

<p align="center">IFRS 16. EFRAG PRELIMINARY CONSULTATION DOCUMENT ASSILEA RESPONSE</p>

Prot. 206/2016

Rome, 7th december 2016

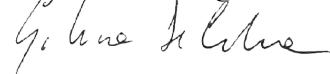
Assilea (Italian Leasing Association), the trade association representing leasing in Italy, very much welcomes the EFRAG's Preliminary Consultation Document as it represents an opportunity to further provide comments for the purpose of improving future lease accounting standard.

Please find summarized below the view of ASSILEA on the main topics that we have expressed in a more detailed way by providing our responses to the EFRAG in the attached comment letter.

- Although we support the abandon of IAS 17 as executed at the moment because - as IASB says as well – is doubtful and subjective and although we fully support the “right of use” as the only approach that not only clearly explains the real specific lessee’s legal-economic position compared with lessor’s, but also allows to overcome operating/finance distinction, however we do not share some issues very difficult to understand and not fully operational (i.e. right to substitute, substantive ability to replace an asset, recognition of non-lease components: ***significant judgement will be needed and there will be a significant and wasteful use of time debating possible interpretations, which will lead to a real risk of divergent application***).
- We express our concern about economic effects that might occur in lessees’ financial statements as a consequence of adopting the proposed accounting model, should the right-of-use be accounted in accordance with the amortized cost method on a systematic basis. We think that the economic substance of a lease cannot be reflected by considering the right-of-use and the linked liability as separate items. We think that the economic characteristics and risks of the lease are closely related and it would therefore be conceptually inappropriate to prescribe accounting treatments that do not reflect this intrinsic characteristic of the transaction. In our opinion, by solving the accounting mismatch, the IASB has clearly expressed its intention to remedy the situations where the application of a different accounting treatment to assets and liabilities which are closely related does not allow presenting a transaction in accordance with its substance.

If you wish to discuss our comments further, please do not hesitate to contact us. Your sincerely.

Dott. Gianluca De Candia
Director General – Assilea - Italian Leasing Association



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ASSILEA RESPONSE**

1. ENG Do you have any information or evidence on the extent to which leases (that you are party to or otherwise aware of) will be eligible for the short-term and low value exceptions identified in paragraph 24 above? If so, please provide details. If you are a preparer, do you expect to use the exceptions? If so, please: (a) quantify the number and annual lease payments for each category; (b) indicate the proportion of your leases (by volume and/or value) you estimate to be covered by each of the exceptions.

1. ASSILEA RESPONSE. No evidence or information about it. Leasing in Italy usually are 12 months or more and not so low value to be excepted.

2. ENG If you are a preparer, which approach to transition do you expect to take? Please explain your reasons for this decision.

2. ASSILEA RESPONSE. An entity that decides to adopt full retrospective application should do that for all arrangements for which the entity has the relevant information. According with EFRAG's past position we share mandatory full retrospective application would be onerous for long-term leases and we welcome a lessee shall apply this new Standard to its leases retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application.

3. ENG Are you aware of:

(i) any contracts that you consider to be leases that would not be classified as leases under IFRS 16; or (ii) any contracts that you consider to be service contracts (or other non-lease contracts) that would be classified as leases under IFRS 16?

If so, please provide details of these contracts and why you consider that the classification would not be appropriate.

3. ASSILEA RESPONSE. We support the "identified asset" principle in order to distinguish a lease arrangement from a service one. In the case of contracts that include both a lease component and a non-distinct service component, we believe it appropriate to allow differentiated treatments given the fact that the two subjects (lessee and lessor) are unlikely to possess the same information on the non-distinct service component.

We do not agree about the proposal to separately account in any case the two components in the lessor's financial statement (service and lease components are distinct or indistinct) because this kind of approach is inconsistent with the "right of use" principle.

Moreover, we believe that the lessee should not separate the two components unless it has reliable information. However, we do not agree of treating the whole contract as a lease, as we believe it could be more appropriate that the lessee first identify the predominant component of the contract (between lease or service) and then subsequently account for the whole contract in a consistent manner.

With regard to arrangements containing both lease and service components, we think that it's not always an easy task to distinguish the 'right of use' from the service component. This kind of uncertainty is extremely warned in those contracts that the IAS 17 in force today describes as operating leases despite of finance leases (in these latter contracts, indeed, the two arrangements are often separated).

4. ENG EFRAG is interested in understanding whether leases of intangible assets (other than rights held by a lessee under licensing agreements within the scope of IAS 38) are common. Do you have any information or evidence as to how frequently such leases of intangible assets arise in practice? If so, please provide information about the types of intangible assets that are subject to leases and the significance in operating and monetary terms.

4. ASSILEA RESPONSE. No evidence or information about it.

5. ENG Do you have any comments on the comparison of IFRS 16 with IAS 17?

5. ASSILEA RESPONSE. Although we support the abandon of IAS 17 as executed at the moment because - as IASB says as well – is doubtful and subjective and although we fully support the “right of use” as the only approach that not only clearly explains the real specific lessee’s legal-economic position compared with lessor’s, but also allows to overcome operating/finance distinction, however we do not share some issues very difficult to understand and not fully operational (i.e. definition of a lease, recognition of non-lease components)

6. ENG Do you have any views or information on how IFRS 16 can be expected to affect the behaviour of investors and/or lenders?

If so, do you have any views or information on whether and how IFRS 16 could, for European companies that apply IFRS, positively or negatively affect:

- (i) the overall cost of capital;
- (ii) access to finance and cost of credit?

Please provide any available evidence.

6. ASSILEA RESPONSE. A bank with leased assets has, on the one hand a ROU asset and, on the other, a corresponding lease obligation as a liability. Therefore, it would arguably be appropriate for prudential purposes to look at the net lease, i.e. the net of the ROU asset and the corresponding lease liability. The rationale for this approach would be its consistency with a linked approach to measurement of a right of use asset and corresponding lease obligation under accounting standards. Indeed, the IASB has argued that the values of the two components are linked at commencement of the lease.¹ The approach would amount to an exposure value of 0 at lease commencement, which would be consistent with the lessee’s risk profile.² This is also consistent with the P&L measurement approach adopted by the FASB under the US GAAP leases standard. Netting would also recognize the fact that the ROU lease asset and corresponding lease liability have the same contractual origin: one cannot exist without the other and their values are intrinsically linked. It would therefore be appropriate to consider the net lease for capital requirement purposes.

7. ENG Do you have views or information on how IFRS 16 might affect entities’ use of leasing?

For example, do you expect lessees to:

- (i) reduce their use of leases with a corresponding increase in purchases of assets;
- (ii) reduce their use of leases without a corresponding increase in purchases of assets;
- (iii) seek to change the terms of new or existing leases?

Please provide any available evidence.

¹ IFRS 16.23-24

² Of course the actual net value could change subsequently depending on the legal terms and economics of a given lease.

7. ASSILEA RESPONSE. No evidence or information about it.

8. ENG Do you have additional information or views on how the endorsement of IFRS 16 can be expected to affect the leasing industry in Europe? EFRAG is particularly looking for views from the leasing industry. Please provide any available evidence.

8. ASSILEA RESPONSE. No evidence or information about it.

9. ENG Do you have any information or views on how the endorsement of IFRS 16 can be expected to affect SMEs in Europe?
Please provide any available evidence.

9. ASSILEA RESPONSE. No evidence or information about it.

10. ENG Do you have any information or views on whether IFRS 16 is likely to endanger financial stability in Europe?
Please provide any available evidence.

10. ASSILEA RESPONSE. No evidence or information about it.

11. ENG What is your view on the relative costs of applying IFRS 16 and US GAAP? Do you have any other views as to the advantages or disadvantages of IFRS 16 compared to US GAAP?
Please provide any available evidence.

11. US GAAP has adopted a very similar approach, with all leases being required to be recognized on the lessee's balance sheet. However, US GAAP introduces a different P&L treatment for leases (linked measurement) that is akin to the previous operating lease treatment (instead of recognizing the payment of interest on the lease liability and depreciation of the right of use, the lessee recognizes an operating expense). We think this approach is very similar to what we have summarized in the 3rd bullet point of the first page of this document. And very reasonable as well.

12. ENG What is your view on the one-off and ongoing costs for preparers? (Please indicate whether you are (a) a lessee; (b) a lessor; (c) both a lessee and a lessor or (d) neither a lessee nor a lessor).
Will preparers that already report finance leases have lower costs than preparers without finance leases?
Please provide any evidence you have on the expected magnitude of the costs.

12. ASSILEA RESPONSE. No evidence or information about it.

13. ENG If you are a user, are you aware of any costs in addition to those identified in paragraphs 116 to 118 above? Please quantify if possible and provide any available evidence.

13. ASSILEA RESPONSE. No evidence or information about it.

14. ENG If a lessee has to develop new systems to support the accounting for leases, to what extent do you, as a lessee, expect internal benefits from the information provided by the new information? Please quantify to the extent possible. Do you agree with the benefits for users and preparers identified above? Are there any additional benefits for users and preparers? Please provide any available evidence.

14. ASSILEA RESPONSE. No evidence or information about it.

15. ENG Are there any issues that have not been raised in this Preliminary Consultation Document that should be considered by EFRAG?
Please explain your view.

15. ASSILEA RESPONSE. No evidence or information about it.