IMF Committee on Balance of Payments Statistics

BPM6 Update
Current Account Task Team (CATT)

FOR PUBLIC REVIEW

C.5.2 Economic Ownership in the Context of Financial and Operating Lease Transactions Pertaining, in Particular, to Aircraft

C.5.2 Economic Ownership in the Context of Financial and Operating Lease Transactions Pertaining, in Particular, to Aircraft [1]

The introduction of a new International Financial Reporting Standard on leases (IFRS 16) from January 2019, which 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, poses some challenges for compilers to separately record cross-border operating and financial leasing activities. This Guidance Note (GN) carries on from the previously discussed GN C.5.1 (Statistical Impact of the Change in Treatment of Operating Leases in Business Accounting) and provides additional guidance for compilers on the recording of the exports and imports of financial and operating leasing of aircrafts and in determining the economic owner. Two options are distinguished and analyzed in regard to their conceptual and practical applicability.*

SECTION I: THE ISSUE

BACKGROUND

1. **As noted in the Guidance Note (GN) C.5.1, in January 2016, the International Accounting Standards Board (IASB) issued a new standard on leases—the International Financial Reporting Standard on leases (IFRS 16)—that replaces the previous IAS 17.**[2] The IFRS 16 became effective from January 1, 2019, affecting all companies using leasing as a means to obtain access to assets and that report under the IFRS 16.[3]

2. **The main recommendation of GN C.5.1 not to change the fundamental accounting principle of economic ownership of the *System of National Accounts 2008 (2008 SNA)* and *the Balance of Payments and International Investment Position Manual,* sixth edition *(BPM6)* in order to align with the IFRS 16 was approved by the October 2020 BOPCOM; however, the summary of discussion acknowledges that the decision on C.5.1 may be revisited depending on the outcome of this GN.** This GN provides arguments supporting a clear distinction between financial and operating leases, in particular with application to aircraft that can be applied to record transactions by the lessors and lessees, and identifies their degree of alignment with the *2008 SNA* and *BPM6*. Vessels, trucks or other assets that can be leased are not covered here, but specific guidance for these assets can be provided in a separate note, as needed.

3. **The implementation of the IFRS 16 is also discussed in the context of the *2008 SNA* update and in the Government Finance Statistics (GFS) community and a close coordination is sought.** It was also one of the main issues in the Eurostat Task Force on the Compilation of Statistics on Sea and Air Transport in national accounts and balance of payments, which resulted in the publication of the

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[1] Prepared by Mr. Robert Leisch (Eurostat), Mr. Matthias Ludwig (Eurostat), Mr. Denis Caron (Canada), and Mr. Robert Pupynin (Russia).

[2] Annex I in GN C.5.1 gives more information on the recording of leases under the IFRS 16.

[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.

Handbook on the Compilation of Statistics on Sea and Air Transport in National Accounts and Balance of Payments.

4. **Prompted by the implementation of the IFRS 16 in business accounting, Eurostat has consulted international operating law firms, accounting enterprises, banks, airline companies and aircraft leasing companies that are engaged in cross-border leasing activities 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. The main conclusions of this investigation and interviews with experts, in particular in relation to aircraft, are summarized below:[4]

(i) Financing 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 the 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.[5] 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. In contrast to operating leases, financial leases are structured as dry or net leases, where the lessor is not responsible for providing any necessary repair and maintenance associated with the operation of the aircraft.

(iii) The duration of a leasing contract is not an indicator to distinguish between the two leasing arrangements because most aircrafts are leased for a period between 4 and 12 years, and the length of an operating lease is usually around 10 years while that of a financial lease 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 the financial leasing. Under financial leases, the invoice and the IAS 7 Statement of Cash Flows disclose explicitly the interest payments for loans, whereas this information is not separately visible for operating leases.

[4] 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.

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

Current International Standards for the Treatment of the Issue:

2008 SNA, BPM6, International Standard Industrial Classification of All Economic Activities (ISIC Rev.4),* and *International Merchandise Trade Statistics 2010 (IMTS 2010)

5. **There is a clear methodological distinction between the recording of operating and financial leases for lessors and lessees in the *2008 SNA* and the *BPM6*.** According to the *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; and also provides other services, such as convenience and security, servicing, and back-up facilities (*BPM6,* paragraph 10.154). Based on the ISIC, Rev.4, enterprises that are offering operating leasing are classified under ISIC class 7730 as a nonfinancial corporation (S.11) in the Business Register (BR).

6. **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- or Direct Investment as an asset of the lessor and a liability of the lessee. According to the *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, also FISIM has to be considered. In addition, the *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) which 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).

7. **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.[6]** 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).

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

Concerns/Shortcomings of the Current Statistical Standards

8. **GN C.5.1 (paragraph 11) provides details on the challenges of the IFRS 16 for compiling leasing activities in balance of payments due to potential misclassifications and asymmetric recordings in the Current and the Financial Accounts.** For balance of payments, a wrong allocation of leasing imports would have an impact on Goods, Services, Primary Income, the Financial Accounts, and on the IIP.

ISSUES FOR DISCUSSION

9. To address the difficulties in allocating operating and financial leases, in particular for aircraft, brought by the implementation of the IFRS 16 in business accounting, the following two options are considered:

10. **Option 1 [7] is proposing to maintain full consistency with the *2008 SNA* and *BPM6* and to recognize the operating/finance leasing distinction along the concept of economic ownership based on risks and rewards. In particular, this option:**

(i) Allows a clear distinction between operating and financial leases by providing 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.

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

12. **The implementation of the IFRS 16 does not change the reporting for lessors and a clear split between operating and financial leasing that is 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 their resident lessors are recorded in a consistent way in the Current and Financial Accounts. The sections dedicated to Option 1 in Annex I and II provide more information for compilers and propose practical methods in this regard.

13. **The distinction between operating and financial leases for the import side is more challenging because under the IFRS 16, the lessee has to record on its balance sheet all the assets leased for more than 12 months.** However, clear instructions on how to split between expenditures for operating and financial leases are available and can be provided to the lessees. 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 dry or net leases, where the lessor is not responsible for any necessary repair and maintenance of the aircraft. In addition, the guidance should note that invoice

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

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 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 I further elaborates on modalities of monitoring the reporting of leasing activities by lessees towards a harmonized recording of operating and financial leases in balance of payments.

14. **Option 2 [8] 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 the leases with a duration of less than one year 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 SNA, BPM, and other related guides, and also for some countries a revision of time series will be needed.

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

16. **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 on 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 I.

SECTION II: OUTCOMES

RECOMMENDATIONS

17. **Option 1 is in concordance with the main recommendation of GN C.5.1 to maintain status quo as in the *2008 SNA* and *BPM6* with regard to the recording of aircraft leases in particular.** The main strengths of this option are (i) allocation of operating and financial leases would reflect the principle of economic ownership, (ii) no additional adjustments for IMTS and for lessors' accounting would be needed, and (iii) the implementation of the IFRS 16 would not cause breaks in current balance of payments and NA time series.

18. **There was broad support from the Current Account Task Team (CATT) and the Globalization Task Team (GZTT) members for the adoption of Option 1 [9] considering it guarantees**

[8] This approach is proposed by the authors representing the Russian Federation as an alternative option.

[9] Eight out of nine CATT members and all (five) GZTT reviewers supported Option 1. One GZTT member pointed out that aircraft can be rented for 2 to 3 years without transfer of economic ownership.

a coherent recording of economic ownership in BPM and SNA, better reflects the distinction between the investment nature of the financial leasing and the service element of the operational leasing, and maintains a consistent recording of time series. On practical grounds, however, a few members highlighted the need for clear practical guidance on data sources and compilation methods and another member noted that Option 1 is preferred for methodological reasons, but in practice Option 2 is currently used.

19. **Option 2 offers a quantitative criterion to distinguish the operational from financial leasing transactions by applying the one-year rule that is used in determining the residency of institutional units in the current methodology (*BPM6,* paragraph 4.114) and also in defining the economic ownership of the leased assets.** This option introduces a clear criterion, which may decrease the uncertainty associated with the presence of a large number of characteristics (Annex IV) and that applies simultaneously to both operational and financial leases. This approach would be consistent with the accounting principles for lessees under the IFRS 16. According to one of the co-authors, the application of this approach is more likely to lead to greater symmetry in bilateral data and may not require the need of a significant amount of exchanges of primary data, which is currently being set up within individual economic and monetary unions and cannot be extended to other countries. This approach removes the additional burden on respondents (lessees and lessors) and compilers of the need to search for additional information and the need to make additional assumptions.[10] This approach can also theoretically be used to account for the leasing of other forms of equipment (ships, wagons, containers).

20. **The proposed criterion is allowed in the *IMTS 2010* guidance in cases where, in the absence of other information, the use of lease terms as a criterion to distinguish between two types of lease is possible:** whether such lease is financial (one year or more) or operational (less than one year), including in the case of lease of aircraft (*IMTS 2010,* paragraphs 1.28, 1.29, and 1.51). In practice, based on the fact that it is difficult to distinguish between financial and operating leases based on other criteria, a number of countries have already used the one-year rule in their merchandise trade statistics for the recording of exports or imports of equipment, as mentioned in *IMTS 2010: Compilers Manual* (Chapter XXIIII.E). Using this approach, it would be easier for IMTS and balance of payments compilers in one country to reconcile their data, the data gaps in merchandise trade statistics and in goods in the balance of payments would not grow, and the asymmetry in the mirror data will be reduced. One CATT member supported this option considering it would bring both national and international accounts closer to business accounting.

21. **On the other hand, the application of Option 2 would require adjustments to reporting for lessors and the need to reconcile with the IMTS.** Using this option will lead to changes in the current *2008 SNA* and *BPM6* standards. In addition, applying this approach would require backcasting of the historical series for both lessors and lessees. Another disadvantage of Option 2 may appear in situations when the interest payments are not distinguished in the total lease payment for leases of over a year. This would bring an additional burden on the balance of payments compilers to split the payments into payment of interest and principal; the choice of the method could possibly lead to asymmetries.

[10] One CATT member believes that this option does not necessarily simplify the data collection process as the reporting enterprises may have already taken measures to adapt their IT systems to comply with the changes introduced in business accounting by IFRS 16.

REJECTED ALTERNATIVE

22. **The lead author (Eurostat) and one of the co-authors (Canada) recommend Option 1 and reject Option 2 because it departs from the overall recommendation of GN C.5.1 to keep the 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 does not reflect 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 operating leases for aircraft would have to be reclassified as financial leases. This would have a considerable impact on balance of payments (Goods, Services, Primary Income, and the Financial Account), as well as for national accounts (the level of GDP and GNI) and GFS, too. This option is supported by the co-author representing Russia.

Required Changes in the Current Standards

23. **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 new manuals.

24. **Option 2: The implementation of this option would require the revision of *2008 SNA*, *BPM6*, *Government Finance Statistics Manual 2014* (*GFSM 2014*), *IMTS 2010*, and *Manual on Statistics of International Trade in Services 2010* (*MSITS 2010*) in order to ensure consistent recording of operating and financial leasing transactions across all statistical domains.**

Questions for Discussion

1. *Do you agree, particularly for aircraft leasing, to:*
    - *Adopt Option 1 that maintains the recording standards of the* 2008 SNA *and* BPM6 *or*
    - *Reject Option 1 and adopt Option 2 for practical merits but that would require substantial amendments in the updated* BPM6*,* 2008 SNA*, and other manuals?*
2. *Do you have any other views/suggestions on the theoretical and practical modalities to deal with the implementation of the IFRS 16 and the recording of leasing activities, for aircraft?*

Annex I. Detailed Information on the Proposed Options

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:

- 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:

- Ensure that the lessor does not report exports of operating leasing in ITSS, but record loans assets for the aircraft leased under Other Investment or Direct Investment, and receipts of interest under Oher 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.

Exports of operating and financial leasing that exhibit a 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

- Aircrafts are usually leased by corporations that are classified in the Business Register under ISIC class 5110 and 5120 (passenger and freight air transport).
- 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.[11]
- Lessees that report leasing imports in ITSS, do not exhibit imports of aircraft in IMTS during the reference period and in the recent past, and that are also not showing corresponding loans versus

[11] Annex II 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.

their lessor as liabilities under Other Investment or Direct Investment and related interest payments, can be validated as operating leasing.[12]

- 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, the direct purchases of aircrafts 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 aircrafts 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

- 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:
- **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;
- **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.
- 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 aircrafts. 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.
- At the same time, the leased aircraft use the logos of the airline that rented them. The company in its activity includes these aircraft in its air fleet.
- All these factors allow us to conclude that in most cases, the leasing of aircrafts is a financial lease.

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

- 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". The *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 the *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".

- **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.

- **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.

- 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.

- Paragraph 17.304 of the *2008 SNA* notes that in finance leases "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."

- 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.

- In accordance with paragraph 7.57 of the *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.

- Therefore, in most cases aircraft leasing by listed above criteria is a financial lease.

- The availability of distinct payments for interest and principal in a lease is not separately indicated as a criterion for classifying leasing as a financial lease in the *BPM6* and *2008 SNA*.
- 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.
- In this approach, short-term leasing is accompanied by the fulfillment of the indirect requirements for classifying it as an operating lease, specified in the *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.
- The one-year rule is widely used as a criterion in the *BPM6* and *2008 SNA*. In particular, the basic principle of residence of an economic unit is based on it (paragraph 4.117 *BPM6*).

Annex II. 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. 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 be analyzed too 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 III. Recording of Aircraft in IMTS

International Merchandise Trade Statistics: Concepts and Definitions 2010

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 IV. 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 V. Financing Structure of Financial and Operating Leases Pertaining to Air Transport

Figure 1. Financial Leases Financing Structure for Air Transport[13]

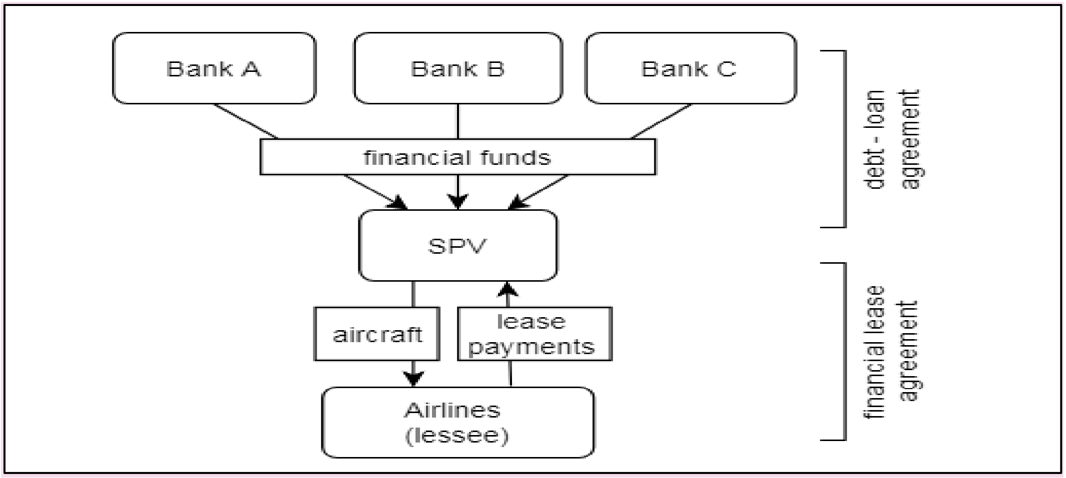
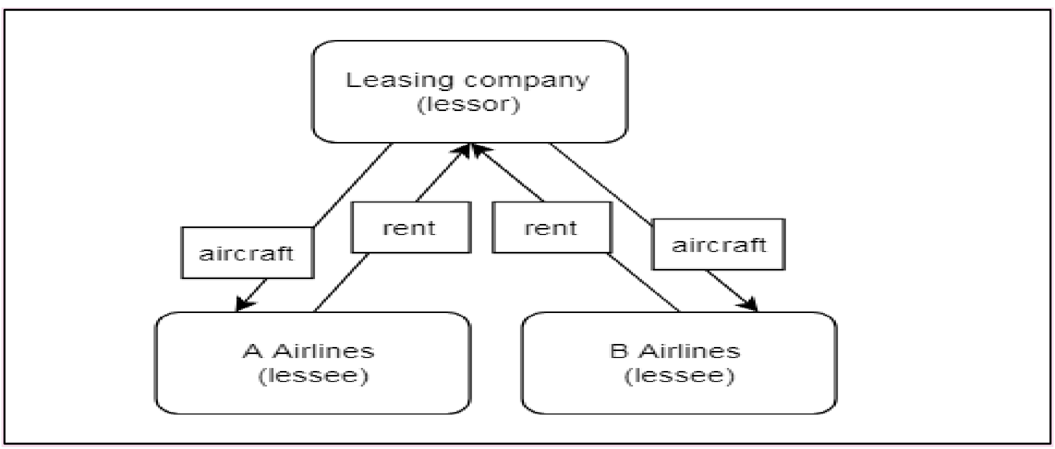


Figure 2. Operating Leases Financing Structure for Air Transport



[13] *Handbook on the Compilation of Statistics on sea and Air Transport in National Accounts and Balance of Payments* page 54 and 55.