SNLVLD

La location, le choix de gestion.

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Response of the Syndicat National des Loueurs de Véhicules en Longue Durée (SNLVLD) to EFRAG's preliminary consultation regarding the endorsement of IFRS 16 – Leases.

Founded in 1978, the SNLVLD seeks to ensure that its members comply with a strict code of conduct, to represent the industry among a variety of stakeholders, including administrative stakeholders, and to promote Long-Term Leasing.

The SNLVLD is affiliated to the Fédération Nationale des Loueurs de Véhicules (FNLV) which includes the Fédération des Entreprises de Transport et Logistique de France - TLF (commercial vehicle rental companies), the short-term car rental branch of the CNPA industry association and the SNLVLD.

This affiliation gives the SNLVLD representation within the Medef and GPS business associations of which FNLV is a member. The FNLV represents French operating leasing activities within LEASEUROPE, the European Federation of Leasing Company Associations covering operating and financial leasing of cars, utility vehicles and trucks. The FNLV represents 295 companies, 2 010 248 vehicles on the road, 700 000 registrations per year and a turnover of 11 billions euros.

SNLVLD is the sole French representative of the long term rental activity and is an unavoidable player as it represents 97% of this industry. Members (35 companies) manage 1 605 218 vehicles (long term rental and fleet management) and generate a turn over of 5.7 billions euros.

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In this response, we hope to bring to your attention the practical difficulties facing our members in implementing IFRS 16.

These difficulties give rise to the following three requests on our part:

- **Postponement of the date of initial application;**
- **Proposal of simplifying measures;**
- **Request for an interview with EFRAG.**

Our members' customers, for their part, expect the most comprehensive range of services possible in order to fully outsource the management of their vehicle fleet (including in the area of administration when the need arises). This piece of context is vital because it lies at the heart of the relationship between lessors and lessees.

Following the release of IFRS 16 in January this year, our members met with their customers to discuss their understanding of the standard and their requirements in order to put it into practice.

From these discussions it emerged that the possibilities offered by the standard, particularly in terms of:

- which discount rate to apply (interest rate implicit in the lease or the specific rate for lessees – see IFRS 16.26);
- which lease payments to adopt (finance lease payments or overall lease payments as they appear on lessors' invoices (with several combinations possible) – see IFRS 16.15);
- which term assumptions to apply;
- the choice of date of initial application (1 January 2019 **or early application as of 1 January 2018** – See IFRS 16 C.1); and
- the approach to handling initial application (a full retrospective or simplified approach, with two different options – see IFRS 16.C)

make the valuation of lease liabilities and rights of use as well as their amortisation extremely complex and frequent events (owing to the combination of possible options).

This initial complexity is exacerbated by **amendments occurring during the life of a lease** (on average, a lease will be adjusted once during its lifetime and some may be amended three or four times) resulting in subsequent valuations of rights of use and financial liabilities as well as amortisation and depreciation schedules.

Because of this complexity, some customers have already indicated that they no longer wish to use long-term leasing for their automobile fleet. Beyond these difficulties of practical implementation, this standard could therefore undermine an industry whose operating profits have not raised any concerns. This is obviously not the standard setters' original intention but it could be a serious collateral consequence.

That said, in order to deliver their customers an ever more comprehensive service, our members are committed to the IT developments required to produce the information that their customers will need. Inevitably, they are having to deal with the many and complex quantification methods mentioned above but also with extremely tight timescales.

Indeed, discussions with lessee customers indicate that the early application of IFRS 16 as of **1 January 2018** is more a reality than an option (mainly to avoid having to deal with two "big bangs": the application of IFRS 15 on 1 January 2018 and that of IFRS 16 on 1 January 2019).

Consequently, in order to meet their needs, our members must be able to produce, for accounting purposes, ad hoc information no later than 1 January 2018. In addition, the CFOs of the entities questioned expressed a wish to obtain information from the end of the third quarter of 2017 in order to draw up their 2018 budgets.

The same CFOs are also quite helpless when it comes to projecting the costs associated with their leases (due to the tapering of interest associated with the gradual extinguishment of the financial liability while the amortisation of the right of use asset is flat).

The European Community's decision regarding the adoption of the standard will be made at the end of the first quarter of 2017 at the earliest, which leave too little time (less than a year) to complete the IT developments needed to properly meet the standard's requirements and therefore customers' needs.

Based on these observations, we suggest postponing the effective date of IFRS 16 by one year (mandatory initial application on 1 January 2020 with the possibility of early application on 1 January 2019).

In addition, in order to simplify the quantification of the right of use and the corresponding financial liability, we suggest that discounted lease payments not be used but that a simple addition be performed instead (or discounting at 0%).

This would help :

- **to restore cost stability during the life of the leases and avoid the system of tapering as well as distortion between the cash and P&L views.**
- **to avoid to communicate sensitive data such as pricing policy of our members (internal interest rate, residual value or split between financial and services part of the rent.**

For illustration purposes, a comparison is provided below of a lease treated as recommended under IFRS 16 and as we propose.

The details of the lease are as follows:

Purchase price:	€20,000
Term:	48 months
Implicit interest rate:	3%
Residual value:	€7,000
Financial lease payment:	€305.25

P&L approach:

IFRS 16 treatment	Year 1	Year 2	Year 3	Year 4	Total
Amortisation of right of use	3,448	3,448	3,448	3,448	13,791
Financial interest	369	268	165	59	861
Total cost	**3,816**	**3,716**	**3,613**	**3,506**	**14,652**

SNLVLD proposal	Year 1	Year 2	Year 3	Year 4	Total
Amortisation of right of use	3,663	3,663	3,663	3,663	14,652
Interest	0	0	0	0	0
Total cost	**3,663**	**3,663**	**3,663**	**3,663**	**14,652**

Differences between SNLVLD proposal vs IFRS 16 (as % and in absolute terms):

Difference in cost emergence as %:	**-4%**	**-1%**	**1%**	**4%**	**0%**
Difference in cost emergence in value:	**-153**	**-53**	**50**	**156**	**0**

In terms of P&L, the differences for each lease would be only marginally material. The same differences relative to a lessee's total costs would therefore be insignificant.

Finally, given the different maturities of the leases in the lessee portfolio, these differences would be even more limited and therefore even less material (a portfolio evenly divided between "new" and "old" leases would not show any difference).

Balance sheet approach:

IFRS 16 treatment	At inception	Year 1	Year 2	Year 3	Year 4
Right of use	13,791	10,343	6,895	3,448	0
Liabilities	13,791	10,496	7,102	3,604	0

SNLVLD proposal	At inception	Year 1	Year 2	Year 3	Year 4
Right of use	14,652	10,989	7,326	3,663	0
Liabilities	14,652	10,989	7,326	3,663	0

Differences between SNLVLD proposal vs IFRS 16 (as % and in absolute terms):

Rights of use	6%	6%	6%	6%	0%
Liabilities	6%	5%	3%	2%	0%
Rights of use	861	646	431	215	0
Liabilities	861	493	224	59	0

In terms of balance sheet items, the differences per lease would also be immaterial. The abovementioned pooling effect (in absolute terms) on the income statement would have the same effect (reduction in differences).

Finally, these differences relative to lessees' total balance sheets would doubtless be insignificant.

By default, another possible simplifying measure relative to the standard's current recommendations would be to correct the tapering of costs with a "plug" (by analogy with the stability of recognised costs under US GAAP) adjusted and applied throughout the life of the leases.

The above observations are the result of the discussions that lessees have had with their lessee customers and therefore reflect the reality of the concerns and difficulties that the standard, as currently drafted, raises.

We would like to take this opportunity also to request a meeting with your staff to explain in person the technical and time constraints that we face and the simplification measures that we are hoping to share with you and which do not undermine the spirit of the existing standard.

Please do not hesitate to contact us for additional information or if you wish to discuss these matters further.

Yours sincerely,

François-Xavier Castille
Président SNLVLD

Under the Economic & Tax working group , Chairman M. Fabrice Bertolle