



Rome, 13<sup>th</sup> of Sept 2013

To the International Accounting Standards Board

30 Cannon Street London EC4M 6XH

## Object:- Revised Exposure Draft: Leases (File Reference 2013-270) - Comment letter

ANIASA – Italian short and long term rental companies Association - representing 95% of the domestic market, welcomes the opportunity to comment on the IASB's second Exposure Draft related to "Leases" as published on May, 16, 2013. This follows ANIASA's response to the first Exposure Draft in 2009.

In our opinion, the proposals of this second Exposure Draft appear still too complex and disconnected from economic reality and we unfortunately do not agree with the Board's statement that the proposals will improve financial information.

In the last ten years, short and long term vehicles rental's areas became in Italy more relevant in the automotive industry, mobility and transportation of persons and goods.

In 2012 the sector registered the following data:

- 680,000 vehicles on the property used as rental;
- 110,000 vehicles in fleet management;
- 256,000 cars and vans registrations;
- 5.000 million € turnover;
- 200,000 vehicles sold to private and used operators;
- 7,500 direct and 20,000 indirect employees;
- 10 years of continuous growth: turnover (+580%),

vehicles operated (+650%);

directly (+180%) and indirect employees (+700%).

The sector ANIASA represents is characterized by:

- a significant role in the automotive industry (in 2012 20% of car market in Italy);
- the high turnover of new vehicles and consequent lower pollution and greater safety in mobility;
- a cost reduction for more than 70,000 private companies and 2500 PA customers.



## Short and long term vehicles rental's: a resource for economy and for small companies

Especially in this moment of economic and financial crisis short and long term vehicles rental's becomes in Italy the reference activity for thousands of companies, which – because of the lower funds availability due to the credit crunch - are deciding to rent: it represents the way to acquire the vehicle, ensuring complete satisfaction of more mobility needs, with lower costs.

Behind the continuous growth of the sector, there is a gradual and growing awareness of the rental formula, with significant financial, economic and management benefits: no financial immobilizations related to the purchase, reduction of operating expenses and certain costs for the whole period of the established rental.

Another important aspect is the social-economic context: in Italy there is a remarkable presence of small and very small companies, which are very careful to evaluate costs/ benefits of rental and ready to decide very quickly for the best formula.

The initiative of the IASB meets the needs of the accounting standards' development, in order to pursue an interest of simplification and clarity of regulation, which, as far as possible, must meet homogeneous criteria.

ANIASA retains that the balance benefits and coasts of the new proposal goals is more tipped towards costs.

We would kindly ask you to refrain from the implementation of the new accounting regulation.

You can find below our comments about Revised Exposure Draft.

Thanks for your consideration.

Yours sincerely

Paolo Ghinolfi ANIASA President



#### **ANIASA** responses

## Based on the "Draft Leaseurope response to Exposure Draft ED/2013/6 Leases"

# **Appendix 1. Responses to ED Questions**

### **Question 1: Identifying a lease**

Theory suggests that a homogeneous accounting treatment in the common use should be desirable, however **renting** activities are not considered relevant for the object of the mentioned reform.

The client owns, de facto, the right to use the leased asset without having its property, hence the possibility to effectively control it. Limits to the effective control of the asset can be imposed by specific rules in the leasing contract related both to the asset usage and the services linked to it. Moreover, subject to certain administrative and operative conditions, the lessor always maintains the power to rescind the contract claiming the full possess of the asset.

Though the first pillar concerning the "right to control the asset" and the benefits to use it can be confirmed, that related to the lessor's ability to manage the asset comes less.

To the technical point of view, not considering the risk of the asset deterioration and its effects for the subject who takes it (i.e. the distinctive element of the lease), the same lease classification would be not exhaustive.

## **Question 2: Lessee accounting**

Attribution, measurement and representation of both costs and cash rentals due to a leasing operation cannot depend on the benefits arising from the asset usage for two reasons.

A first motivation concerns the unspecified concept of the "non significant use of the benefits created by the asset accorded in lease".

The second reason can be found in the balance between benefits and costs related to the lease operation. Some leases determine costs of asset use lower than the relative benefits. This is the renting case, in which the benefit for the final asset user is very high especially if we consider that the average rent is 25% lower than TCO (total cost of ownership).

To overcome these concerns about the proposal correctness we argue that it should consider the risk of the asset deterioration and the interests of the subject who takes this risk.



Moreover, is our opinion that different discount rates for cash flows between leasor and lesee cannot be employed. The first motivation is that at the industry level different rates could lead to alter the economic representation of the lease operation.

A second reason is related to the two different economic representations of the operation. The occurrence of this difference depends on the subject who accounts the operation.

This second caveat could be overcame if the lessor identified an interest rate for the operation. However, in this case there would be a substantial equality between a rent operation and a leasing one, also considering that Italian system does not allow this solution.

### **Question 3: Lessor accounting (cfr Question 2)**

The control exerted on the asset can be expressed through the quantity of benefits produced by its use i.e. "significant consumption" of the asset. However it is not a suitable measure to account lease operations according to ED's indications.

A first reason can be identified in the lack of objectivity linked to the concept of "significant consumption" of the asset in lease: each economic agent will have a personal opinion about its meaning. As a consequence, for the same asset, different agents will have different thresholds in terms of "significant consumption". In this case, the market alteration would be evident.

Secondly, an association between the benefits produced by the asset use and the costs of the lease could represent a forcing. In fact some leases determine costs related to the asset use substantially lower than its benefits. This is the renting case, in which the benefit for the final asset user is very high especially if we consider that the average rent is 25% lower than TCO.

The limit of the ED's proposal can be overcame exclusively introducing the concept of "risk": in case of renting, the lessor supports the risk that at the end of the contract the book value of the asset will be lower than the market value. He also faces the risk of an early termination of the contract where a collateral gap arises between book value and market value. The risk cannot be transferred to the lessee in any case.

Moreover a different discount rate between lessor and lessee cannot be applied. The first motivation is that at the industry level different rates could lead to alter the economic representation of the lease operation. A second reason is related to the two different economic representations of the operation. The occurrence of this difference depends on the subject who accounts the operation.



This second caveat could be overcame if the lessor identified an interest rate for the operation. However, in this case there would be a substantial equality between a rent operation and a leasing one, also considering that Italian system does not allow this solution.

#### **Question 4: Classification**

The classification criterion of a lease, based on the difference between properties and other types of assets, allows for the identification of useful information about lessors and lessees' operations which are usually represented in the statements of cash flows.

Since the role of the classification criterion, it is not clear why an additional classification concerning "useful life of the asset" and "fair value" should be introduced. These concepts imply the consideration of a strong subjective component and ED does not suggest any clear indication about the circumstances in which to apply one or the other.

An alternative classification of the leases should concern properties, intangibles and other types of assets. This criterion could suggest a different accounting for property leases leaving all other leases subject to the same accounting treatment.

In this way a IASB's objective would be pursued that is to identify all the amount for the current assets within the statements of cash flows.

## **Question 5: Lease term**

The lessee usually can modify the duration of the lease contract. However a formalization of this practice it is not allowed during the phase of contracting.

The accounting reassessment of the lease operations, in case of variation of the principal elements might be ensured, mostly if changes determine an excessive accounting deviation that could lead to compromise the criteria of truthfulness and fairness.

#### **Question 6: Lease payments**

Refferring to the assets part of the balance sheet, theoritically speaking, could appear correct to guarantee a reassessment of the payment recordings when the key indicators for the determination of the initial rates for the lease change; the practice in such action would not be feasible because key rates at which financial transactions are reported affected by changes very frequent, almost



continuous. The ED propose new criterion for us not correct regarding his nature and the accounting rules. For the rental market the proposition is not consistent with the rules defined in Italy: the interest rates and the other indicators linked to the origination process are not declarable as we can see for a financial leasing contract but it is mandatory to ensure uniformity in the records and reassessments for both lessor-lessee and then operate correct; you should meet a market disruption caused by the accounting rule, the fact that the economic doctrine tends to exclude categorically.

# **Question 7: Transition**

The response to this question totally agrees with the approach adopted by Leaseurope: "The Boards need to consider transitional requirements for sale and lease-back transactions that were previously classified as "operating" lease-backs and would no longer qualify as "sales" under the new proposals. In other words, how should an entity deal with any income it may have earned previously if the Revenue Recognition guidance referred to would preclude the transaction from qualifying as a sale?"

The proposed approach is likely to configure all operations existing at the time of the first application the same way as new operations.

In addition this action could affects the leasing cost before the transiction determining an oversizing for this kind of operations. Then the representation of the real economic situation of the companies could be altered, in stark contrast to the accounting standards should ensure.

#### **Question 8: Disclosures**

The integration of information regarding the reconciliation between the situations of the opening and closing of the accounts relating to lease liabilities generally will be more expensive than the benefit potentially taken by users, especially with reference to the area of the LTR.

This information would be useful in the exclusive case of property, plant and machinery, as already provided for by IAS 16.

Regarding the maturity analysis, the IASB requires disclosures of commitments for leases with a time horizon of at least 5 years, which, in the case of NLT, exceeds the average duration of contracts which it 3 years old, inducing tenants to make estimates and consequently to introduce elements of uncertainty that instead the part relating to "disclosure" would eliminate.



From the point of view of the lessor, the rapresentation is affected by the indication of the residual assets policy, which in the case of the LTR would provide guidance regarding their overall approach to residual values, hence contrary to the provisions of the legislation and the operational practice (LTR in Italy and leasing are distinguished primarily on the risk policy of goods).

In general, the set of information required in support of the new accounting framework is too complex and therefore does not facilitate the task nor of those who must prepare the reports, nor of those who have to interpret.

On the basis of these principles seems not possible to confirm the need for the revision of IAS 17, as the current version adequately addressing information needs in relation to leases.

#### **Question 9 (FASB-only): Non public entities**

The opportunity provided by the FASB to use a "risk-free" discount rate is an element of unique technical nature which does not generate any benefit in terms of cost for the implementation of the new system of accounting for leases.

This innovation would not benefit either of the users of financial statements to the extent that the FASB requires that the use of the rate in question must still be specified.

It would be advisable not to use the discount rate for the cash flows as representatives of one of the weaknesses of the reform and potential source of instability for the accounting framework that would be formed.

#### **Question 10 (FASB-only): Related party leases**

It's necessary to analyze the accounting framework for leases transactions for affiliates. The operations of leases are contracts that make up costs for lessee and revenue for lessor, consequently there is no possibility that these values can not be recorded even in the case of companies belonging to the same corporate group. Substantially in absence of this reform would be pursued.



## **Question 11 (FASB-only): Related party leases**

The introduction of additional elements of information does not seem necessary, as already provided for in the statements of the FASB in other articles.

# Question 12 (IASB-only): Consequential amendments to IAS 40

The proposed amendment to IAS 40 for investment property is the demonstration that the requirements of the IAS accounting framework currently in force is sufficient to provide useful information to users of financial statements regarding the operations of lease.