

Oracle E-Business Suite  
Statement of Direction  
IFRS 16 and ASC 842

*29 November, 2017*

# Oracle E-Business Suite Statement of Direction

## DISCLAIMER

The following is intended to outline our general product direction for Oracle E-Business Suite related to the new FRS 16 and ASC 842 accounting standards. It is intended for information purposes only, and may not be incorporated into any contract. It is not a commitment to deliver any material, code, or functionality, and should not be relied upon in making purchasing decisions. The development, release, and timing of any features or functionality described for Oracle's products remains at the sole discretion of Oracle.

## EXECUTIVE UPDATE

The IASB (International Accounting Standards Board) and FASB (Financial Accounting Standards Board) have new accounting standards for leases. To meet these new standards for leases, property tenants and equipment lessees are required to make significant changes in accounting and reporting for most leases (i.e., rental contracts) on their balance sheets as lease liabilities with corresponding right-of-use-assets. This document describes Oracle's Statement of Direction to meet the equipment requirements.

## Accounting Changes

Figure 1: Key Impacts on real estate entities & accounting

	US GAAP (ASC 842)	International GAAP (IFRS 16)
<b>Landlord and Lessor Impact</b>	Many aspects of landlord and lessor accounting under the new accounting standard are similar to existing accounting standards.	
<b>Tenant and Lessee Impact &amp; Accounting</b>	<ul style="list-style-type: none"><li>• Tenants and lessees are required to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets</li><li>• Requires classification of lease</li></ul>	<ul style="list-style-type: none"><li>• Tenants and lessee are required to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets</li><li>• All lease arrangements classified as finance</li></ul>

	arrangements as operating or finance (aka capital leases under current accounting guidance)	leases (similar to US GAAP)
<b>Effective Dates</b>	<ul style="list-style-type: none"> <li>Public companies: Annual periods beginning after December 15, 2018 (i.e., 1 January 2019 for a calendar-year entity), and interim periods within those years.</li> <li>All other companies: Annual periods beginning after December 15, 2019</li> <li>Early adoption is permitted on a retrospective basis</li> </ul>	<ul style="list-style-type: none"> <li>All companies: Annual periods beginning on or after January 1, 2019</li> <li>Earlier adoption permitted on a retrospective basis, provided IFRS 15, Revenue from Contracts with Customers is adopted at the same time.</li> </ul>

\* Please consult with your accounting advisor to determine applicable accounting impacts and effective dates. Nothing in this communication is intended to constitute accounting advice.

## **PROPERTY LEASES**

Oracle Property Manager is an Oracle E-Business Suite application that is designed to manage major real estate leases, including lease administration and office space allocation. Landlords, tenants, and sub-lessors can assign, administer, view, and modify space assignments to manage their space efficiently using Oracle Property Manager. Landlords/tenants can administer lease contract terms effectively using Oracle Property Manager to calculate rent increases based on fixed percentages or a specified index to manage variable rent. Landlords can calculate and recover expenses such as those for common area maintenance from tenants; tenants can create operating expense agreements when required to pay the landlord a pro rata share of operating expenses for a property.

Oracle Property Manager is designed to create and manage operating expense agreements. In response to the new IFRS 16 and ASC 842 accounting standards, Oracle Property Manager has been enhanced to address the requirements for tenants to recognize lease rental contracts on their balance sheets as lease liabilities with corresponding right-of-use-assets. As described in figure 1 above, there are minimal impacts to landlords; therefore, Property Manager functionality related to landlords remains unchanged.

### **Product Strategy for Property Manager**

Oracle Property Manager has been updated to support IFRS 16 and ASC842.

Please reference doc id 2319447.1 on the Oracle Support site for solution and patch information.

### **Release**

Patches are available for both 12.1.3 and 12.2.

## **EQUIPMENT LEASES**

### **Lessees**

Currently, many equipment lessees initiate their contracts through procurement and account for rental as an accounts payable expense.

Oracle E-Business Suite intends to address the requirements for equipment lessees to recognize lease rental contracts on their balance sheets as lease liabilities with corresponding right-of-use-assets.

### **Product Strategy for Lessees**

To meet these new requirements for lessees, Oracle E-Business Suite intends to provide a solution that:

- Provide a single repository to captures contracts and related assets
- Capitalize right of use assets with corresponding liabilities
- Generate results to account for associated interest expense and amortization or depreciation of the asset and liability accounts
- Adjust the right of use and liability balances due to any contract amendments
- Include the ability to report comparative results for the two years preceding the effective dates.

### **Release**

The enhancements will be applied to 12.1.3 and 12.2.

### **Lessors**

Oracle Lease and Finance Management is an Oracle E-Business Suite application that provides end-to-end automation to manage lease and loan portfolios. Designed for asset-based finance companies, Oracle Lease and Finance Management is a comprehensive application that leverages the power of the Oracle E-Business Suite to help equipment finance companies manage their leases from origination, contract creation, funding, billing, receipts, asset management, and all the related accounting.

As described in figure 1 above, there are minimal impacts to lessors. Any product changes need to improve support for IFRS16 and ASC842 should be managed through configuration of the existing product.

### **Product Strategy for Oracle Lease and Finance Management**

Since no major impact to lessors, no changes planned for Oracle Lease and Finance Management.

For detailed analysis and configuration options, please reference the “Impact of New IFRS 16 and ASC842 on Lessor Accounting in Oracle Lease and Finance Management” whitepaper on Oracle Support.

**Release**

Whitepaper applicable to both 12.1.3 and 12.2.

**SUMMARY**

	Property	Equipment
<b>Tenant / Lessee</b>	Tenant Impact: High Solution: Property Manager Status: Lease Accounting Supported	Lessee Impact: High Solution: Oracle Equipment Leasing* Status: Planned
<b>Landlord / Lessor</b>	Landlord Impact: Minimal Solution: Property Manager Status: No Product Impact	Lessor Impact: Minimal Solution: Oracle Lease and Finance Management Status: No Product Impact

- Name to be confirmed

**ORACLE’S SUPPORT POLICY**

**Oracle Applications**

Oracle Property Manager and Oracle Lease and Finance Management have a large and very active installed base, with applications developed to meet the requirements of real estate entities. Oracle recognizes this considerable investment and remains committed to the long-term support of these products.

**Oracle’s Lifetime Support Policy**

Oracle’s Lifetime Support Policy defines the support levels and dates for Oracle products. The support timelines for the products referenced in this document are defined here: <http://www.oracle.com/us/support/premier/resources/index.html>

PURPOSE STATEMENT:  
THIS DOCUMENT SUMMARIZES THE NEWLY PUBLISHED IASB AND FASB ACCOUNTING STANDARDS AND THE INTENT OF ORACLE PROPERTY MANAGER TO MEET COMPLIANCE REQUIREMENTS IN CURRENT AND UPCOMING RELEASES. IT IS INTENDED SOLELY TO HELP YOU ASSESS THE BUSINESS REQUIREMENTS AS YOU PLAN YOUR PROJECTS TO COMPLY WITH THE NEW ACCOUNTING STANDARDS.

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Oracle Corporation  
World Headquarters  
500 Oracle Parkway  
Redwood Shores, CA 94065  
U.S.A.

Worldwide Inquiries:  
Phone: +1.650.506.7000  
Fax: +1.650.506.7200  
[oracle.com](http://oracle.com)

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