VISUAL LEASE

2024 Office of Finance Outlook:

Environmental Impact Reporting

Examining the Growing Significance of Lease Controls as Compliance Standards Evolve

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Executive Summary

Throughout 2023, interest in Environmental, Social and Governance (ESG) reporting and goal setting surged, transcending industry boundaries and reshaping corporate landscapes as organizations increasingly prioritized sustainability and responsible business practices.

Multiple factors are driving this transformation in global enterprise businesses:

Potential Profitability

S&P Global found that 53% of revenues of the 500 largest US companies and 49% of revenues of the 1,200 largest global companies come from business activities that are tied to sustainable development goals.

Investor Relations

Deloitte reported that ESG-mandated assets could make up half of all professionally managed investments by 2025.

Employee Retention

According to Marsh & McLennan, organizations with the highest employee satisfaction had ESG scores 14% higher than the global average, likely due to their strong environmental performance.

As the pressure to establish and expand ESG programs to prepare for emerging regulatory requirements mounts, organizations are already anticipating criticism – in fact, The Conference Board found that a majority of companies are concerned about backlash spreading among employees, investors, business partners, consumers and the media over the next two years.

Thankfully, various regulatory bodies are committed to introducing standardization to the reporting process. In June 2023, the International Sustainability Standards Board (ISSB) introduced the first-ever global sustainability disclosure standards. Just a few months later, California Governor Newsom signed the California Climate Accountability Package, comprised of two bills, Senate Bill 253 (SB 253) and Senate Bill 261 (SB 261), which mandate both public and private companies operating in California to disclose their greenhouse gas (GHG) emissions as well as climate-related financial risk.

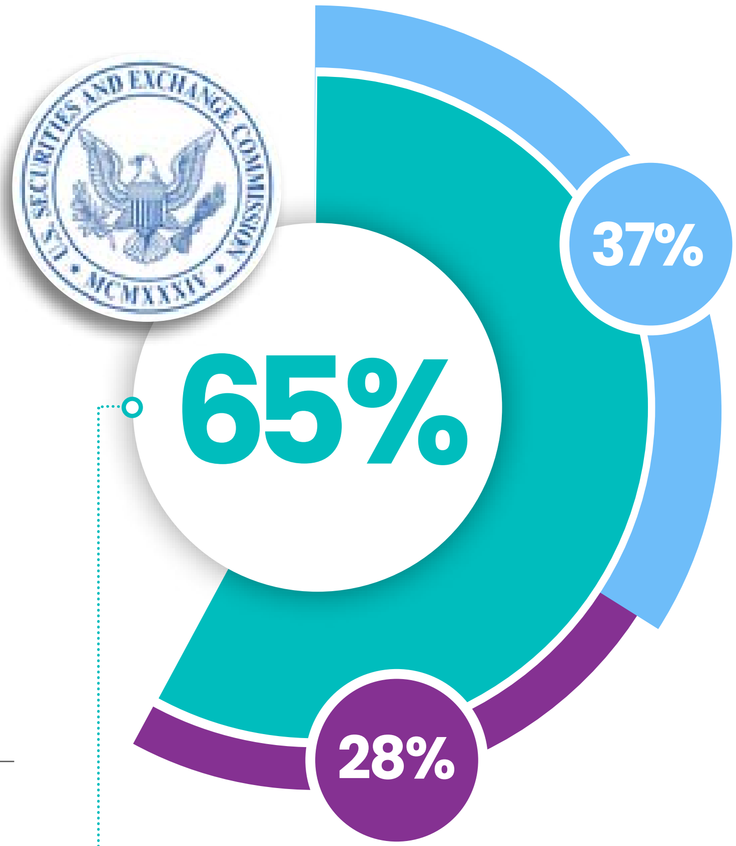
With so much in flux, there is confusion around what will be required of different entities.

While ESG reporting is proving to be extremely nuanced, there is one commonality across all existing and forthcoming regulations: impacted businesses should quickly gather and analyze all related data as the anticipated window for compliance is short.

As if compliance weren't reason enough for organizations to prioritize their ESG reporting efforts, there is an opportunity for these entities to use their existing data to establish critical benchmarks.

In this report, industry experts from Visual Lease (VL) and other organizations such as BioRad, Penn State Health, Indeed, MISTRAS and Compass will share:

- Anticipated challenges associated with environmental reporting and strategies to mitigate them
- The advantages strong lease management practices can have with respect to environmental impact reporting in 2024 and beyond
- How finance leaders play a pivotal role in guiding organizations through this transformative period



65% of organizations with more than 1,000 employees will be **reporting under the SEC requirements**

IFRS ISSB

37% of these organizations believe the SEC requirements will **mirror the ISSB guidelines**

While **28%** believe the SEC requirements will be **different than the ISSB guidelines**

2023 Environmental Impact Reporting Analysis

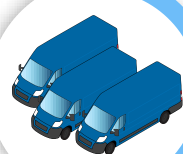
Worldwide, buildings are responsible for 37% of global carbon emissions and 34% of energy demand, according to the Global Status Report for Buildings and Construction (Builings-GSR).

Given the influence commercial leases have on an organization's overall environmental footprint, many are recognizing the importance of negotiating terms that align with their ESG goals.

88% of surveyed senior accounting and finance executives report that environmental and **sustainability factors are a high priority when entering into new lease agreements,** including real estate, fleet, equipment, land, etc.

49%

are increasing the number of LEED-certified buildings in their lease portfolios.



45%

are increasing the number of energy-efficient vehicles in their fleets.

41%

are switching to renewable energy sources.

35%

are buying carbon offsets – this lower interest may be due to recent negative coverage companies have received that point to a potential link between carbon offsets and "greenwashing."

But without visibility into the current environmental impact of their owned and leased assets, businesses cannot reasonably set accurate, achievable sustainability goals.

In early 2023, Visual Lease reported that a staggering 99% of senior real estate executives at companies with more than 1,000 employees noted it is important that their organization's future leases help reduce its carbon footprint. For those businesses to make informed decisions about future leases, they must first assess their existing leases to understand where they can make improvements. These insights will help inform a go-forward approach – such as transitioning to renewable sources of energy or opting for smaller, satellite office locations – which will assist the 90% of senior accounting and finance executives who are looking to implement new sustainability goals over the next two to five years.

The majority of surveyed senior finance and accounting executives have reported that while they've collected key environmental data, less than 40% have analyzed or used the data to establish benchmarks. This delay can be attributed to a few different reasons: some may be very early in the gathering process with incomplete data, others might not trust their data yet due to weak processes, inadequate controls and/or a lack of a centralized view of their leased and owned asset records. All of these issues are impediments to being able to access and analyze a portfolio to establish accurate benchmarks.

Thankfully, the introduction of the lease accounting standards (ASC 842, GASB 87 and IFRS 16) shined a light on the need for stronger lease and related record management – a process that remains critical to sustaining lease accounting compliance.

There is a big opportunity here for most businesses, as nearly 70% of senior accounting and finance executives report that their organizations are not fully prepared in terms of their ability to track and measure the environmental impact of leased and owned asset portfolios to comply with the new and emerging environmental reporting requirements.

However, 84% of organizations have since made stronger lease controls and overall management a higher business priority.

While there are clear parallels between the preparation required to achieve compliance with the lease accounting standards and environmental reporting requirements, there is one important distinction that organizations must account for – when it comes to financial statements, accountants and finance professionals have years of related training and experience whereas, with environmental reporting and climate-related disclosures, they do not.

Consider this analogy: Suppose you have a pile of a million bricks. Is that a lot or a little? How big are the bricks? What will be built from them? Lack of relevant experience and context will impact organizations' ability to establish benchmarks.

To do so effectively, finance teams require more knowledge and on-going support to navigate this rapidly evolving reporting need.

Nearly 40% of global carbon dioxide emissions originate from real estate-related assets.

Proper lease management is an organization's entry point to not only measuring and reporting on their environmental impact, but also understanding how to make improvements for a more sustainable future.

Common Environmental Impact Reporting Challenges & How to Overcome Them

Earlier in 2023, Visual Lease reported that 83% of senior real estate executives felt their companies did not have the required technology, people and processes needed to successfully manage their lease-related expenses.

Today, 51% of organizations are either relying on Excel or a third party to help them manage their lease administration processes.

The inherent complexity of lease data demands a more sophisticated solution. Organizations should move away from ad-hoc or fragmented approaches and opt for a dedicated system of record that enables strong lease controls.

Doing so will address the main concerns that 99% of surveyed senior finance and accounting executives have with maintaining proper control over their organization's lease portfolio:

Challenge #1: ***47% of senior accounting and finance executives are concerned about resourcing the required work.***

Solution: Because multiple stakeholders (finance, real estate, procurement, accounts payable, legal, etc.) interact with owned and leased assets throughout their entire lifecycle, it's important to first establish defined roles – i.e., who is responsible for negotiating terms vs. monitoring the terms once a lease is executed, etc.

HOMESERVICES

HomeServices is a $5 billion real estate company, with a decentralized structure that makes tracking data – especially compliance data – particularly tricky.

Prior to 2018, HomeServices used a homegrown database to store basic lease information.

After implementing Visual Lease as their centralized system of record, HomeServices gained visibility into their lease portfolio, which has translated into confident reporting and helped with budgeting and forecasting.

Learn more about HomeServices' experience >

PennState Health

Visual Lease automated reports saved Penn State Health 180 hours a year.

Learn more about Penn State Health's experience >

Challenge #2: ***48% of senior accounting and finance executives are concerned about data accuracy and completeness.***

Solution: Once roles are established, responsible parties should gather and analyze lease and owned asset records to identify consumption data of greenhouse gas emissions (CO_2, PFCs, CH_4, SF_6, N_2O, HFCs).

Challenge #3: ***44% of senior accounting and finance executives are concerned with achieving compliance with ESG requirements and policies.***

Solution: Ensure there is a party responsible for keeping tabs on ESG reporting guidance – for example, understanding the difference between scope 1, 2 and 3 emissions and keeping track of updates from regulatory bodies like the SEC.

Challenge #4: ***46% of senior accounting and finance executives are concerned about their ability to react to unforeseen circumstances, such as supply chain disruptions and inflation.***

Solution: Leverage your centralized system of record to analyze your portfolio of leased and owned assets to identify cost savings opportunities and reallocate funds based on current needs.

Challenge #5: ***44% of senior accounting and finance executives are concerned with sustaining lease accounting compliance.***

Solution: Utilizing a centralized lease portfolio system of record will also empower you to easily keep track of any changes or modifications to your leases, which will ensure all lease accounting calculations are accurate Day 2 and beyond.

Challenge #6: ***39% of senior accounting and finance executives are concerned about being prepared for audits.***

Solution: Establish controls that enforce the roles and responsibilities of each stakeholder by enabling access to the appropriate point of contact at the appropriate point in time. Implement a solution that can be configured to support your organization's control policies to ensure they are adhered to.

Scope Emissions Primer

Scope 1:
DIRECT

Refer to emissions that come from a company's owned or controlled sources.*

Scope 2:
INDIRECT

Refer to emissions that come from the generation of purchased energy.*

Scope 3:
INDIRECT

Refer to emissions that are not covered in Scope 1 and Scope 2, and are created by a company's value chain.*

* "Scope 1, 2 and 3 Emissions" from Deloitte

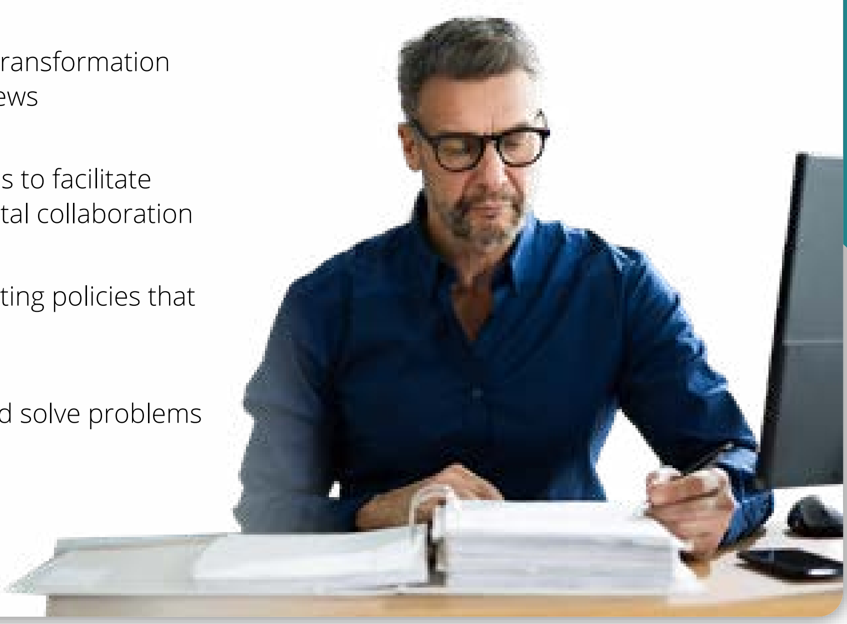
The Evolution of the Office of Finance

As reported by McKinsey, "Modern finance departments are transforming to become the 'guardians of enterprise value creation,' shifting from overseeing transactional tasks to managing value-added activities."

Over the past decade, corporate finance departments have increasingly assumed new responsibilities that shape strategic decisions and drive critical business initiatives forward.

When asked what skills are most important for future finance leaders to have over the next five years, senior accounting and finance executives prioritized the following:

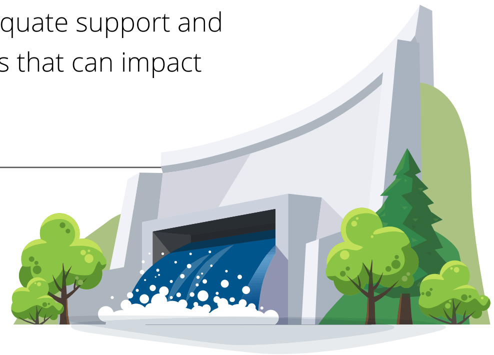
- **40%** The ability to drive digital transformation projects that unite data views
- **38%** Communication capabilities to facilitate required cross-departmental collaboration
- **38%** Anticipating needs and setting policies that future-proof businesses
- **35%** The ability to anticipate and solve problems
- **34%** Data analysis and making data-driven decisions



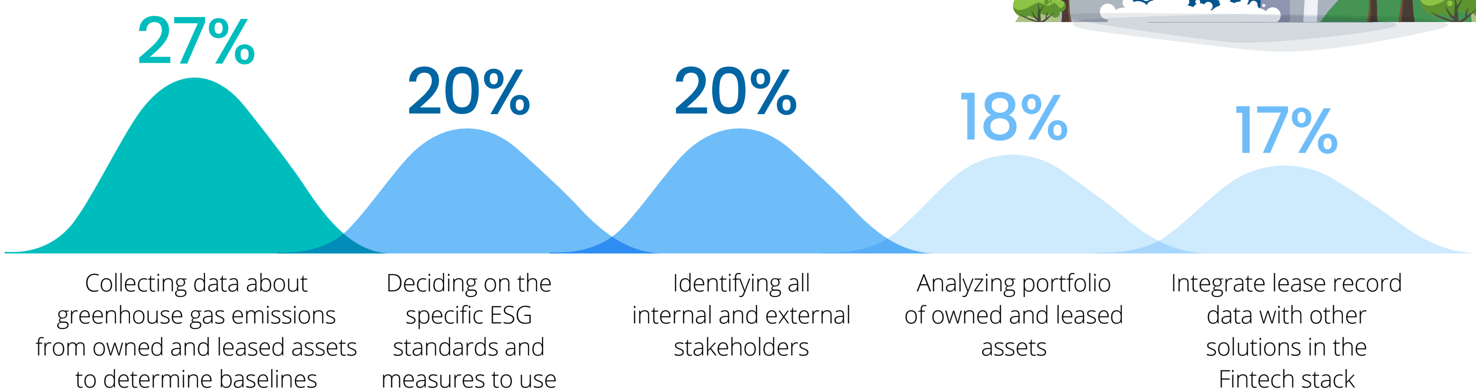
Given the impact that an organization's environmental footprint can have on its internal and external stakeholders, it is crucial that heading into 2024, the Office of Finance prioritizes related reporting efforts.

97% of surveyed senior finance and accounting executives and 100% of surveyed CAOs and CFOs at companies with more than 1,000 employees are involved with their organization's current state of ESG reporting.

However, less than one-third of senior finance and accounting executives report that their ESG reporting framework is fully established and includes a variety of environmental factors with 30% disclosing that their framework is limited to specific organization initiatives, further underscoring the need for accurate and complete datasets to determine helpful benchmarks and facilitate informed goal-setting. These findings also highlight the importance of consulting with third parties to ensure there is adequate support and resources dedicated to keeping up with regulatory updates and need-to-knows that can impact your organization's compliance with internal or external sustainability goals.



Respondents have ranked the following actions as appropriate first steps toward meeting environmental and sustainability goals:



These added responsibilities do not replace, but rather, are in addition to the existing responsibilities of finance and accounting teams. As recently reported in The Wall Street Journal, an increasingly large number of accountants are leaving the industry due to burnout, resulting in a growing shortage of the professionals needed to implement and drive these initiatives.

Dedicated technology is proving to be the most effective way to track ESG metrics – including data points that range from sustainability and carbon consumption to the businesses' diversity and broader social impact – while simultaneously creating efficiencies, allowing finance and accounting professionals to streamline manual tasks and focus on more strategic efforts.

Embracing purpose-built solutions will provide the Office of Finance and their organizations with a strategic advantage over competitors as they gain valuable time and a clear and comprehensive understanding of their ongoing progress against these goals in real-time.

MISTRAS

"As MISTRAS recognizes our responsibility to serve as an agent for positive change and advancement of the Company's ESG initiatives, we're thrilled to become a pilot customer for VL ESG Steward™. We've used Visual Lease as our system of record for our portfolio of facility, automobile, and equipment leases –and feel that they are well positioned to expand and provide meaningful value into the complex landscape of ESG reporting."

– Thomas Tobolski, Treasurer, MISTRAS Group, Inc.

Learn more about VL ESG Steward™ >

Conclusion: Selecting the Right Fintech Platform to Support Environmental Impact Reporting Needs in 2024

While there are benefits to living through a technology revolution, a growing abundance of options can create challenges for the Office of Finance when looking to identify a solution to support its environmental reporting efforts.

Surveyed senior accounting and finance professionals have prioritized the following criteria for selecting new fintech:

Supports collaboration among cross-functional teams (23%)

Because so many different departments and individuals interact with leases, it is critical to prioritize a centralized system of record that will enable cross-functional access and collaboration, creating efficiencies along the way.

This is a big focus area for many companies as less than 40% of surveyed senior finance and accounting professionals reported that they are completely collaborative with the team that manages their company's commercial real estate leases.

indeed

Visual Lease has empowered Indeed's global accounting team to standardize the way in which they do their lease accounting across all of their offices, reducing the number of individuals required to achieve and maintain compliance.

Learn more about Indeed's experience >

Ability to address more than one business need (23%)

Selecting a solution that offers a robust lease controls framework will enable organizations to achieve a clear understanding of their lease records, helping them to easily maintain lease accounting compliance, minimize the risk of inaccurate financial reporting and failed audits, identify cost-saving opportunities and successfully prepare for the new international sustainability standards.

Strong user reviews and customer sentiment (21%)

Choosing a provider with a first-mover advantage in the specific space you're looking to track and report can be beneficial as these companies will typically have solutions that are ahead of the curve, adaptable and built from valuable input and lessons learned from early adopters.

Strong customer support model (18%)

Strong customer support ensures that any problems or issues encountered will be addressed promptly, minimizing downtime. Opting for a provider that makes its product roadmap available to its users and offers services that align to support it will translate into a more successful adoption of the platform's full capabilities at your organization.

Proven ability to integrate with existing systems (16%)

By prioritizing solutions with strong integration capabilities, accounting and finance teams can make their entire fintech stack work together, further increasing their ROI.

COMPASS

Compass takes its lease portfolio data from the Visual Lease platform and marries it with its business data in a proprietary data visualization tool, allowing them to make holistic decisions and keep its organization up to date on portfolio changes.

Learn more about VL's Integration capabilities >

The role and significance of the Office of Finance is undergoing a profound transformation.

In the current landscape, these teams find themselves contending with dynamic compliance requirements and confronting the challenges posed by shrinking talent pools. The key to successfully navigating the ever-expanding scope of their responsibilities lies in forging strategic alliances with solution and service providers. By doing so, they're not only well-positioned to keep up with the complexities of today's financial terrain but also, proactively equip themselves with efficient solutions to address challenges that lie ahead.

About The Visual Lease Data Institute

The Visual Lease Data Institute is a collection of market-leading data, trends and insights on lease accounting, management, sustainability reporting and optimization created and curated by Visual Lease, provider of the #1 lease optimization software. The Institute was founded on 35+ years of experience managing lease data and financials, and was created to empower organizations with the market data required to leverage their lease portfolio for strategic financial and operational outcomes.

Methodological Notes:

The Visual Lease Survey was conducted by Wakefield Research (www.wakefieldresearch.com) among 200 US senior finance and accounting executives with titles of CAO, CFO, Controller, or Director of Reporting at private, public, and government organizations, between August 24th and September 1st, 2023, using an email invitation and an online survey. Company size requirement for public and private organizations: 1,000+ employees, does not apply to government organizations.

The results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 6.9 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.