The Voice of Leasing and Automotive Rental in Europe

PRESS RELEASE

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Leaseurope Reaction to Publication of New Lease Accounting Standard, IFRS 16, by International Accounting Standard Board

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Brussels, 12 January 2016 – The International Accounting Standards Board first started to look at a new leases standard in 2006 and ever since then Leaseurope[1] has strived on behalf of the European leasing industry to ensure the Board's deliberations have been well-informed.

Leaseurope expects the final version of the Standard tomorrow to be very different from the draft issued in 2013, the last time the IASB consulted publicly on the proposals.

It is already clear that the IASB has simplified the rules including in areas called for by Leaseurope. Simpler rules are essential to ensure the new Standard does not interfere with the ability of European businesses to invest using leasing. Research shows that a reduction in the use of leasing will reduce overall business investment, harming the European economy.

In addition to very significant simplification, Leaseurope hopes the IASB has found a better way to distinguish between leases and services. European businesses are increasingly focused on the benefits they obtain from using equipment and vehicles. They are becoming less interested in the particular assets being used to deliver those benefits and for this reason distinguishing between leases and services is getting more difficult. A clearer and more meaningful solution to this problem will be essential to the success of the Standard.

The European Financial Reporting Advisory Group (EFRAG), which advises the European Commission on whether the new rules are in the European public good and should be approved for use in Europe by the largest companies that follow international accounting standards, is expected to issue a public consultation.

Leaseurope will review the new Standard in detail to see if the IASB has delivered rules that will work in practice for European businesses. Leaseurope will also review the IASB's cost/benefit analysis to ensure it properly reflects the extra costs for businesses that invest using leasing and does not overstate the benefits to users of accounts including investors.

Enrico Duranti, Chair of Leaseurope states "Leasing delivers very significant real economic benefits to millions of European businesses and changing the accounting treatment should have no impact on this. However, it has been three years since businesses have had a chance to review the new rules and they have changed a great deal in that time. Leaseurope will be reviewing the new Standard and the cost/benefit analysis in detail and providing our feedback to EFRAG, but it's important that European companies that lease property, equipment or vehicles also alert EFRAG and the European Commission if they see any problems."

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[1] Leaseurope is the trade association representing the European leasing and automotive rental industries.

NOTES FOR THE EDITORS

About Leaseurope

As a Federation, Leaseurope brings together 46 associations throughout Europe representing either the leasing, long term and/or short term automotive rental industries. The scope of products covered by Leaseurope's members ranges from hire purchase and finance leases to operating leases of all asset types (automotive, equipment and real estate) and also includes the rental of cars, vans and trucks. It is estimated that Leaseurope represents approximately 91% of the European leasing market. More on Leaseurope at www.leaseurope.org

Background Information

1. The new accounting standard will mean that operating leases, which are currently 'off-balance sheet', will go on lessees' balance sheets for the first time. Most leasing of business equipment in Europe is already on-balance sheet as finance leases. Most off-balance sheet leasing (probably over 95%) is for property, not equipment. Detailed information on off-balance sheet operating leases is usually already included in company's accounts, in notes just under the balance sheet.

2. Leasing equipment and vehicles delivers significant benefits and keeping some leases off-balance sheet is not why it is used. The benefits of using lease finance include:

- The possibility to finance 100% of the purchase price of an asset without having to offer any supplementary guarantees which would otherwise be an additional burden for the company seeking finance;
- Allowing companies to manage their working capital by spreading payments over the life of the asset;
- Making budgeting exercises easier as lease payments are regular and usually for a fixed amount;
- Giving firms the opportunity to renew their equipment, making sure that they benefit from the latest available technologies;
- Providing other sources of finance, independent from bank loans or credit lines, thereby conveying more freedom to the lessee;
- Ensuring the lessee has a stable and certain source of funds that cannot be withdrawn as long as payments are made;
- The ability for the lessee to use equipment or other assets without having to worry about considerations linked to being an owner such as the disposal of the asset when it is no longer used;
- Providing customers will a full package - a lease can also accompanied by an array of services, including the insurance and maintenance of the asset. A wide range of services can be combined with different types of leases;
- Taking advantage of local fiscal treatment which implies that leasing can also be beneficial from a tax point of view;

- Being the only available source of funds. In certain cases, particularly for smaller companies who have high growth potential, leasing may be the only way to finance their development;

- Generally speaking, providing finance in circumstances when traditional bank facilities would not be granted as lessors have greater security due to the ownership of the asset. This also implies that leasing may be offered on better terms than other forms of finance.

3. Listed companies and certain other businesses, collectively called 'Public Interest Entities' are required under European law to follow international accounting standards. They represent far less than 1% of European businesses. National accounting regulators fix the rules for other companies and will need to decide in the medium to long-term (e.g. 5 to 10 years) whether to require smaller companies to change the way they account for leases.

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