

The Leasing Market in Brazil and the IRFS 16 adoption

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One of the major challenges faced by the Brazilian leasing industry is the implementation of IFRS 16 (*International Financial Reporting Standards*), the new standard that defines the principles for accounting and leasing disclosure.

The new accounting rules effective from January 2019 will have a major impact on leasing companies, with business downturns.

They will result in a new structure and form of accounting registration, contributing to improve the quality of financial statements for investors. It is not just an accounting change, but a deeper change, of patrimonial structure.

Aware of the importance of IFRS 16 for the improvement and strengthening of the Brazilian leasing market, ABEL (*Brazilian Association of Leasing Companies*) has actively participated in the entire process, embracing the opportunity to flexibilize leasing and contribute to the growth of industry in the country.



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From the very beginning, ABEL has followed closely the discussions on the international convergence of the new rules. In 2015, it presented to the domestic market a first-hand *draft* of IFRS 16. After that seminars were held to better understand the measures proposed by the IASB (*International Accounting Standards Board*) with the participation of the FASB (*Financial Accounting Standards Board*). The events brought together leasing companies, national market regulators, such as the Central Bank of Brazil and CVM (the capital market regulator, the equivalent of *Securities and Exchange Commission of Brazil*).

IFRS 16 profoundly affects the accounting of leasing companies - the text defines what is leasing and establishes the characteristics of other types of contracts that must have the same treatment -, thus, it is fundamental to understand how the implementation of the new accounting record model, so that the adequacy to the revised standard can occur. The challenge for leasing companies in the prior months to the effectiveness of the new standard is to prepare for the adoption and unification of accounting procedures, because of the number of contracts, impacts may occur in the implementation of IFRS 16.

For the transition process to be successful, ABEL has been making efforts to prepare leasing companies and professionals to deal with the new accounting framework.

Given the complexity of adopting the new rules and their impact on the balance sheets of leasing companies, we held a workshop in June 2018 with the participation of audit firms such as Ernst Young, KPMG and PWC, as well as Abel representatives.

We believe the international convergence of the rules is an opportunity to flexibilize the commercial lease and contribute to the development of the activity in the country. In recent years, legal uncertainty, coupled with political and economic turmoil, has inhibited the creation of an environment conducive to the resumption of leasing operations in Brazil.



The leasing market closed 2017 being responsible for 0.19% of the Gross Domestic Product (GDP). In December 2017, the Present Value (VPC) had a balance of R\$ 12,025 billion. Among the most rented goods are machinery and equipment, responsible for 39.33% of the total portfolio; vehicles and similar goods, 28.59%; aircraft, 13.31%; and other types of goods, 18.77%.

Simultaneously to the work to adapt to the new international regulation, we remain committed to restoring legal certainty in leasing operations, which should occur with the simplification of the tax collection process, which should only be achieved with the so-called Fiscal Reform. The way in which the tax model is structured stimulates the judicialization that impinges on all spheres of our Courts.

We are confident that this will be a main goal of the new government that will take office in 2019, which would help unlock not only the leasing market, but the national economy, providing alternatives for modernization and productivity increase in the entire Brazilian production chain.

Present portfolio value - top 20 lessors in 2017

POSITION	COMPANY	TOTAL US\$	CONTRACTS	SHARE%
1	Bradesco Leasing S/A Arrendamento Mercantil	664.794.399	11.119	19,25
2	Santander Leasing S.A. Arrendamento Mercantil	573.716.259	26.000	14,84
3	Banco IBM S/A	443.441.790	1.558	12,81
4	HP Financial Services Arrendamento Mercantil S/A	329.833.810	3.475	12,36
5	Safra Leasing S/A Arrendamento Mercantil	275.819.997	10.742	7,84
6	SG Equipment Finance S.A. Arrendamento Mercantil	274.534.257	687	7,26
7	Banco Itaucard S/A	255.942.106	27.959	6,79
8	Cia. de Arrendamento Mercantil RCI Brasil	215.363.946	40.994	5,60
9	Daycoval Leasing - Banco Múltiplo S.A	159.860.835	3.751	3,01
10	Alfa Arrendamento Mercantil S/A	88.691.370	1.200	2,14
11	Banco de Lage Landen Brasil S/A	76.483.646	547	1,92
12	Banco Volkswagen S/A	48.011.591	5.367	0,96
13	BB Leasing S/A Arrendamento Mercantil	47.095.284	1.888	0,95
14	Banco Rodobens S/A	39.992.782	540	0,94
15	Banco Itauleasing S/A	36.672.805	207	0,76
16	Banco Toyota do Brasil S/A	33.614.433	1.372	0,59
17	Banco Volvo S/A	21.614.097	24	0,50
18	Banco J. Safra	21.341.650	3.053	0,49
19	Banco Bradesco Financiamentos S/A	18.631.417	45.410	0,43
20	Citibank Leasing S/A Arrendamento Mercantil	14.859.726	160	0,36
Total		3.640.316.200	186.053	99,80
Total of the market		3.653.321.707	205.151	100,00

Source : Abel - Brazilian Association of Leasing Companies.

New investments - top 20 lessors in 2017

POSITION	COMPANY	TOTAL(US\$)	CONTRACTS	SHARE%
1	Bradesco Leasing S/A Arrendamento Mercantil	323.239.695	2.131	16,59%
2	Santander Leasing S/A Arrendamento Mercantil	289.574.096	2.949	14,86%
3	Banco Itaucard S/A	281.334.626	114	14,44%
4	Banco IBM S/A	174.290.434	464	8,94%
5	HP Financial Services Arrendamento Mercantil S/A	162.882.657	978	8,36%
6	SG Equipment Finance S.A. Arrendamento Mercantil	129.156.001	139	6,63%
7	Cia. de Arrendamento Mercantil RCI Brasil	122.954.192	11.451	6,31%
8	Safra Leasing S/A Arrendamento Mercantil	106.654.490	928	5,47%
9	Daycoval Leasing - Banco Múltiplo S.A	106.423.958	1221	5,46%
10	Alfa Arrendamento Mercantil S/A	54.877.434	547	2,82%
11	Banco Volkswagen S/A	53.403.336	394	2,74%
12	Banco de Lage Landen Brasil S/A	52.698.976	324	2,70%
13	Banco Rodobens S/A	23.884.635	146	1,23%
14	Banco Volvo S/A	23.759.070	12	1,22%
15	Banco Toyota do Brasil S/A	13.839.405	544	0,71%
16	Banco Bradesco Financiamentos S/A	12.263.397	262	0,63%
17	BB Leasing S/A - Arrendamento Mercantil	8.077.398	84	0,41%
18	Citibank Leasing S/A Arrendamento Mercantil	5.924.635	57	0,30%
19	Banco J. Safra	2.091.565	35	0,11%
20	Banco GMAC S/A	1.445.733	133	0,07%
Total of the market		1.948.775.733	22.913	100,00

Source: Abel - Brazilian Association of Leasing Companies

Equipment leased 2009-2017 (US\$ M)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Vehicles and related	57.596	37.617	17.283	10.862	4.810	3.067	1.572	1.365	1.088
Machinery and equipment	6.195	6.858	6.310	5.869	5.275	3.407	1.972	1.772	1.496
Aircraft	403	540	578	660	854	895	569	498	506
Computer equipment	1.284	1.239	1.036	1.175	686	405	276	307	384
Installations	88	110	89	72	51	69	40	37	15
Furniture	101	110	89	67	58	56	29	28	27
Ships	46	56	58	53	61	75	46	40	45
Real Estate	69	270	59	84	40	28	21	20	17
Others	223	239	43	45	18	98	107	130	103
Total	66.005	47.039	25.545	18.887	11.853	8.100	4.632	4.197	3.681

Source: Abel –Brazilian Association of Leasing Companies

Collectible leases per sector 2009-2017(US\$ M)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Individuals	46.321	36.408	20.007	9.779	4.855	1.949	684	625	452
Services	9.335	9.208	6.759	5.802	5.138	5.353	3.236	3.043	2.568
Commerce	4.094	3.398	2.043	1.740	1.237	1.065	593	607	618
Industry	5.191	4.865	3.354	2.610	2.060	1.751	921	810	673
Government	92	97	97	158	76	167	126	109	79
Others	945	2.042	1.237	978	490	468	157	108	70
Total	65.978	56.018	33.497	21.067	13.856	10.753	5.717	5.302	4.460

Source: Abel – Brazilian Association of Leasing Companies