IMF Committee on Balance of Payments Statistics

BPM6 Update
Current Account Task Team (CATT)

APPROVED/FINAL VERSION

C.5 Statistical Impact of the Change in Treatment of Operating Leases in Business Accounting; Economic Ownership in the Context of Financial and Operating Lease Transactions Pertaining, in Particular, to Aircraft

C.5 Statistical Impact of the Change in Treatment of Operating Leases in Business Accounting; Economic Ownership in the Context of Financial and Operating Lease Transactions Pertaining, in Particular, to Aircraft[1]

A new International Financial Reporting Standard on leases (IFRS 16) came into force on January 1, 2019, that is no longer aligned with the current recording standards in the System of National Accounts 2008 (2008 SNA) *and the* Balance of Payments and International Investment Position Manual, sixth edition (BPM6) *regarding the concept of economic ownership. This poses some challenges for compilers to classify leases based on the distinction between legal and economic ownership and to separately record cross-border operating and financial leasing activities. This Guidance Note (GN) discusses two options for the classification of existing leasing contracts and how to separate financial from operating leasing: Option 1 – separating operating from financial lease arrangements by using additional information and no change to the recording standards of the* 2008 SNA *and* BPM6; *and Option 2 – introducing a one-year threshold to distinguish operating from financial leases. Based on the feedback from the Advisory Expert Group on National Accounts (AEG) and the IMF Committee on Balance of Payments Statistics (Committee) members during the written consultation, this GN recommends Option 1 (i.e., not to deviate from the* 2008 SNA *and* BPM6 *principle of risks and rewards that are incidental to economic ownership for determining and recording operating and financial lease transactions) and to include additional guidance in the* BPM7 Compilation Guide*.*

SECTION I: THE ISSUE

BACKGROUND

1. **In January 2016, the International Accounting Standards Board (IASB) published an International Financial Reporting Standard on leases (hereafter referred to as IFRS 16).** The new standard became effective on January 1, 2019, replacing the previous leasing standard, IAS 17.[2] All companies using rentals or leasing as a means to obtain access to assets, and that report under IFRS 16, are affected (see Annex I for more information on IFRS 16).[3]

2. **The right to control the use of an identified asset approach, as introduced by IFRS 16 in relation to leases, where the customer has the right to obtain all economic benefits from the use of the asset and to decide how and for what purpose it is used, deviates from the *System of National Accounts (2008 SNA)* and the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)* model of risks and rewards incidental to economic ownership**

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[1] Prepared by Mr. Robert Leisch (Eurostat), Mr. Matthias Ludwig (Eurostat), Mr. Denis Caron (Canada), and Mr. Robert Pupynin (Russia). Formerly two GNs were consolidated into one single GN (C.5) for posting.

[2] IAS 17 has been criticized for failing to meet the needs of users of the financial statements, particularly because IAS 17 does not require lessees to recognize assets and liabilities arising from operating leases. IFRS 16 addresses those criticisms by requiring lessees to recognize most leases on their balance sheets and providing enhanced disclosures to present the lessees' financial obligations and leasing activities in a more transparent way.

[3] In some countries however, enterprises will have to continue to distinguish their operating and financial leasing activities for national tax purposes even if the IFRS 16 is applied.

(finance versus operating leases).[4] A potential alignment of the *2008 SNA* and *BPM6* with IFRS 16 would therefore challenge this fundamental principle in the statistical manuals.

3. **However, if the *2008 SNA* and *BPM6* remain unchanged, the new leasing standard poses challenges for the statistical recording of leases**. This note proposes solutions to address such challenges.

4. **This issue has also been discussed in the Government Finance Statistics (GFS) community, where there is an ongoing process of interaction with the International Public Sector Accounting Standards Board (IPSASB).** It was also one of the main issues in the Eurostat Task Force on the Recording and Compilation of Maritime Transactions in National Accounts and Balance of Payments that resulted in the publication of the *Handbook on the Compilation of Statistics on Sea and Air Transport in National Accounts and Balance of Payments*.

5. **Prompted by the implementation of the IFRS 16 in business accounting during 2019, Eurostat has consulted internationally operating law firms, accounting enterprises, banks, airline companies, and aircraft leasing companies that are engaged in cross-border leasing activities in particular for aircraft and with an office in Luxembourg.** The aim was to get a better understanding of leasing transactions that are being conducted in the business world, the accounting procedures under IFRS 16, and the available information supporting a correct identification and allocation of operating and financial leasing transactions for statistical purposes. The main conclusions of this investigation and interviews with experts, in particular in relation to aircraft, are summarized below:[5]

(i) Financing for aircraft is organized differently for operating and financial leases, and the same lessor almost never provides both types of leases. Leasing companies, whose main activity is to buy and lease aircraft to airlines, usually provide operating leases. In contrast, financial leases are normally financed through Single Purpose Vehicles (SPVs) and include financing from several banks because participation loans are common in financing aircraft.[6] Generally, the SPV buys the aircraft and rents it to the airline.

(ii) Lease contracts in the business world impose diverse conditions and reflect different criteria of risks and rewards. Only under a financial lease, the lessee acquires legal ownership of the aircraft or has the option to do so at the end of the lease term. Therefore, the lessee takes the additional risk concerning the actual market value of the aircraft at the end of the lease contract. In case of an operating lease, a lessee never becomes legal owner, always returns the aircraft to the lessor, and does not have to be concerned about the market value of the asset. Under a financial lease, the lessor is never responsible for costs related to the ownership of the aircraft including expenses associated with the operation and maintenance of the aircraft.

[4] Paragraph 10 and Annex I provide more information on recording of leases under IFRS 16.

[5] See pages 54, 55, 68, and 69 in the *Handbook on the Compilation of Statistics on Sea and Air Transport in National Accounts and Balance of Payments*. Additional information about subleases and sale leaseback transactions can also be found in this publication.

[6] Figure 1 and 2 in Annex VI exhibit how financial and operating leases are usually organized.

(iii) The duration of a leasing contract is not an indicator to distinguish between the two leasing arrangements because most aircraft are leased for a period of not shorter than four years, and the length of an operating lease is usually around 10 years, while that of a financial lease is around 12 years.

(iv) In addition, information based on the invoice issued by the lessor and received by the lessee, together with the IAS 7 Statement of Cash Flows, can be used by the lessee to separate the expenditures for operating leasing from those for financial leasing. Under financial leases, the invoice and the IAS 7 Statement of Cash Flows explicitly disclose the interest payments for loans, whereas this information is not separately visible for operating leases.

Current International Standards for the Treatment of the Issue:
2008 SNA, BPM6, International Standard Industrial Classification of All Economic Activities (ISIC Rev.4), International Merchandise Trade Statistics 2010 (IMTS 2010), IAS 17*, *and IFRS 16

6. **The *2008 SNA* (paragraphs 17.301–17.309) and the *BPM6* (paragraphs 5.56–5.60 and 10.153–10.157) maintain a clear distinction between operating and financial leases for both lessors and lessees, and recommend that assets are recorded by the economic owner following the concept of risks and rewards**.

7. **According to *2008 SNA* paragraph 17.301 and *BPM6* paragraph 5.60a, under an operating lease, the lessor is also the economic owner who accepts the operating risks and benefits from the asset by using it in a productive activity.** The payments from a lessee to the lessor are considered as rentals and recorded as payments for a service. Indicative elements of an operating lease are, for example, the lessor's responsibility to provide any necessary repair of the asset (*2008 SNA*, paragraph 17.301) and the fact that the lessor, or owner of the equipment, normally maintains a stock of assets in good working order that can be hired on demand, or at short notice, by users; in addition, the lessor also provides other services, such as convenience and security, servicing, and back-up facilities (*BPM6*, paragraph 10.154). Based on the I*SIC, Rev.4*, enterprises that are offering operating leasing are classified under ISIC class 7730 as nonfinancial corporations (S.11) in the business register (BR).

8. **Under a financial lease, the lessor passes the economic ownership of an asset to the lessee, who accepts the risks and receives the economic benefits from the exploitation of the asset (*2008 SNA*, paragraph 17.304; and *BPM6*, paragraph 5.56).** The legal owner (lessor) is granting a loan to the economic owner (lessee) and the lessee receives the asset. The loan is recorded in the financial account under other investment or direct investment as an asset of the lessor and a liability of the lessee. According to *BPM6* paragraph 5.59, the payments from a lessee to the lessor have to be recorded as interest repayments (in addition to the repayment of the principal), and in case the lessor is a financial intermediary, FISIM also has to be considered. In addition, *2008 SNA* paragraph 17.308 states that, although a financial lease will typically be for several years, the duration of the lease does not determine whether the lease is to be regarded as an operating or financial lease. An enterprise (lessor) that specializes in financial leasing should be treated as a financial corporation (*2008 SNA*, paragraph 17.309). In accordance with the *ISIC, Rev.4*, a lessor providing financial leasing has to be classified in the BR under ISIC class 6491 (financial leasing) and classified as a financial corporation (S.12) according to *2008 SNA* paragraph 4.110 (c).

9. **In the *IMTS 2010*, paragraph 1.28 clarifies that goods under a financial lease, where the lessee assumes the economic rights, risks, rewards, and responsibilities in relation to the assets and can be considered as the de facto owner, should be included in IMTS.**[7] On the contrary, goods under an operating lease should be excluded from IMTS, and *IMTS 2010* paragraph 1.29 recommends to record exports and imports of aircraft according to change of economic ownership, which is defined in accordance with *2008 SNA* and *BPM6* (*IMTS 2010,* paragraph 1.4)*.*

10. **Classification and treatment of leases in the *2008 SNA*, *BPM6,* and the previous accounting standard IAS 17 are closely aligned**. However, lessees preparing accounts according to the new IFRS 16 standard will not distinguish between operating and financial leases but account for all leases over 12 months in the same way. Therefore, recording under IFRS 16 differs in the following way compared to IAS 17:

- Lessees have to recognize on its balance sheet assets and liabilities for all leases with a term of more than 12 months (except low value assets).
- Lessees have to recognize an asset and associated liability for all lease arrangements—including those that were classified as operating leases under IAS 17.
- Lessor accounting under IFRS 16 does not change compared to IAS 17.
- Lessor accounting under IFRS 16 is therefore asymmetric from lessees accounting under IFRS 16 for all leases with a duration of more than one year.

Concerns/Shortcomings of the Current Statistical Standards

11. **By maintaining the recording standards of the *2008 SNA* and *BPM6*, the implementation of IFRS 16 will potentially create the risks of misclassifications, inconsistencies, and asymmetric recordings in countries' balance of payments statistics and national accounts (NA) figures regarding the recording of leasing activities.**

12. **For balance of payments, a bilateral potential misreporting is possible when two institutional units have signed a leasing agreement and the lessor is resident of Country A and the lessee is resident in Country B.** The discrepancy will become visible when comparing the exports of A with the imports of B in cross-border macroeconomic statistics. Country A may record correctly an operational lease provided by the lessor to the lessee in Country B as an export of service. Country B however no longer has the information from the lessee to distinguish between operational and financial leasing and may record a financial lease, with an import of the asset under trade in goods, related interest payments for the provided loan under primary income and the loan as well as the repayment of the principal in the financial account. If the lessor is a financial institution, part of the payment is also treated as a service charge (FISIM). This asymmetric recording would create bilateral inconsistencies in goods, services, primary income, and also the financial account. For NA, an incorrect recording of leasing activities would have an impact on gross fixed capital formation. Statistical compilers would need therefore to engage extensively with their key data providers, especially when it comes to assessing if

[7] See Annex IV for more information on *IMTS 2010* and Annex V for applied criteria in the *Compilers Guide on European Statistics on International Trade in Goods* concerning the recording of aircraft.

economic ownership has been passed to the lessee or not in order to separate operational from financial leasing arrangements.

ISSUES FOR DISCUSSION

13. **To address the changes brought by the implementation of the IFRS 16 in business accounting, the following two options are considered**:

14. **Option 1**[8] **proposes to maintain full consistency with the *2008 SNA* and *BPM6* on recognizing the operating/finance leasing distinction along the concept of economic ownership based on the risks and rewards principle. In particular, this option**:

(i) Allows a symmetrical counterparty transactions recording of operating and financial leasing in balance of payments between lessors and lessees and a clear distinction between operating and financial leases by providing additional instructions to lessees.

(ii) Enables a harmonized recording of operating and financial leasing transactions in balance of payments by recommending compilers to review reported data by lessees in IMTS, international trade in services statistics (ITSS), and financial accounts surveys in order to detect potential discrepancies.

15. **This option is based on the outcome of consultations with experts in leasing that was published by Eurostat in the *Handbook on the Compilation of Statistics on Sea and Air Transport in National Accounts and Balance of Payments***.

16. **The implementation of IFRS 16 does not change the recording for lessors and a clear split between operating and financial leasing in line with the economic ownership principle in the *2008 SNA* and *BPM6* is therefore feasible.** However, it may be useful for compilers to check whether surveyed exports of leasing transactions by resident lessors are recorded in a consistent way in the current and financial accounts. The sections dedicated to Option 1 in Annex II and III provide more information for compilers and propose practical methods in this regard.

17. **The distinction between operating and financial leases for the import side is more challenging because under IFRS 16, the lessee has to record on its balance sheet all the assets that are leased for more than 12 months.** One option is to ask respondents to maintain the distinction according to the *2008 SNA* and *BPM6* between operational and financial leasing by providing clear instructions to the lessees on how to split between expenditures for operating and financial leases. The instructions for lessees should indicate that, (i) only under a financial lease, the lessee will either become the legal owner at the end of the lease contract or has the option to acquire legal ownership of the asset, and (ii) financial leases are lease arrangements where the lessor is not responsible for any necessary repair and maintenance of the aircraft. In addition, the guidance should note that invoice values and the IAS 7 Statement of Cash Flows only display the repayment of the principal and the corresponding interest payments, separately for expenses related to financial leases. Compilers could also request the lessees to provide additional information about their lessor's residency and enterprise characteristics. Using complementary balance of payments data, the compilers can review and validate if the lessees are

[8] This option is proposed by the authors representing Eurostat and Canada.

actually able to allocate the imports of operating and financial leasing correctly; and, in case of detected inconsistent reporting, the lessee may have to be contacted directly for clarification. Annex II further elaborates on modalities of monitoring the reporting of leasing activities by lessees towards a harmonized recording of operating and financial leases in BOP.

18. **Option 2 [9] defines the transfer of economic ownership from the lessor to the lessee on the basis of the one-year rule.** Specifically, with applicability to aircraft, this option proposes that all leases with a duration of less than one year have to be recorded as operating leases, while the leases for a period of one year or more should be considered as financial leases. This approach is fully consistent with the IFRS 16 on the lessee's side, but its adoption will require changes to the updated SNA, BPM, and other related guides, and for some countries also a revision of time series will be needed.

19. **The *BPM6* and *2008 SNA* specify that the economic owner is determined according to who receives the economic benefits and bears the operational risks.** This criterion is also used to determine whether a lease is classified as operational or financial. But the lack of clear criteria for the transfer of economic ownership leads to different interpretations of types of leasing and raises questions not only by respondents and compilers of external sector statistics, but also by users of statistical information.

20. **In the case of the Russian Federation, there is a large volume of cross-border leases of aircraft by transport companies (lessees) due to the peculiarities of taxation.** To support this research, in 2020 the Bank of Russia conducted a special survey amongst the largest national airlines to gain an understanding of the practical difficulties these companies (lessees) face when accounting for aircraft leasing. The rationale underlying this option is explained in more detail in the section dedicated to Option 2 in Annex II.

SECTION II: OUTCOMES

RECOMMENDATIONS

21. **The main recommendation is not to change the *2008 SNA* and *BPM6* regarding the concept of economic ownership and to provide additional practical advice on how to compile financial and operating lease arrangements as well as to explain the differences between the two recording standards, IFRS 16 and *2008 SNA*/*BPM6*.**

22. **Option 1 is recommended because it is in accordance with the recording standards in the *2008 SNA* and *BPM6* that follow the change in economic ownership based on risks and rewards.** The main strengths of this option are (i) the allocation of operating and financial leases reflects the principle of economic ownership, (ii) no additional adjustments for IMTS and for lessors' accounting are needed, and (iii) the implementation of the IFRS 16 does not cause breaks in current balance of payments and NA time series.

23. **The Current Account Task Team (CATT), the Globalization Task Team (GZTT), and the global consultation largely supported Option 1. Further, AEG and Committee members broadly**

[9] This approach is proposed by the author representing the Russian Federation.

supported the adoption of Option 1 via written procedure. Option 1 guarantees a coherent recording of economic ownership in the next BPM and SNA, better reflects the distinction between the investment nature of financial leasing and the service element of operational leasing, and maintains a consistent recording of time series.[10] On practical grounds, however, a few reviewers highlighted the need for clear practical guidance on data sources and compilation methods, and another commentator noted that Option 1 is preferred for methodological reasons, but in practice Option 2 is currently used in one country.

REJECTED ALTERNATIVE

24. **Based on the outcome during the written consultation of AEG and Committee members, Option 2 was rejected because it departs from the overall principle of economic ownership of the *2008 SNA* and *BPM6* when distinguishing between financial and operating leases.** Furthermore, the proposed quantitative indicator (one-year rule) under Option 2 would depart from the definition for economic ownership of assets defined in the *2008 SNA* and *BPM6*, which is based on several qualitative criteria that take into account the risks and rewards. By applying the proposed one-year threshold under Option 2, almost all existing contracts for operating leases for aircraft would have to be reclassified as financial leases for lessees. This would have a considerable impact on balance of payments statistics' goods, services, primary income, and the financial account, as well as for NA on the level of gross domestic product (GDP) and gross national income (GNI), and also for GFS.

Required Changes in the Current Standards

25. **Option 1: According to this option, there is no need to change the current recording standards of the *2008 SNA* and *BPM6* to distinguish between operating and financial leasing activities for lessees.** Detailed guidance to compilers on how to implement this option can be provided in the revised manuals and compilation guides.

[10] During the AEG consultation, the importance of a fully consistent wording regarding the definition and applied criteria of operating and financial lease arrangements in the SNA and BPM was highlighted.

REFERENCED DOCUMENTS

Eurostat. *Compilers guide on European statistics on international trade in goods*.
https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/ks-02-17-333

Eurostat. *Handbook on the compilation of statistics on sea and air transport in national accounts and balance of payments.*
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IMF. *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*).
https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

UN. *International Merchandise Trade Statistics: Concepts and Definitions 2010.*
https://unstats.un.org/unsd/trade/eg-imts/IMTS%202010%20(English).pdf

UN. *International Standard Industrial Classification of All Economic Activities, Revision 4.*
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Annex I. New Accounting Standard IFRS 16 [11]

1. **IFRS 16 introduces a single lessee accounting model, which requires a lessee to recognize on its balance sheet assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.** At the inception of a lease, a lessee is required to recognize the "right-of-use" asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee records depreciation of the right-of-use asset and interest on the lease liability in its profit and loss statement.

2. **Contrary to the previous standard IAS 17, lessees have to recognize an asset and associated liability for all lease arrangements, including those that were classified as operating leases under IAS 17.** A recognition and measurement exemption for short-term leases and leases of low-value assets is available as a policy choice. However, this is only available to the lessee.

3. **Lessor accounting under IFRS 16 did not change compared to IAS 17.** The lessor continues to classify its leasing arrangements as operating leasing or financial leasing, and to account for those two types of leasing arrangements differently. Operating leasing income received by the lessor is reported in income items, for example, "rent, leasing, and hiring income". Regarding financial leasing, payments received by the lessor are treated as finance payments. The interest on financial leasing is reported in income items, "interest income." The repayment of the principal is not recorded in profit and loss accounts. The change in lease debt due to reimbursement is reported in the cash flow statement.

4. **IFRS 16 allows entities (particularly lessees) some options as they transition from IAS 17, and the choice of options may vary substantially across entities.** In addition, changes in IFRS are not necessarily implemented in other business accounting standards (at least initially), so national General Agreed Accounting Policies (GAAP) may remain unchanged, at least for some time. Depending on the country, the application of IFRS 16 standards may not be required for all companies, in particular the smaller ones.

5. **The main change introduced by the IFRS 16 is the recognition of assets and liabilities from operating leases by the lessee, improving thus the financial statements accuracy.** This implies that all leases, irrespective of their nature (operating or financial), will be recognised at the inception of the contract. The aim being to show all lease liabilities, regardless of type, on the lessee's balance sheet.

6. **The main reason behind this change is to respond to concerns about the lack of transparency of information about lease obligations with respect to high value assets, such as aircraft or ships (low-value assets and leases under 12 months are excluded), which prevents investors and analysts to properly compare companies that borrow to buy assets with those that lease assets, without making adjustments.**[12]

[11] https://ec.europa.eu/eurostat/documents/39118/10303150/Impact_on_macro-economic_statistics_of_IFRS_16_on_leases.pdf

[12] See for further details in the Eurostat's *Handbook on the compilation of statistics on sea and air transport in national accounts and balance of payments, Luxembourg 2020*.

Annex II. Options 1 and 2

Option 1: Ensuring Consistent Reporting of Exports for Operating and Financial Leasing for Lessors in all Balance of Payments Domains to Avoid Statistical Discrepancies

Exports of Operating Leasing:

7. **By using the lessor's tax number or the specific identifier from the business register, the reported data from ITSS, IMTS, and financial account surveys can be linked and reviewed.** Lessors that report operating leasing in ITSS should not show exports of aircraft in IMTS, not record loans as assets under other investment or direct investment and not display corresponding received interest payments under other investment or direct investment income.

Exports of Financial Leasing:

8. **Ensure that the lessor does not report exports of operating leasing in ITSS, but records loans assets for the aircraft leased under other investment or direct investment, and receipts of interest under other investment or direct investment income.** However, according to paragraph 17.304 of the *2008 SNA*, there are cases where the lessor who passes economic ownership to the lessee may not be involved in the physical delivery of the asset to the lessee and the aircraft might therefore be exported from a third country. In such cases, a close cooperation between balance of payments and IMTS compilers and with their resident lessors is needed to include the export of the aircraft by resident lessors in IMTS and balance of payments data and to achieve a symmetrical and harmonized recording in the current and financial account.

9. **Exports of operating and financial leasing that exhibit high internal consistency may be used also for bilateral exchanges to provide additional information for the compilation of the import side of leasing and to reduce existing asymmetries.**

Determining Imports of Operating and Financial Leasing

10. **Aircraft are usually leased by corporations that are classified in the business register under ISIC class 5110 and 5120 (passenger and freight air transport).**

11. **To ensure a correct recording in IMTS, compilers have to be instructed about the criteria for determining economic ownership according to the *2008 SNA* and *BPM6*.** Additional guidance for lessees is needed in order to differentiate between operating and financial leasing activities. If these preconditions are fulfilled, enterprise data from ITSS, IMTS, and from financial account surveys can be combined and reviewed by balance of payments compilers in order to detect inconsistent reporting by the lessee and to ensure a more precise allocation of leasing transactions.[13]

12. **Lessees that report leasing imports in ITSS do not exhibit imports of aircraft in IMTS during the reference period and in the recent past. Cases in which lessees also do not show**

[13] Annex III lists additional data sources that maybe used and provides guidance for compilers that cannot compare data on enterprise level from different statistical domains like IMTS, ITSS, and the financial account.

corresponding loans versus their lessor as liabilities under other investment or direct investment and related interest payments, could be validated as operating leasing.[14]

13. **Enterprises that report imports of aircraft in IMTS, but report no imports of operating leasing in ITSS, record loans under other investment or direct investment as liabilities and record interest payments towards the lessor, can be considered as lessees acquiring fixed assets under financial leasing.** However, direct purchases of aircraft by airlines recorded in IMTS that are not related to leasing activities should be taken into account. These transactions should be mirrored in the financial account by corresponding changes in currency and deposits. In case of significant discrepancies between the value of the imported aircraft in the IMTS and the loans extended by the lessor, the lessees should be contacted to clarify this divergence and to reduce this potential unsymmetrical recording in the current and financial account.

Option 2: Allocating Lease Transactions on the Basis of the One-Year Rule

14. **The first question should identify the economic owner, meaning the party that receives the benefits from the operation of equipment and bears maintenance costs and risks.** From the study undertaken among the Russian airlines, we came to the following conclusions.

15. **Risks Associated with the Operation of Aircraft.** In the overwhelming majority of cases, these risks are borne by the aircraft lessee. The lessee insures the equipment at its own expense against damage or complete destruction. In case of the loss of the aircraft and at the end of the lease period, he must either reimburse its cost to the lessor, taking into account depreciation, or buy a new aircraft.

16. **Credit Risks.** This risk is borne by the lessee—no matter how the operating conditions of the aircraft change, the lessee is obliged to make regular payments to the lessor. This is exactly the situation faced by most Russian airlines, which were forced to stop flights during the COVID-19 pandemic but must continue to make payments to lessors for the lease of aircraft that do not fly. In addition, in most cases, payment terms are set at the beginning of contract and cannot be changed based on changes in the yield on financial instruments. The lessor's credit risks include the risk of non-repayment of the loan if the lessee is declared bankrupt, but they are indirectly related to the equipment leased.

17. **The lessee receives economic benefits from the use of aircraft, as it is engaged in their operation.** Actually, for this purpose the airlines are usually renting a batch of aircraft. The economic benefit can vary depending on the success of the equipment operation. The lessor receives, in turn, the economic benefit not from the operation of the equipment, but from the lease of the equipment. The benefit of the lessor does not depend on the operation of the equipment itself; in fact, it depends on the financial conditions under which the equipment was provided to the lessee. As mentioned above, whatever happens in the air transportation market, the airline must still pay the amount predetermined by the contract to the leasing company.

18. **At the same time, the leased aircraft use the logos of the airline that rented it.** The company in its activity includes these aircraft in its air fleet.

[14] In case of recorded imports of aircraft in IMTS, it has to be clarified if these imports are direct purchases.

19. **All these factors lead to the conclusion that in most cases the leasing contract for the aircraft should be treated as a financial lease**.

20. **Paragraphs 17.301 and 17.304 of the *2008 SNA* state that "An operating lease is one where the legal owner is also the economic owner and accepts the operating risks and receives the economic benefits from the asset by using it in a productive activity".** *BPM6* paragraph 10.154 and *MSITS 2010* paragraph 3.246 reiterate this argument, supplemented by the observation that "The lessor, or owner of the equipment, normally maintains a stock of assets in good working order that can be hired on demand, or at short notice, by users". In addition, according to paragraph 10.154 of *BPM6*, an operating lease is characterized by the fact that "in addition to the provision of the asset, the service provided under operating leasing by the lessor includes other elements, such as convenience and security, servicing, and back-up facilities".

21. **Repair and Service.** Lessors-leasing companies do not carry out repair and maintenance of aircraft, especially since this type of activity is strictly licensed. In most cases, airlines carry out repairs and almost always maintenance of equipment at their own expense, on their own or by transferring equipment for service to special companies. The lessor carries out repairs and replacement of an aircraft only in warranty cases and at the expenses of the aircraft manufacturer, and not from its own funds.

22. **Availability of Substitute.** Aircraft nowadays are very expensive pieces of equipment, the downtime of which is extremely expensive; therefore, leasing companies that lease aircraft, as a rule, do not have a large fleet of available aircraft for prompt leasing. Leasing of each aircraft or aircraft batch is carried out after relatively long and detailed negotiations.

23. **The responsibility for the comfort and safety of the aircraft in operation lies primarily with the airlines, since the requirements for them differ in different countries and the lessor, as a rule, does not keep track of them**.

24. **Paragraph 17.304 of the *2008 SNA* notes that in finance leases "it is frequently the case that the lessor, though the legal owner of the asset, never takes physical delivery of the asset but consents to its delivery directly to the lessee**.**"**

25. **Leasing companies, being financial divisions, almost never have qualified, licensed for international flights pilots on their staff; therefore, the lessee carries out the delivery of aircraft to Russian air carriers on his own.**

26. **In accordance with paragraph 7.57 of *BPM6*, "the financial lease is shown as a loan from the lessor to the lessee that is used to finance the acquisition of a fixed asset by the lessee."** The same argument is repeated in paragraphs 17.304 of the *2008 SNA* and 283 of the *OECD Benchmark Definition of Foreign Direct Investment Fourth Edition 2008*. At the time of the conclusion of the contract, a Russian airline may not plan to purchase the aircraft leased from the lessor in the future. Therefore, in most cases this is not an obligation, but an option to purchase the aircraft at the end of the lease period or to renew the lease agreement. Therefore, we can consider it as a form of an embedded financial instrument in a contract. The decision will be made by the airline closer to the end of the lease period and will be determined by many production factors: the cost of flights, tightening environmental requirements for international flights, the emergence of new types of airliners.

27. **Therefore, in most cases aircraft leasing contracts based on the listed above criteria are treated as financial lease**.

28. **The availability of distinct payments for interest and principal in a lease contract is not separately indicated as a criterion for classifying leasing as a financial lease in *BPM6* and *2008 SNA***.

29. **The one-year rule as a criterion for the transfer of risks and benefits from lessor to lessee could be used.** In our opinion, in case of short-term leasing (up to one year), the risks and benefits have an insignificant effect on the operating results of the lessee, the risks and benefits associated with the operation of the equipment are related to the activities of the lessor. Thus, leases for less than a year should be included in operating leases. Leasing for a period of one year or more must be accounted for as part of a finance lease.

30. **In this approach, short-term leasing is accompanied by the fulfillment of the indirect requirements for classifying it as an operating lease, specified in *BPM6* and *2008 SNA*.** Obviously, in this situation, the lessor must have a free spare fleet of equipment leased for a short time, he is responsible for the repair and maintenance of the leased funds, and he is a specialist in the operation of equipment.

31. **The one-year rule is widely used as a criterion in *BPM6* and *2008 SNA*. In particular, the basic principle of residence of an economic unit is based on it (*BPM6* paragraph 4.117)**.

Annex III. Guidance for Compilers that Face Difficulties to Get Access to Information on Enterprise Level from Various Statistical Data Sources

To validate the reported operating leasing imports by lessees in ITSS, the survey template may be extended further for the service category operating leasing as suggested in paragraph 11 under Annex II. It could include additional questions to:

(i) identify if the lessee has imported aircraft during the reference period (from the economic ownership perspective) based on direct purchases or lease arrangements;

(ii) identify whether these transactions are related to the reported operating lease values in ITSS; and

(iii) check if the associated liabilities of loans were also reported in corresponding financial account surveys. To determine financial leasing transactions, the survey template for lessees may be amended in a similar way. As a supplementary data source, the residency of the lessor indicated by the geographical breakdown in balance of payments data may be used to differentiate between expenditures related to operating and financial leasing. Enterprise data from business surveys and information from published business reports can also be analyzed to get a better insight and understanding of the lessee's domestic and cross border economic activity. For a lessee with a significant cross border activity via one specific country, the exchange of corresponding bilateral data on enterprise level with the counterpart country can be considered as an additional source for getting more information and to improve the recordings in balance of payments.

Annex IV. Recording of Aircraft in IMTS

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Paragraph 1.4. Change of ownership. It is recommended to use the criterion of change of ownership to determine whether certain goods should be recorded only in exceptional cases when the general guideline is not applicable or not sufficient. Change of ownership of the goods entering (leaving) an economic territory is defined in accordance with the *2008 SNA* and *BPM6* as change of economic ownership (see Annex A, paragraphs A.8–A.9) and represents an example of adding to (subtracting from) stocks of material resources of a country, subject to the applicable exclusions listed in Section B below.

Paragraph 1.28. Goods under financial lease. There are two kinds of leases in common usage: financial leases and operating leases. Goods are considered to be under financial lease if the lessee assumes the rights, risks, rewards and responsibilities in relation to the goods and from an economic point of view can be considered as the de facto owner. Goods under financial lease should be included in international merchandise trade statistics. An operating lease is any lease which does not have the above characteristics. Goods under operating lease should be excluded from international merchandise trade statistics (see paragraph 1.51 below). In practice, it may be difficult to differentiate between these two types of leases. Therefore, in some cases, the duration of the lease can be used as an indication of whether the lease is financial (one year or more) or operating (less than one year).

Paragraph 1.29. Ships and aircraft. These goods are to be included in international merchandise trade statistics when the general guideline is not applicable or sufficient based on the change of economic ownership between residents and nonresidents (includes financial leasing, see paragraph 1.28 above). In this context, the acquisition of a ship or aircraft is treated as adding to the material resources of a country (the reverse also applies). The concerned ships and aircraft are included whether they enter/leave the economic territory of the involved countries or remain in international waters or are used in international flights (see also paragraph 1.54). Frequently, such transactions are not recorded by customs. In the absence of customs documents, they should be recorded using non-customs data sources, such as registry additions and deletions or enterprise surveys, as appropriate.

Paragraph 1.51. Goods under operating lease. This category comprises goods shipped under operating (i.e., nonfinancial)–leasing arrangements. In the absence of other information, the duration of a lease of less than one year can be taken as an indication that the lease is an operating lease (see paragraph 1.28).

Annex V. Indicators Applied to Record Transactions for Vessel and Aircraft According to Economic Ownership

The *Compilers Guide on European Statistics on International Trade in Goods* considers the following indicators for the recording of transactions for vessel and aircraft according to economic ownership:

Paragraph 573. List of indicative criteria. Several indicators which may be used individually or in combination, enable compilers to identify the economic owner of a vessel/aircraft.

Paragraph 574. An entity would be regarded as the economic owner of a vessel/aircraft (even if it is not the legal owner) if:

a. the entity accepts all or most of the operating risks (losses) related to the use (operation) of the vessel/aircraft and receives all or most of the economic benefits (profits) from the use (operation) of the vessel/aircraft;

b. the entity is responsible for providing (paying for) repair and maintenance of the vessel/aircraft;

c. the entity has the option to purchase the vessel/aircraft at the end of the lease period at a price that is lower than the fair value;

d. the entity leases the vessel/aircraft so that the present value of the lease payments amounts to the fair value of the vessel/aircraft at the inception of the lease;

e. the entity leases the vessel/aircraft for the major part of its economic life;

f. the entity has the unilateral right to terminate the lease contract;

g. the entity has responsibility for replacing the vessel/aircraft in the event of a serious and prolonged breakdown;

h. the vessel/aircraft is leased by the entity from a purely financial intermediary, even if called an aircraft or ship leasing company;

i. the entity uses the vessels/aircraft in its main activity.

https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-02-17-333

Annex VI. Financing Structure of Financial and Operating Leases Pertaining to Air Transport

Figure 1. Financial Leases[15]

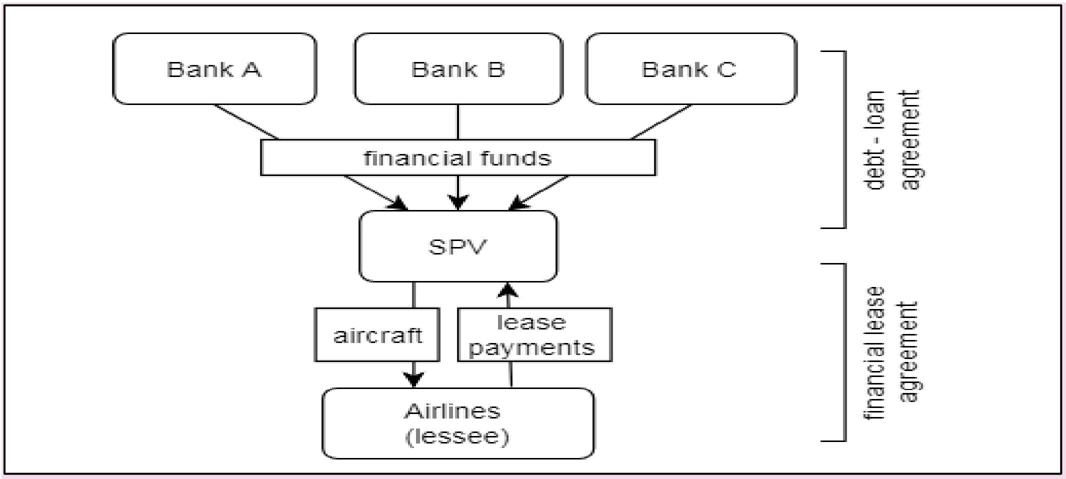
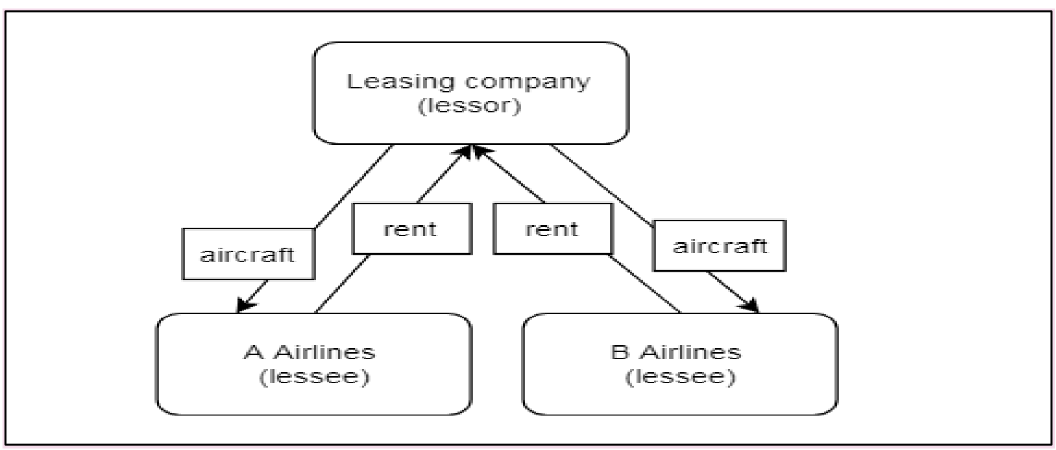


Figure 2. Operating Leases[16]



[15] *Handbook on the Compilation of Statistics on sea and Air Transport in National Accounts and Balance of Payments*, page 55.

[16] *Handbook on the Compilation of Statistics on sea and Air Transport in National Accounts and Balance of Payments*, page 54.