## ASOCIACIÓN ESPAÑOLA DE RENTING DE VEHÍCULOS

We are responding to the invitation of the IASB and the FASB to comment on the Leases Exposure Draft. We thank you for this opportunity to comment this important text and we are pleased to provide you with the following comments.

1° We understand that the current IAS 17 makes a clear distinction between operating and financial leases, at least, in our sector renting of vehicles. Nevertheless, if they were to consider that this difference is not sufficiently well defined, an improvement the current IAS 17 should be explored in depth, instead of embarking us on an ambitious project resulting in questionable results and high costs.

2° The new proposal shows that the accounting project offers some improvements for analysts related to the current IAS 17, but at what cost? there is a generalized considerations that the profits it shows are well below the costs, see the results of the survey conducted between May & August 2010, where 70% of the lessees are opposed to the implementation of the project, in this sense The Spanish Business Daily "Expansion" in 15<sup>th</sup> November published articles on such important firms in the Spanish economy and even internationally such as Telefonica, Inditex, Iberia, NH Hotels, Ferrovial, Repsol YPF and banks like Santander and BBVA are not favourable to the introduction of this legislation for several reasons. The European Association of Banks has warned that same entities may need more capital as a consequence of the new standards to meet the capital ratios of debt times (new standards) will not improve the quality of financial reporting. On the contrary, risks introducing elements of confusion, misleading information may increase to aggregate data from thousands of leases throughout the world. To others the balance will be affected by a large increase in assets & liabilities based on subjective criteria. Most companies believe that the change is negative.

In conclusion, we consider that no further step should be taken on this project before a thorough cost/benefit review is undertaken.

3° The accountant reform aims to giving investors a better knowledge of the evaluation of the business; we suggest that besides reflecting on the memories and the obligations of leasing within each business, they also have a breakdown period, we suggest that aside from the information within the year, one collects after the general totals of the assets and debts of the stock, the total amount of rights of use or mobility (in our case) and in the debits the future payments for signed renting contracts. This way the investors will easily be able to analyze and keep a true balance of the valuations of the stock, since the amounts would be detailed after the total balance sheet assets and liabilities were known, which would reduce the necessity for more capital in certain companies. Included in the annual report the detail of the amount of installments, the cost corresponding to each concept could be mentioned; furniture, vehicles, photocopiers...our association is in favour of reinforcing the IAS 17, if it is considered necessary: however, absolutely not in relation to the

accountant reform that relates to the undertaking of the leases.

4° The Board states that a 1 year term contract would be considered as a service, and therefore it could be counted as an expense, without a necessity for it to be activated. This solution is not viable in our case because if the transactions had a 1 year term the product would be significantly more expensive for our clients and they would not hire it. Our contracts are usually between 3-4 years, if we were to shorten the term it would indicate that the product would be slightly more expensive and it would not be economically viable for leasers.

**5°** In our contracts, whose duration we have indicated at 3-4 years and up to 5 years in the current economic situation, the cost of servicing components is similar to the cost of the lease. Therefore it is common in many of our contracts for the servicing component to be higher than the lease of the asset.

We will list the services which you may find on our contracts:

Maintenance and repairs
Tyre changes
Tax charges
Insurance
Administration and cost of the fleet
Pickup and delivery of the vehicle
Loan vehicle
Fuel card
Management of traffic fines

**6°** Furthermore, depending on the significance of the lease costs as a function of the overall balance of the company, some costs may fall under services and others may fall under leases with the consequent activation of the right of use. Therefore, a standard intended to clarify and based more or less on subjective criteria, with each company acting according to its own understanding will be very expensive to implement, leaving a wide margin for subjectivity and may cause confusion.

7° On the other hand, in our case, we understand that which we transfer to clients is a right of mobility, not an asset, therefore we do not clearly see that it can be considered an active right of use.

## CONCLUSION

It is clear that this Association is not in favour of the intended reforms and therefore we have presented to you several arguments against doing so. Please refer to IAS 17 if necessary, and in this sense we have provided a series of suggestions which we are ready to clarify further, should you deem it appropriate.

If however, despite our fully opposed stance, this reform is to be carried out, we have provided a synopsis or our position on the basis of the Exposure Draft:

- 1. Those leases with vehicle servicing of up to 5 years old must always be considered as services and counted as an expense.
- 2. To implement it, and if it were also to affect our industry to impose the de-recognition model, both for lessees and for lessors.
- 3. To consider only the section corresponding to the lease as a right of use, but not the services section.
- 4. Not to include contingent rentals on the measurement of assets and liabilities.
- 5. We kindly ask the Board take into account our response. However, as members of Leaseurope we would support Leaseurope's response to the IASB/FASB Exposure Draft on Leases, even in the case that the Board does not take into account our comments.

14th December 2010