

ASOCIACIÓN ESPAÑOLA DE RENTING DE VEHÍCULOS-AER

Response to IASB's Leases Exposure Draft published in May, 2013 by IASB.

This Association believes that the operating lease vehicles up to a period of five years does not have to be activated in balance as a right of use for the reasons detailed:

1. Vehicles, in a very high percentage (over 95%), are returned by the lessee to the lessor, and those which are not returned is because the lessee acquires them with the current market acquisition value.
2. The average time of operations is currently in 46,50 months. Transactions are currently executed from 3 to 5 years. Before, from 3 to 4 years.
3. The amount of leased vehicle is not significant in relation to the whole balance of tenants.
4. The payment usually includes all the basic services (acquisition and making available, maintenance, repair, tire change, taxes inherent to the vehicle, insurance, roadside assistance and management of traffic penalties) and, in a smaller percentage, other optional services such as replacement vehicle, fuel card, pick-up and delivery of vehicles ...etc.
5. The payment consists, on the hand, of the amortization expense of the asset and, on the other hand, of the embedded services. In the case of operating leases vehicles, with an average of 30.000 km., the costs attributable to services are higher than those of the vehicle depreciation. Around 40% of costs are attributable to the amortization of the asset including interest and 60% to services.
6. Customers in Spain increasingly demand more services, because the operating leases provide them a high value added. They appreciate the task of counseling of leasing companies with a comprehensive offer of vehicles, the most suited to their needs, the lower consumption, informing them about the security, they manage parts of damage and sinister, they advise in optimizing costs, less time in the garage, provide suitable replacement vehicle according to their activity and needs, which helps them to reduce their claims, in some cases, driving courses are taught for do so with greater safety and lower fuel consumption.... In short, leasing companies are totally service oriented, so that all that the lessee needed to solve will find it in their mobility operators renting.
7. Residual value that applies to vehicles in operating leases regime are predictable market prices at the time the contract expires.
8. When we refer to operating leases of vehicles, we offer our customers mobility solutions, which are intended to cover all the needs that these clients might have, from a car sharing / pooling for the company to be used by users to a vehicle that requires the same replacement car when it is being repaired.... We try to correct the concept I buy a car through operating lease. The cars are used through operating lease, but the lessor is who normally buys it.

9. Our operations are aimed at those who need the car as a tool for the development of their activity, which is not part of its core business. We are looking for outsourcing of non-core business services. There are no operating leases for taxis fleet, although nothing prohibits it. It is unusual to lease a fleet of trucks for a carrier or a fleet of buses for a passenger transport company.

10. There is no a financial transaction, it is a service. Sometimes, in the European Commission, there is confusion between financial leases and operating leases and this topic is being moved from Leaseurope, association that represents operating and financial leases industry of more than 40 countries in Europe, defending that financial leasing can be considered as a supply of goods and operating lease as a service delivery.

11. We believe it is necessary to establish a clear difference between financial lease and operating lease on the balance sheet. Based on the approach of the accounting reform, we understand that it would create some confusion.

12. According to the information received, analysts and users of financial statements may be satisfied with more detailed information of the leases obligations reflected in the financial report. We consider it important to extend the information in the financial reports. It seems that analysts and users of financial statements were not satisfied with the reform proposal which was published in 2010. We are therefore in favor of the improvement of IAS 17 as necessary.

13. The costs for its implementation and its launch are very high and do not satisfy. We believe that it will not help us to get a more competitive economy in Europe. These costs affect both lessees and lessors, and the recognition of assets in the balance sheet will involve, in some cases, a higher level of capital for both lessors and lessees. Depending on the way you account it and your income statement, it may affect on tax changes that will lead in a more complex application. In addition, it will bring changes in the transition period that may affect both the balance sheet and the P&L account, with effects in retained funds by these adjustments.

14. It could also influence the information that is published including public sector accounting and national items/accounts which are based, among others indicators, on investment levels.

15. Presumably, the lessors will transfer these costs to lessees, which will cause an increasing of costs and consequently a loss of competitiveness.

16. It comes to eliminate bureaucracy in the EU and Spain, and this project makes the accounting more complex without a clear benefit.

17. For SMEs, the vehicle under operating lease regime gives an alternative opportunity for funding and also a great help by simplifying their accounting, cost predictability, control of all inherent expenses to vehicles, outsourcing what is not strategic, which allow them to focus on their business.

18. The aim is to make decisions that affect many small contracts to correct statements that affect some companies by major operations and whose assets were essential for its activity (the most common example referred to airlines). During the years that this

project has been discussed, we can conclude that there is no reason to apply this reform to small tickets, among others, vehicles under operating lease regime. We propose that they are excluded again.

19. We intend to defend the position of our customers. Nevertheless, we have made some touches that would also effect to lessors. However, we are concerned over the effect on lessors' accounting, which will be affected to a more complexity and higher costs. SMEs reached 34% of our total fleet in 2007, and they consider the operating lease as a product that brings much added value and allows them to concentrate on their business, as well as being a source of funding, especially at this time, given the credit shortage in the system. Currently, SMEs volume represents around 27% of the total fleet.

20. Finally, due to there are an specific accounting rules for SMEs and micro-enterprises in our PGC (Accounting Standards Plan), we consider very much important that the IASB take this into consideration of the forthcoming Re-exposure draft, which is expected to be released in mid April. In fact, there is already a precedent. In July 2009, the IASB adopted the IFRS for SMEs, which was based, among others, on one principle which mention that SMEs reached a high percentage of companies in a country (95% of all companies), and also recognize the need to provide a simplified accounting.

CONCLUSION

a) Our sector disagree the project because this would to imply the activation of services such as operating vehicle leasing. However, we do support the reinforcement of IAS 17 that is necessary to project a certain picture of the economic situation of a company and its payment obligations. In the Exposure Draft it is set that it would be necessary to give additional information beyond the right of use. Is not better to improve IAS 17 instead of embarking on a complex project for leasing vehicles?

b) The comment letter published by the EFRAG (TEC) openly acknowledges the complexity of the new accounting project and have recommended to be completed in different stages retaining IAS 17 in conjunction with improved and expanded disclosures. On the other hand, the EFRAG (TEC) supports the right of use model in certain cases; however it states that must be applied to the correct recipients of contracts, as there are some "concessions" which the model is not suitable and therefore not be activated in the balance as right of use. They recommend the IAS 17 with improvement of the relevant information to the users.

c) If during the period of time that this project has been discussed there was a time that small tickets were -and must be- including vehicle operating leases, excluded of the activation as a right of use, we understand that now is the time to be definitively excluded. In the case of operating vehicle leases, we have already exposed in these comments the reasons and we have highlighted the strong service component they have.

Madrid, September 12, 2013