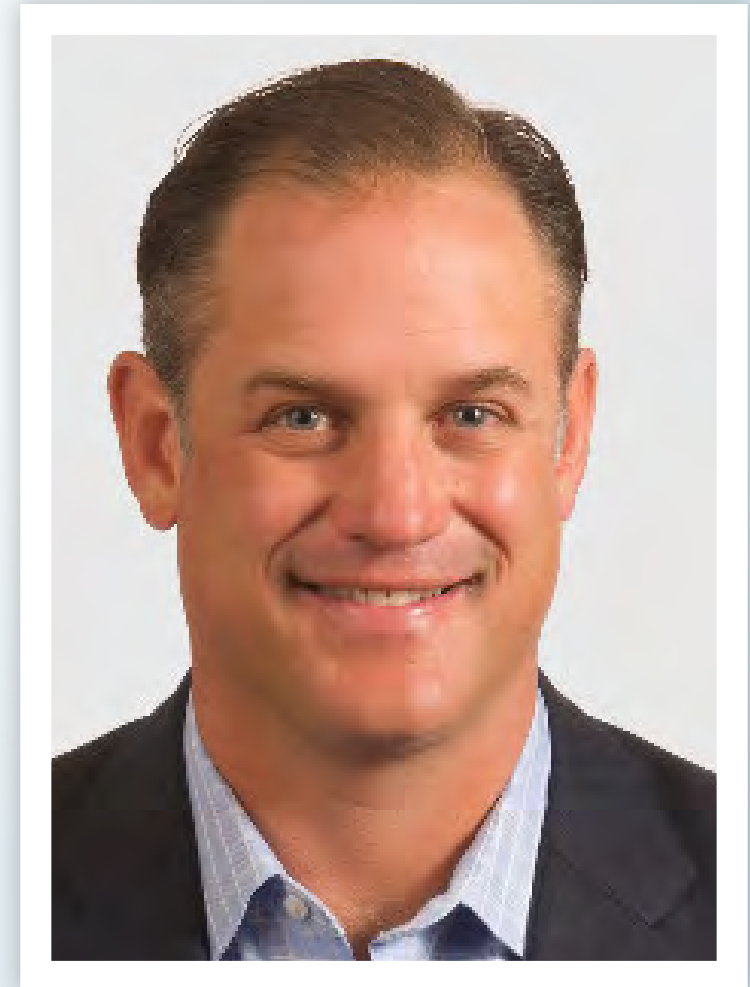
INTRODUCTIONS



cresa

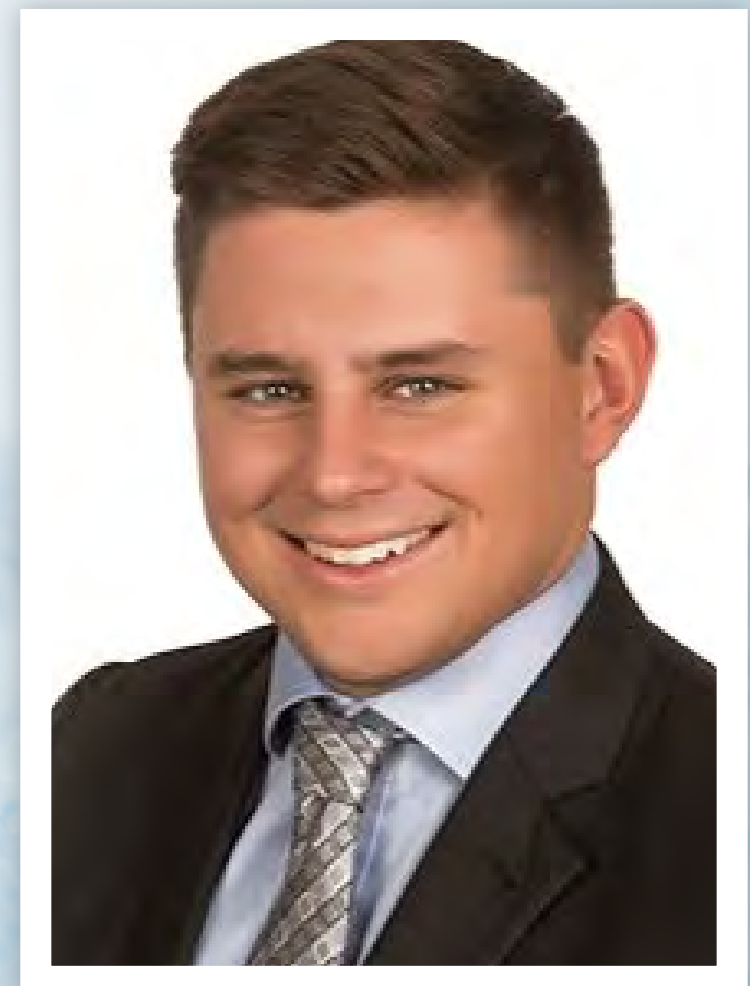
SIMON TERRY-LLOYD

Managing Principal



JOSH ESTILL

Advisor



INTRODUCTIONS



For more than 30 years, Cresa has served as an objective, stable business partner to San Diego-area commercial occupiers. We partner with our clients help them align their business plans and their real estate needs, increase their productivity, and consistently save them money.

Our experienced team of real estate advisors, project managers, strategic planners, analysts, and space planners listen to occupiers' needs, meticulously research market conditions, firmly negotiate terms, and manage the design and construction of projects to customize the best possible occupancy solutions.

ASC §842 IMPLEMENTATION

TIMELINE

Pre-01.01.20:

Applied the Practical Expedients vs. Restatement of Prior Years:

- Does arrangement contain a lease?
- No lease classification assessment as to finance vs. operating
- No recognition of initial direct costs
- No applicable of hindsight events
- Non-recognition of lease 12 months or less
- Maintain current accounting for easements



Post-01.01.20:

Review All New and Amended Leases for:

- Lease classification as to finance vs. operating (5 criteria)
- Contracts that contain a lease (5 criteria)
- Assessment of material direct costs
- Associated non lease cost assessment
- New SOX controls/footnote disclosures/continuous updating of leases data base for changes

CASE STUDY: ASC §842 IMPLEMENTATION



RISKS ASSOCIATED WITH ASC §842 IMPLEMENTATION

1. **Data Collection/Incorrect Data Inputs**
2. **Document Management and Completeness**
3. **Misapplication of Topic §842**
4. **Misapplication of the Practical Expedients**
5. **Lease Classification**
6. **Contracts Do or Do Not Contain a Lease**
7. **Machine Learning Risk**
8. **Rollup of Data to Lease Accounting Footnote Disclosure**

LEASE ACCOUNTING KEY FINDINGS

ALMOST
40%
OF PRIVATE COMPANIES
HAVE NOT
STARTED
THE ASC §842 PROJECT

- **Approximately 40% of private companies surveyed are behind schedule** or have not started their ASC 842 project – a concerning metric as the first implementation deadlines are quickly approaching.
- **12% indicated that they had already completed the project.** Those that have completed include private companies who are planning IPOs in the near future or are in the process of being acquired by a public company. There are also some privately held companies that have registered securities or are SEC filers and so must follow the deadlines for public companies.
- **The remaining 48% of private companies surveyed indicated that they were on schedule or ahead of schedule.** However, some of these companies may be underestimating the work effort remaining before Day One compliance much like their company counterparts did.

Source: lease accelerator – Lease Accounting Progress Report 2019

LEASE ACCOUNTING KEY FINDINGS

75%
**FIND LEASING PROJECT
MORE OR
AS COMPLEX
AS REVENUE RECOGNITION**

- Overall, **55% of private companies are finding the lease accounting implementation to be more complex** than anticipated. The top implementation challenge cited by more than 40% of respondents was identifying the population of leases and abstracting the data needed for the accounting calculations.
- Other top challenges cited included **modifying existing business processes**, project managing the enterprise-wide work effort, and applying new accounting policies.
- Compared to the revenue recognition accounting standard (ASC 606), 75% are finding the new leasing standard to be **just as much effort or more effort**.

Source: lease accelerator – Lease Accounting Progress Report 2019

LEASE ACCOUNTING RECOMMENDATIONS



**MANY
PRIVATE COMPANIES ARE
UNDERESTIMATING
THE COMPLEXITY
ASSOCIATED WITH
IMPLEMENTATION**

- Approximately 50% of private companies indicated that **they were either ahead of schedule or on schedule** with their lease accounting projects. A similar optimistic sentiment was offered by last year's survey respondents with 60% of public and private companies indicating they were ahead of or on schedule.
- However, at the time of the publication of this study, hundreds of publicly traded companies are closing the books on their first quarter reporting under ASC 842. **Very few of these public companies are indicating that the project is anywhere near complete even though they are a few months past the implementation deadline.** Most are indicating that a concerted effort will continue to be required through most of 2019.
- **Private companies should not underestimate the level of complexity** that will be required prior to transition and in the first year after adoption.

Source: lease accelerator – Lease Accounting Progress Report 2019

LEASE ACCOUNTING SOLUTIONS



(May 2019)

Real Estate Leases



12

Cresa Global

80 Offices
1,000 Professionals

Accounting Firms



8



8

Software



10

AI/Technology & Legal



8

8 Offices

300 Global

50 Professionals
TOPIC 842

*Members of Integra International

MD7 OVERVIEW



- **Established in 2003**
- **Md7 is a global leader in wireless network property services specializing in Telecomm Real Estate, Site Acquisition, Lease Administration, Analytics and Project Management**
- **Executed on contracts in US:**
 - Top Wireless Service Providers, Tower Companies, Fiber infrastructure providers as well as Network Equipment Manufacturers and Integrators
- **European Offices in Dublin & Maastricht Supporting:**
 - 11 Service Providers across 12 countries

OUR EXPERIENCE

Site Acquisition... Lease Optimization...

Audits & Abstracts...

15+ years of
experience in
telecom industry

Worked with 31
operators

...on 5 continents

Handled over
150,00 leases

Interfaced with
more than 100,00
landlords

...in 12 different
languages

Executed lease and
amendments in 18
countries
(incl. USA & Canada)

Delivered over
\$1B in term
savings

Abstracted and
analyzed over
75,000 leases

Construction Management...

Lease Administration & Landlord Management...

**WHAT IS
AI ?**



BUZZWORDS: WHAT DO THEY MEAN?

Machine Learning:

The study of algorithms and statistical models that computer systems use to effectively perform a specific task without using explicit instructions. With machine learning, a computer program is said to learn from experience (E) with respect to a task (T) and some performance measure (P), if its performance on T, as measured by P, improves with experience E.

Artificial Intelligence:

A field of computer science that pertains to any device that perceives its environment and takes actions that maximize its chance of successfully achieving its goals. Essentially, this is describing machines that mimic “cognitive” functions associated

Natural Language Processing:

A field of computer science, artificial intelligence, and computational linguistics concerned with the interactions between computers and human (natural) language.

CONTRACT ANALYZER

HOW IS



USING THIS
TECHNOLOGY?



- **Leverages Machine Learning and Natural Language Processing**
- **Increase in accuracy over human abstraction**
- **30%-90% time savings**
- **Self-training by non-tech professionals to extract custom terms**

CASE STUDY: ASC §842 IMPLEMENTATION



CASE STUDY: ASC §842 IMPLEMENTATION

PURPOSE:

Advise Client on, and assist with, the implementation of the new ASC §842 regulations related to lease accounting as they pertain to Client's potential lease documents

SCOPE:

Review all real estate agreements (~8,000) expiring in 2019 to:

- Make a lease/non-lease determination applying the new ASC §842 standards.
- Make a finance/operating lease determination applying the new ASC §842 standards.

Consult with Client to develop the processes and procedures necessary for:

- The initial determinations related to the agreements renewing in 2019.
- The ongoing assessment of all agreements that are renewing by amendment, or newly executed.
- Developing and implementing the appropriate key controls to meet the requirements of SOX 404 and to help facilitate Client's Auditor assessment as to design and effectiveness of key controls under SOX 404.

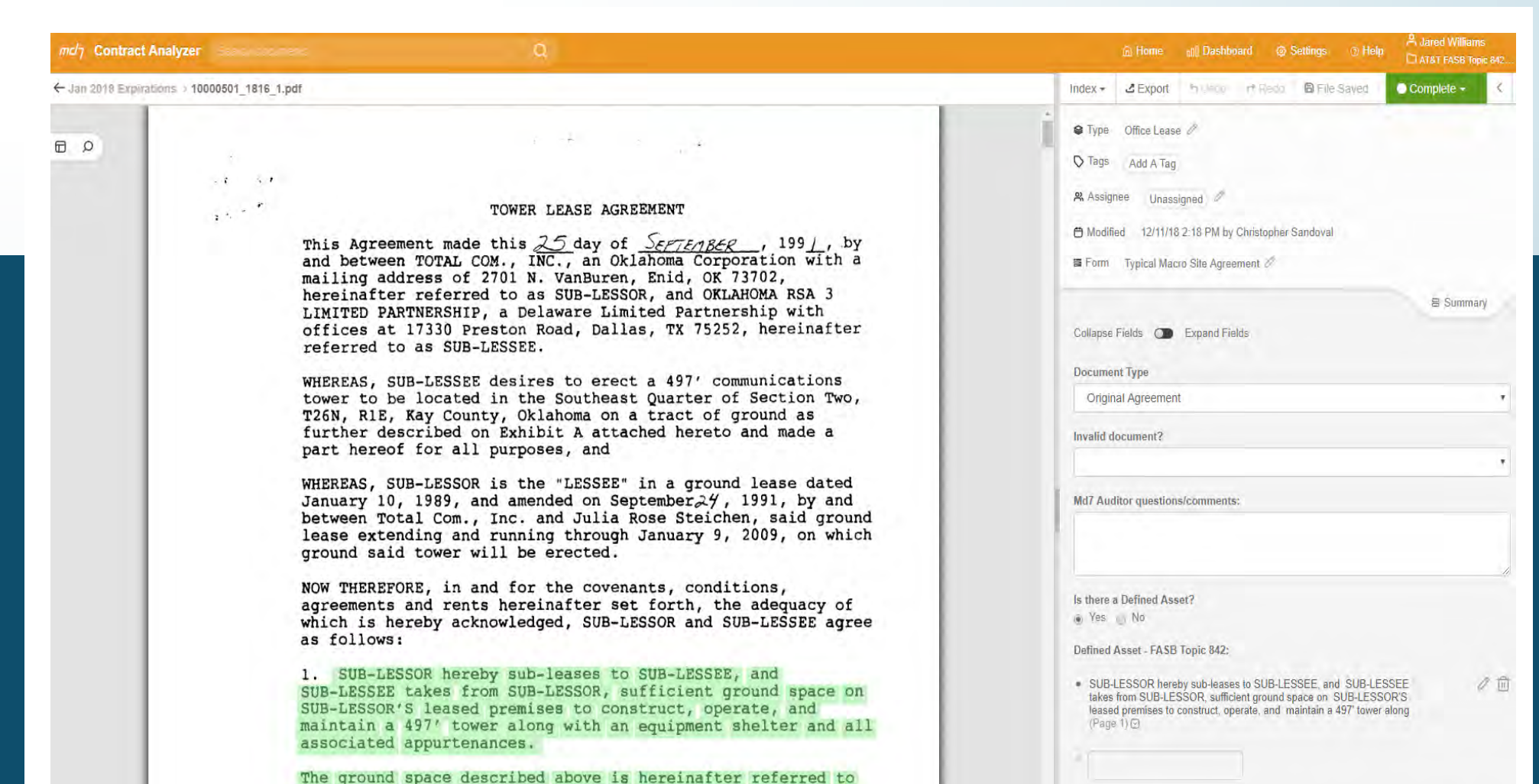
CASE STUDY: MD7 CONTRACT ANALYZER

HOW WE ARE CONDUCTING THE ASSESSMENT



FUNCTION WITHIN THIS PROGRAM

1. Md7 trains natural language based processing machine learning algorithms using AT&T agreements to locate language necessary for making lease/non-lease determinations.
2. Algorithms are then implemented and tested for accuracy and completeness. Once they have achieved certain accuracy levels, they are implemented.
3. The machine's "work" is put through a quality control review as part of the assessment process by the person making the lease/non-lease determination, and a separate / subsequent quality control review of the actual lease/non-lease determination.
4. Machine learning is being leveraged to locate the following information in the agreements being reviewed by Md7
 - Identified asset
 - Right to control the use of and obtain substantially all of the economic benefit from the asset
 - Substitution Rights



- Trained using telecom leases for the abstraction of telecom leases.
- Pre-trained rules and provisions are specific to telecom leases.
- Trained by LAWYERS with over 20 years combined experience in telecom.
- Trained to INTERPRET telecom lease language, not just locate it.
- Tested/proven accuracy in abstracting telecom leases for major wireless operators.

LEASE ACCOUNTING: A PRIVATE COMPANY PERSPECTIVE

By
Stephen G. Austin, CPA
Michael G. Fraunces, J.D.
and Alisia Scudder, CPA

MARCH 29, 2019

Our article published by the
Journal of Accountancy

The screenshot shows the top of the Journal of Accountancy website. The header includes the site's name and a search icon. The article title 'Lease accounting: A private company perspective' is prominently displayed, followed by the authors 'By Stephen G. Austin, CPA; Michael G. Fraunces, J.D.; and Alisia Scudder, CPA' and the date 'March 29, 2019'. Below this are social media sharing icons for Facebook, Twitter, LinkedIn, and Email. A 'RELATED' section lists two other articles: 'Lease accounting tips for public and private companies' dated April 4, 2019, and 'FASB modifies definition of 'collections'' dated March 21, 2019. A 'TOPICS' section lists 'Accounting and Financial Reporting' with sub-topics 'Private Company Reporting' and 'Accounting Compliance and Reporting (US)'. The main body of the article begins with a paragraph about public companies adopting new lease accounting standards, followed by a section titled 'Here are some of the lessons learned from act one with the public companies:' and a paragraph about document management challenges.

Lease accounting: A private company perspective
By Stephen G. Austin, CPA; Michael G. Fraunces, J.D.; and Alisia Scudder, CPA
March 29, 2019

RELATED
April 4, 2019
Lease accounting tips for public and private companies
March 21, 2019
FASB modifies definition of 'collections'

TOPICS
Accounting and Financial Reporting
Private Company Reporting
Accounting Compliance and Reporting (US)

By now, most public companies in the United States have adopted the new lease accounting standards as required on Jan. 1, 2019. Companies with noncalendar fiscal year ends will adopt the new standards sometime over the next few months.

Moving the measurements of operating leases from the footnotes of GAAP financial statements under FASB ASC Topic 840, *Leases*, to the balance sheet as assets and liabilities under Topic 842, *Leases*, has not been a simple task for corporate America. Now, private companies and most not-for-profit organizations face the same task. Entities with more than a handful of leases may be in for a surprise as to the time and expense required to address the complexity of the transition and analyze the related accounting rules that must be considered. They may also be surprised with the effect on financial statements and, perhaps, loan covenants due to potential significant changes in debt and related ratios.

Here are some of the lessons learned from act one with the public companies:

Gathering documents is a chore. In many cases, document management systems for operating leases have been less than ideal and certainly not well-organized to be "Topic 842 friendly." In our work assisting a *Fortune* 100 company in its compliance with Topic 842, a major challenge was locating and organizing all the relevant documents for making the assessment. Our work included assessing, on the company's behalf, thousands of its agreements to determine whether they constitute leases under the new standard. The relevant documents include not just the initial agreement, but all amendments, exhibits, addenda, supplements, and enhancements thereto plus the amendments to each exhibit, addendum, supplement,

ASK

THE PANELISTS

STUMP

THE PANELISTS