

Automated contract data extraction within the IFRS 16 lease framework

A cooperation between KPMG and IBM



The IFRS 16 lease accounting standard adopted by the International Accounting Standards Board (IASB) entails fundamental innovations for lessees. Our solution for an automated inventory of leasing contracts supports you with the implementation of the new accounting rules.

Background

Existing processes need to undergo significant restructuring in order to fully and sustainably implement the requirements of the new IFRS 16 accounting standard. Companies should, therefore, begin early on to identify their leasing transactions and information required to determine and calculate leasing positions.

Several initiatives facilitate and support the restructuring process. These include, for example, the introduction of new contract management systems and adjustments to IT processes and internal control systems. Companies that do not implement an automated contract inventory and contract data extraction tool have to evaluate their numerous leasing contracts manually and check each of them with the IFRS 16 requirements.

The challenge

The main challenge of IFRS 16 is that all leases and associated contractual rights and obligations of the lessee must be recognised in the lessee's balance sheet. A distinction between finance and operating leases, as was previously the case under IAS 17, is no longer applicable in the future. Leasing transactions that were previously off-balance will have to be reintegrated into the balance sheet. As

a result of the extension of the balance sheet and new expense recognition criteria, the new standard will have an impact on various financial ratios. The most striking aspects of the new standard are:

- Time and content challenges that arise due to the large amount of leasing contracts
- Challenges posed by local differences in leasing contracts, such as a local currency and language
- No centralised leasing responsibility, instead a decentralised organisation exists via departments such as IT, real estate or fleet management

To support a fundamental and sustainable transition to the IFRS 16 requirements, all existing leasing contracts must be analysed in terms of the new accounting rules.

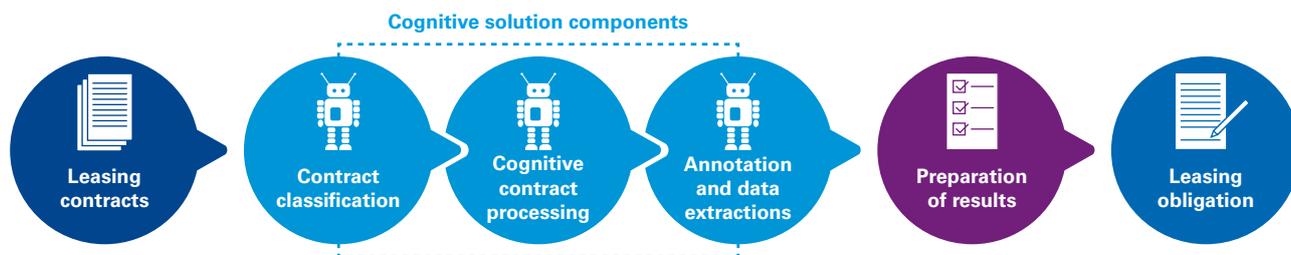
Our solution

In cooperation with IBM, a solution which is based on IBM Watson was developed to automate the contract data extraction process. Thanks to the use of cognitive technologies, steps that initially had to be manually performed are now automated processes.

Automated data extraction is continuously improved as a result of machine learning of the cognitive intelligence. IBM Watson extracts all relevant attributes of a leasing contract and makes them available for further processing.

As a first step, IBM Watson converts image files or PDF files into a machine-readable format. The contracts are divided into different categories (contract types), such as real estate, IT and vehicles. In the second step, each contract is checked for specific attributes depending on the contract type. In order to uphold quality, the extracted data is manually checked by KPMG experts using the dual-control principle. As a last step, the extracted attributes are made available in a structured format and can be imported into a lease accounting tool.

Process of the automated contract inventory



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This process and the methods embedded in the execution of the leasing accounting solution provide sufficient security for the delivered result.

Your added value

Automated processing of leasing contracts offers many advantages:

- KPMG and IBM offer you an efficient and cost-effective extraction of your leasing contract data. You receive quality-assured and structured contract data that you can process directly.
- Contracts can be classified and prioritised without additional time and effort.
- Contract attributes of all leasing contracts are centrally available and linked to the original contract.
- The system is managed by KPMG leasing experts.

Additional support services by our specialists can be provided on request.

Ideally positioned for you

KPMG is one of the leading providers of consultancy services in the field of IFRS 16 accounting consultancy and automated contract data extraction using cognitive technologies. With us, you will find the know-how to implement your conversion project sustainably and to completely and efficiently create an inventory of the data of your leasing contracts. In addition, we offer you a comprehensible end-to-end process that uses the latest data and analysis technologies. As a final product, we provide you with quality-assured and structured contract data.

Gartner and Forrester named KPMG 'Leader in Data & Analytics' in their respective ratings.¹ The strategic partnership between KPMG and IBM has been in place since 2015, giving KPMG and IBM a

clear leadership role as first-movers in the industry. We work together on cutting-edge solutions to efficiently combine technology and expertise for our customers. One focus is on machine learning and artificial intelligence.

Do not hesitate to contact us for further information or questions.

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¹ Source: Gartner Magic Quadrant for Business Analytics Services, Feb 2017; The Forrester Wave: Insights Service Providers, Q1 2017