

**IFRS 16 LEASES. EFRAG Draft Endorsement Advice**  
**ASSILEA RESPONSE**

Prot. 76/2017

Rome, 13<sup>rd</sup> march 2017

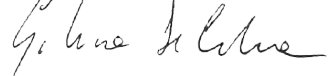
Assilea (Italian Leasing Association), the trade association representing leasing in Italy, very much welcomes this final EFRAG's Consultation Document as it represents another opportunity to further provide comments for the purpose of improving future lease accounting standard.

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***).

Moreover 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.

In conclusion, we have concerns about EFRAG determination that only a very small proportion of SMEs in Europe are required or choose to apply IFRS. In Italy for example is very actual the risk IFRS 16 is expected in the future to be adopted by the SME sector. These SMEs generally experience indeed greater challenges than larger entities in implementing any significant accounting change. If you wish to discuss our comments further, please do not hesitate to contact us. Yours sincerely.

*Dott. Gianluca De Candia*  


**Director General Assilea Italian Leasing Association**

**1. Potential effects on stakeholders' behaviours (page 2)**

[...] EFRAG however notes that some lessees may seek changes to their contract terms and conditions and that lessors may be requested to provide lessees with more information than in the past.

Do you agree with this assessment?

**1. ASSILEA RESPONSE. Yes**

**2. Potential impact of IFRS 16 on the leasing industry (page 3)**

[...] To summarise, EFRAG has assessed that IFRS 16 is likely to have some negative effect on the leasing industry but that this effect should be modest in scale and would not represent a threat to the overall viability of the industry.

Do you agree with this assessment?

**2. ASSILEA RESPONSE. No. 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.**

**3. Potential impact of IFRS 16 on SMEs (page 3)**

[...] EFRAG has determined that only a very small proportion of SMEs in Europe are required or choose to apply IFRS.[...]. EFRAG however acknowledge that these SMEs generally experience greater challenges than larger entities in implementing any significant accounting change.

Do you agree with this assessment?

**3. ASSILEA RESPONSE. Yes**

**4. Costs and benefits (page 3)**

[...] EFRAG is assessing the costs that are likely to arise for preparers and for users in the EU, both on initial implementation of IFRS 16 and in subsequent years (Appendix 3, paragraphs 161-233)?

[...] EFRAG has received some broad and indicative estimates of the expected costs of implementation of IFRS 16 and expected ongoing costs [...]

Are you able to provide any additional cost estimates?

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

**5. Costs and benefits (page 4)**

[...] In addition, EFRAG has assessed the benefits that are likely to be derived from IFRS 16 [...]

To summarise, EFRAG's initial assessment is that users are likely to benefit from IFRS 16 including greater transparency about an entity's financial leverage and capital employed, enhanced information about leasing activity, improved comparability between entities that lease assets and entities that borrow to buy assets. [...] EFRAG assesses that preparers may also derive some benefits, although to a lesser extent than users, as a result of improvements in the quality and/or availability of internal management information about the effects of leases and enhanced investor sentiment. Do you agree with this assessment?

**5. ASSILEA RESPONSE. Yes**

**6. Costs and benefits (page 4)**

[...] EFRAG acknowledges that the distribution of costs and benefits may be uneven among stakeholders insofar as costs are largely expected to be incurred by entities preparing IFRS financial statements whereas benefits are shared by them, users of financial statements (including investors) and the wider economy. Do you agree with this assessment?

**6. ASSILEA RESPONSE. Yes**