Revenue Recognition Decision Tree

Does AY have an **<u>executed</u>** contract*?

→ No
Possibly do not record

No contract and total transaction invoice:

- Less than $250k should be approved by the Broker of Record; ***Approval should be obtained before revenue is recorded***
- $250-750k will be approved by Country Finance
- Above $750k approved by Global Finance & Regional CFO

↓ Yes

What is the form and quality of the <u>executed</u> contract?	
Ideal	AY standard contract form with approved language and terms
Acceptable	Client contract form that has been reviewed and approved by AY legal
Tolerated	Email clearly stating the services performed and the fee to be paid for those services
Not Accepted	Verbal agreements, handshakes

*Note: A "Contract" can be in the form of a brokerage or commission agreement, master services agreement, consulting agreement, approved proposal for services, letter of intent, MLS listing, mandate, etc. ***The contract, in any format, should define the scope of services as well as the payment amount and terms.***

Has AY completed performance obligations under the contract?

→ No
Possibly don't record

Considerations:

- **Is the lease or Unconditional Offer to Lease fully executed by tenant and landlord?**
- Are emails still being exchanged about final terms?
- Are we finalizing deliverables for a consulting assignment?
- Are we finalizing punch list items for a project?
- An answer of "yes" to any of these questions is an indication that work may **<u>not</u>** be completed.

↓ Yes

Is collection <u>**highly**</u> probable?

→ No
Possibly don't record

↓ Yes

Example Considerations	Lower Probability	Moderate Probability	Higher Probability
Occupancy Or Lease Commencement	Build-to-suit lease (new building) and pre-commencement termination option	New lease with significant TI expected to last 15 months and pre-commencement termination option	New lease with minimal TI and occupancy scheduled for 6 months or less from today
Elapsed Time	Significant time scheduled or expected between execution and transaction events (More than 18 months)	Moderate time scheduled or expected between execution and transaction events (7 to 18 months)	Minimal time scheduled or expected between execution and transaction events (6 months or less)
Sale	PSA executed, small non-refundable deposit, closing date not set	PSA executed, small non-refundable deposit, closing date set for 90 days from current date	PSA executed, at least 3% non-refundable deposit, closing date set for 20 days from current date

Revenue Recognition Addendum

Clarification of when our performance obligation is complete for Lease transactions:

- KPMG has confirmed that our performance obligation for leases is not complete until there is evidence of a legally enforceable lease, meaning signed by both parties.
- For Canada, this would apply to the Unconditional Offer to Lease which is a legally binding document. Both signatures would need to be in place for revenue recognition.
- To accommodate certain times of year where signatures are likely to be delayed by holidays and travel, we can use an email from the landlord indicating that they will be signing on return to the office as evidence.
- Sample language that can be used when confirming the execution timing with the landlord or landlord's brokerage representative:
  - **"We accept the terms of the attached lease, effective Month Day, Year, which will be executed upon landlord's return to the office."**
  - NOTE: This should be a **third-party confirmation**. Where AY is the landlord's brokerage representative, we would need confirmation from the landlord.
  - NOTE: Attach a copy of the partially executed lease when sending the email for confirmation.

Lease execution scenarios? (Lease in the US, Unconditional Offer to Lease in Canada)	
Record	Fully executed by both the tenant and the landlord
Record	Executed by the tenant, email confirmation from the landlord or landlord's brokerage representative that the lease will be signed upon their return to the office using language similar to what is outlined above.
Do not record	Executed by the tenant, no confirmation from the landlord regarding timing of execution.
Do not record	Not executed by the tenant or the landlord
Do not record	Effective date of the lease is for the month following the month we are closing (i.e., effective date of January 2020 when closing December 2019)