

CONFINDUSTRIA

Rome, 9th of December 2010

To the International Accounting Standards Board

Object: IASB/FASB Leases Exposure Draft - Comments from ANIASA (Italian National Association short and long term renting vehicles).

ANIASA, the italian association representing the market of renting vehicles without drivers sector (95% of domestic market), highlights the negative consequences of IASB and FASB proposal about new IAS 17 release, relating to the evaluation and leasing accounting in the balance.

With 16th of July 2009 Position Paper, ANIASA expressed serious doubts and criticisms about IASB/FASP Discussion Paper-DP/2009/1 Preliminary Views.

Short and long term vehicles rental took in last years a significant role in the automotive industry, mobility and transport of people and goods; the most important companies are owned by international banking group and car manufacturers.

In 2009 the sector registered:

- 670,000 vehicles in ownership and 145,000 in fleet management;
- 240,000 new registrations of cars and 18,000 vans;
- 4.8 billion € turnover:
- 210,000 used vehicles sold to commercial operators and private persons;
- 7,500 direct and 20,000 indirect employees.

Sector is characterized by:

- 10 years of: sales growth (+300%), vehicles operated (+400%), direct (+120%) and indirect employees (+450%);
- significant role in the automotive industry (in 2009: 13% of car market in Italy);
- very high turnover of new vehicles and, therefore, very high contributions in less pollution and greater safety in mobility;
- contribution to reducing transport cost of 70,000 private companies and 2,400 public customers.

Rental vehicles now is setting, on normal basis, activity for thousands of medium and small companies, who, because of the lower availability of funds resulting from the credit crunch, are turning to renting, as a way for acquiring vehicles, which ensures complete satisfaction of growing greater needs for mobility at lower costs.

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Rental vehicles: an excellent tool to reduce operational costs...

The increased spread of long term rental contracts means more savings in operational costs for companies, which have thus increased availability of resources to invest in creating competitive advantages in their core business.

At basis of continued growth, there is a gradual and greater awareness of the rental formula, with significant financial benefits, economic and management: no financial fixed assets related to the purchase, reducing operating expenses and certain expenses for the entire rental period established.

Another aspect is a social-economic matter: the remarkable presence in Italy of small and very small companies, very careful to evaluate cost/benefits of renting and ready very quickly to decide the best formula.

...and a resource for the environment

As we all know, the automotive market is involved in sweeping changes and governments around the world and is also supporting the shift to low-carbon transport solutions.

Rental activity is characterized by high turnover of new vehicles, a consequent lower pollution and a greater safety in mobility. Every year our sector companies buy about 250.000 brand new vehicles, that are sold at the end of renting period to private or to retail dealers.

Connected with reducing transport costs and more awareness of fair environment politics, rental customers (companies and private) share EU objectives of CO2 emissions reduction within 2012. That's why for example in 2009 renting sector registered a positive result about fuel efficient corporate cars.

Related to this matter, the sector is the most important promoter of new car registrations with environmentally friendly motorization.



Negative and dangerous consequences

The project significantly modifies the accounting treatment of operating leases, suggesting that, for all his leasing contracts, the lessee enters into a surplus budget that is his right to use the leased asset and a passive representing his obligation to pay the fees, providing for a separate disclosure and accounting treatment for the rate of "pure" rent and the fee for "services".

These changes have adverse effects for clients of operating lease (rent), concerning;

- a) the presentation of the financial situation (complicating the budget, increase in capital requirements);
- b) higher operating costs generated by complex accounting procedures and periodic reviews of the recording parameters of the assets and liabilities related to contracts (as result of contract changing duration, for amounts relating to penalties, factors of uncertainty, any residual value).

It should be noted that over 50% of operating leases is subject to changes agreed in course of contract between lessor and lessee for this one needs (changes in mileage, option of extension, changes in services, etc.., not excluding the early conclusion with a refunding of the vehicle).

The estimates of ED, eliminating accounting flexibility and simplicity, would cause a consequent onerous industry, especially for small companies, requiring a very discretionary determination about "credits" by the lesser and the "debt" by the lessee.

The revision of IAS 17 as proposed would help to greatly reduce the economic interest of the business of leasing of specific assets and high turnover (fleet of vehicles, as well as IT platforms, office equipment, etc.)..

The project, in contrast to the expected objectives of simplification and rationalization, has raised strong opposition of many organisms, including Leaseurope, the Federation of European financial and operating leasing, which emphasized its negative impact on the structure of balance sheets, higher costs and complex accounting requirements in assets.

ANIASA also notes the negative impact of such regulation on vehicle operational leasing for the following reasons:

- risk of complexity and differences in accounting for the lessee to the lessor;
- uncertainty and complexity in the calculation of depreciation of the asset by the enterprise for hire;
- acquisition of a financial nature of the rental vehicle;
- loss of current administrative simplicity, with increased costs for business customers, especially in a time of severe crisis;
- loss of elasticity accounting related to the duration of the lease for a complex system and anti-economic;



- risk that the adoption of the right of use model results in the loss of the economic benefits of the lease;
- risk of different assessments and discretion in determining the "credits" by the lessor and the "debt" by the lessee, aggravated by the uncertainty in the discount rate fees.

Risks to general taxation

Very complex and serious uncertainty for public finances and the business context: it is important that Tax Offices examine thoroughly the consequences (in terms of tax flows) of the IAS 17 amendments on general taxation, with particular reference to the Income Tax legislation.

It is observed on:

- uncertainty and its application rules on depreciation deduction;
- limitation on the deductibility of negative interests;
- without excluding effects of the increase of taxable, a fiscal imbalance in the different skills and risks of contentious increasing.

These all are factors that cause a serious adverse impact on the current competitive structure, with high risk of discouraging fully, today, lessees IAS adopter, and, for the future, other types of client-company to use the services of operating leasing (renting) for their production needs.

Risks for companies competitiveness

In addition to the existing tax system, it is stressed that operating leasing is exposed to dangerous consequences of downsizing market, cause companies customers will be inevitably forced to other choices for the acquisition of mobility services / transportation, (with further reduction in competitiveness).

In various European contexts, in addition to the items mentioned above, industrial and commercial enterprises as well as banks, are looking at whether such a project and regret that the IASB has put forward proposals on improving the formulation and application of existing legislation, certainly more adapted to the present economic and financial context.

You can find below our general comments about ED, leaving Leaseurope a more detailed note about it.

Yours sincerely

Roberto Lucchini ANIASA President



The revised IAS 17 and IASB Exposure Draft-August 17, 2010

ANIASA GENERAL COMMENTS

The IAS 17 is subject of FASB and IASB joint work as well as EFRAG study and technical review. The project concerns the regulation of accounting for leases with respect to the financial statements of both the lessor and the lessee.

To simplify and make transparent the financial statements, the project aims at a single accounting model for the various categories of "leasing": abolishing the current distinction between financial and operational leasing disclosing assets and liabilities of operations of the operating leasing.

The current IAS 17 legislation distinguishes:

- on the one hand, the financial leasing contracts (transfer of all risks and rewards of ownership), for which the asset is carried on the balance sheet of the buyer and the future lease payments to the person;
- on the other, the operating leases (vehicles rental), whose fees are charged by the lessee in the income statement as an expense on a straight.

Integrative notes ensure timely and adequate transparency and disclosure.

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 – the Italian short and long term rental companies Association - representing 95% of the domestic market, after an internal review, makes the following comments on the DP/2009/1.



As preliminary remarks, it is fundamental to highlight the exact definition of short and long term operating leases.

Short Term Rentals

Every kind of vehicles (cars, vans) can be rented to private or professional clients for a relatively short period of time in order to meet their respective transport needs (leisure, business, replacement).

Average term of rentals is 6/7 days, but are available 1 month contracts, extensible (as internal rule) to 11 months. Every expenses concerning the vehicle is supported by rental company (owner of the vehicle), except fuel. So, therefore, every risk about residual value belongs to the rental company.

Long Term - Operating leases

Long term automotive rental contracts are a specific kind of leasing, whereby companies who decide for this kind service outsource their fleet needs – the vehicles as well as the related services to keep them available - to an operating leasing company. According to customers needs, the leasing company will provide the necessary vehicle (passenger cars, vans, etc,) to their clients, along with any required related services, including maintenance, insurance, fuel management and/or tyre replacements (just to name but a few).

Every expenses concerning the vehicle is supported by the operating leasing company (owner of the vehicle), except fuel. In particular, every risk about residual value belongs to the rental company. Average term of rentals/leasing is about 36 month. At the end of the contract, vehicle get back to the owner, there isn't any clause to redeem the vehicle.

In some cases, firms may provide only fleet management services, ensuring the day-to-day management of their clients' fleet needs, without providing the means to finance the fleet.

1. Project's imbalance

The project is highly unbalanced. It doesn't consider the significant operational differences between financial and operational leasing and some negative effects on the accounts of all sizes companies, especially the mall and medium size one.

2. Management's complexity

The rental agreement distinguishes -and it is the primary source of its great success and development in Europe- for the simplicity in financial management for the lessee, who's subject only to pay the monthly fee.



The new accounting method proposed will generate, however, some problems for companies that have to implement it. Considering that the good (the vehicle) should be accounted according to the renewal / modification and cancellation / purchasing contract's options, at the beginning of the contract the customer company will have to evaluate the possibility of using these options and will have also to proceed with a review of these options for each accounting transaction, in order to match the reported amounts in the financial statement and the contract's duration.

We have also noted that the need to estimate the probability of contract renewal / modification options creates a further variable element of the budget in relation to the subjectivity of the concept of probability, if not specifically regulated.

If one of the main aims of the project is to reduce the contracts interventions/changes, the result is totally opposite.

3. Scope

The right of use model is enforced in an undifferentiated way to very different products.

The project deals in a similar way with big ticket financed assets and full service leasing, which supplies a structured package of rental, services and residual value protection. It's important to note that if maintenance and service are an essential part of the core expertise of the client company (eg. airlines on aircraft maintenance, hotels on management of their buildings), on the other hand full service leasing supplies mainly outsourced services (eg maintenance of a fleet of cars) in conjunction with small sized assets, which aren't part of the core business of the lessee.

An application tout court of the Project may affect radically the future of the LTR activity: it is therefore essential a careful consideration of the substantial differences between the financial lease, operating lease and LTR.

4. Legal certainty

With the proposed new accounting method, the legal property principle is likely to be subject to be discussed generating therefore a strong litigation. The inclusion of the asset (the car) side of the lessee is liable to be lost to the lesser-owner to exercise the ownership right.

5. Damage to the sector

The proposed change in accounting standards risks to produce strong impacts on all sectors directly and indirectly involved, contrary to every economical school addressed to the business improvement.

The damage risks for the sector are so extensive and worrisome from affecting its future, with so grave consequences, loss of jobs both direct and indirect, etc.



6. Damages for business customers

The LTR great success is due to allowance business customers greater flexibility of their resources, allowing a fleet management in relation to actual needs, credit availability / use, the resources allocated to employees.

The implementation elasticity (early termination, renewal, new or different services, etc..) is one of the main factors of the lease agreement's spread, which could be completely compromised, with additional costs for the administrative activities, because of the IT adjustments.

It is still to emphasize the certainty of further financial commitments for the firms in the banking sector with consequent further operating costs.

7. Needs of analysts

It's necessary to deepen if the new regulatory the analysts, the financial experts, etc.. are able to verify the necessary transparency in economic activity of the company. There may be more appropriate ad hoc documents, e.g. attachments required, which would provide more consistent accounting behavior of the firms.

Another question arises with reference to small and medium enterprises, with fewer available resources and professional and economical availability to dedicate to the issue.

8. Services distinction

The services are the essential element of the provision of the rental and sometimes the good (the car) may even be secondary. Even now the problem arises how to distinguish in billing the rental and the performance of services.

9. Outsourcing Risk

The project emphasizes that the current text of IAS 17 requires that minimum contractual differences may generate strong differences in accounting treatment, considering the leasing and renting vehicles.

However, this matter, especially in crisis, should consider that, respect to the financial lessor, the lessor assumes the risk entirely on the good (VR, maintenance, changes in the contract rate financial, etc...).

This is a fundamental economic difference, absolutely not secondary.

10. Corporate responsibility

The question arises in order to identify the entity that manages the property, the lessor / landlord or the tenant / owner of the property.

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