

Madrid, 26 November 2010

European Financial Reporting Advisory Group (EFRAG)
35 Square de Meeûs
B-1000 Brussels
Belgium
Cc: Commentletters@efrag.org

To the attention of Françoise Flores, Chairman

Re: Comments on Exposure Draft Leases

Dear Sirs,

Banco Bilbao Vizcaya Argentaria, S.A. appreciates the opportunity to provide you with our comments on Exposure Draft ED/2010/9, *Leases* (the "ED") published by the International Accounting Standards Board (IASB) in August 2010 and your draft comment letter on ED Leases published in September 2010.

In general terms, we would like to express our agreement with most of the statements included in your draft comment letter on ED Leases. Specially, we consider that lessee and lessor accounting need to be dealt with in parallel and do not find any arguments for two accounting models for lessors and just a unique model for lessees. Therefore, we share EFRAG's concern about lessor double accounting as a result of applying the performance obligation approach and support the partial derecognition approach for lessors. However, we have some other comments that we would like to share with you.

Services contracts versus Lease contracts

The ED assumes, in an implicit way, that a lease contract is a perfect substitute for a purchase with payment in arrears. Therefore, a similar accounting model is proposed: recognizing an asset and the corresponding liability in the statement of financial position, and the amortization of the asset and the financial cost of the liability in the P&L account.

Nevertheless, this is not always the case. Depending on the characteristics of the contract and the business model of the entity, the contract could also be a substitute of a service contract, especially when the lessee does not assume any (but a trivial amount) of the risk and rewards related to the ownership of the asset. These kinds of contracts are quite common in practice and would be the case, for example, for indefinite term contracts, short term contracts with implicit extensions incorporated or contracts unilaterally cancellable by one part or the other. These contracts have the

economic effect that the lessee (or the buyer of a service) assumes that it is going to have a recurrent expense, which is correlated to the benefit generated by the contract.

Furthermore, in general terms and as it is indicated by the EFRAG in its letter, leases for assets not used in the lessee's core business are aimed solely at obtaining the use of such assets for a given period of time, or even the provision of a service, and rarely the objective is to take control of the asset or acquire its risks and rewards.

Therefore, in our opinion, lease contracts that are substitutes of service contracts and non-core lease contracts should be registered in accordance with the current IAS 17.

Lessee accounting model

We do not share the IASB's proposal about the lessee's accounting treatment of expenses linked to a lease contract. We consider that as benefits associated to the lease contract are deemed to be distributed following a straight-line pattern over the term of the lease (the lessee effectively uses the asset as it pays for it), the same criterion should be used for expenses.

Therefore, we support that, annually, the sum of the amortisation of the right of use asset and the financial charge linked to the financial liability should be equal to the annual effective cost of the lease contract. In practical terms, this implies that the lessee's right of use asset should follow a mortgage-based amortisation. Therefore, the amount of the right of use asset and the financial liability would remain the same in the subsequent measurements.

The advantages of this allocation are very significant as it reflects the pattern in which the economic benefits from the lease contract are received, it is simpler to apply, it aligns income statement and tax treatment (in some jurisdictions) and it reflects the way in which most lease contracts are priced.

Renewal options and contingent rents

We agree with the EFRAG that rents from optional extension periods should not be included in the recognition of lease contracts. Its inclusion would require to assess the likelihood of the exercise of the option which would introduce significant uncertainty and judgement in the financial statements and would damage comparability among entities. This issue can be very critical in long-term lease contracts.

Additionally, we disagree with the proposed treatment of contingent rents. We firmly deem that they are not a present obligation as they only arise if a specified future event occurs so they should not be included as part of the initial rental obligation. Furthermore, in any case, the estimate of those amounts would be costly, complex and, just the same as renewal options, it would increase the subjectivity of the figures included in the financial statements and would damage comparability.

Therefore, based on the considerations set out above, we believe that the best alternative is to exclude renewal options and contingent rents from the calculation of future lease payments, although their existence should be disclosed in the notes to the financial statements.

We would be pleased to discuss our comments or answer any questions that the Technical Expert Group may have. Please contact myself or directly Jaime Vázquez Castro (+34 91 5378197).

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Jaime Vázquez Castro', written over a horizontal line.