



COVID-19-RELATED RENT CONCESSIONS: PROPOSED AMENDMENTS TO IFRS 16

Issued 8 May 2020

ICAEW welcomes the opportunity to comment on ED/2020/2 Covid-19-Related Rent Concessions: Proposed amendments to IFRS 16 published by IASB in April 2020, a copy of which is available from this [link](#).

ICAEW welcomes the proposed practical expedient to help lessees with the accounting of Covid-19 related rent concessions, which is expected to be challenging for many entities during the coronavirus pandemic. While we broadly agree with the proposed amendments to IFRS 16 *Leases*, there are some areas where we believe improvements could be made.

This response of 8 May 2020 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

© ICAEW 2020

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: frf@icaew.com

KEY POINTS

SUPPORT FOR PROPOSALS

1. ICAEW welcomes the proposed practical expedient to help lessees with the accounting for Covid-19 related rent concessions, which is expected to be challenging for many entities during the coronavirus pandemic. While we broadly agree with the proposed amendments to IFRS 16 *Leases*, we believe there are some areas where improvements could be made, as outlined in our response below.
2. We strongly support the expedited timetable for producing these proposals and the proposed effective date.

ANSWERS TO SPECIFIC QUESTIONS

Question 1 - Practical expedient (paragraphs 46A and 46B of the [Draft] amendment to IFRS 16)

Paragraph 46A of the draft amendment to IFRS 16 proposes, as a practical expedient, that a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election would account for any change in lease payments resulting from the covid-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

Paragraph 46B of the draft amendment to IFRS 16 proposes that the practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;***
- (b) any reduction in lease payments affects only payments originally due in 2020; and***
- (c) there is no substantive change to other terms and conditions of the lease.***

Do you agree that this practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements? Why or why not? If you disagree with the proposal, please explain what you propose and why.

3. Overall we support the amendments in proposed paragraphs 46A and 46B of IFRS 16 *Leases*. However, we believe there are several areas where improvements could be made. These are outlined below.

Disclosure of the impact of applying the practical expedient

4. A lessee taking up the practical expedient outlined in paragraphs 46A and 46B will be required to disclose that fact (proposed paragraph 60A). We believe that a lessee should also be required to disclose the 'impact' on the income statement of applying the practical expedient to rent concessions received ie, to disclose the amount credited to the income statement as a result of the reduced rent payment. In our view, providing this information (including details of the individual line item affected) will improve comparability between 2020 year ends and past/future accounting periods, and will also provide useful information to users in understanding the impact of applying the practical expedient.
5. For the avoidance of doubt, we are not suggesting that this disclosure include a comparison of the impact of applying the practical expedient with that of accounting for a Covid-19 rent

related concession as a lease modification. Rather, that the credit to the income statement arising from a Covid-19 related rent concession which is accounted for under the practical expedient should be clearly disclosed.

6. While we note that BC10 states that 'A lessee is also required to apply the other disclosure requirements in IFRS 16 and other IFRS Standards, such as IAS 1..., in providing useful information to users of financial statements about the lessee's leasing activities' we believe an explicit disclosure requirement would provide better consistency in disclosure.
7. We also suggest that an exemption from the requirement of paragraph 28(f) of IAS 8 is required. This is because paragraph 28(f) of IAS 8 requires disclosure of the amount of the 'adjustment' made to each affected line item by a change in accounting policy. Ordinarily this would be relative to previous accounting (in this case, modification accounting). This seems to suggest that an entity taking up the proposed practical expedient might be required to disclose the difference between the results under the new policy and the results under the previous accounting policy (ie, to still calculate the modification accounting). Requiring this information would appear to negate the intended purpose of the practical expedient and should, therefore, not be required.

Similar characteristics and circumstances open to interpretation

8. BC4 explains how lessees would apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances, as already specified by paragraph 2 of IFRS 16. In our view, this could be interpreted broadly and it is not clear from the Basis for Conclusions whether it is the IASB's intention that the proposed amendments could be applied on a lease by lease basis.
9. We believe application of the practical expedient should be permitted on a lease by lease basis and that this should be made clear within the amendments (not just within the Basis for Conclusions).

Rent concessions beyond 2020

10. One of the conditions for taking up the practical expedient is that 'any reduction in lease payments affects only payments originally due in 2020 (proposed paragraph 46B(b)). We acknowledge the rationale for restricting the time period for any Covid-19 rent concession, as discussed in the Basis for Conclusions. However, given the exceptional uncertainty over the expected duration of the Covid-19 pandemic globally, we would be inclined not to put a backstop on the practical expedient. Instead, we suggest that it should be available for the duration of the Covid-19 pandemic with the practical expedient available for rent concessions occurring as a direct consequence of the pandemic, subject to the facts and circumstances of each case.
11. If the IASB considers that a backstop is necessary we suggest that it should, at the very least, be extended to include rent concessions granted in 2021. In our view, the risk that the practical expedient might be used beyond when it is intended is limited by the requirement in 46A that it can only be applied to rent concessions occurring as a direct consequence of the Covid-19 pandemic.

Substantive change to terms and conditions of the lease

12. Another condition for taking up the practical expedient is that the rent concession does not result in any 'substantive change to other terms and conditions of the lease' (proposed paragraph 46B(c)). This is so as to avoid the practical expedient being applied to lease modifications that are unrelated to the Covid-19 pandemic but are nevertheless negotiated at the same time.
13. BC5 goes on to describe a situation where there is a 3 month rent holiday in 2020 with further payments for 3 months at the end of the lease stating that this would not prevent use of the practical expedient. In this example, there is both an extension of the lease term as well as a rent concession in relation to the 3 month rent holiday. It would be useful if lease extensions of this type ie, where a rent holiday period is accompanied by a comparable

extension period of the lease term, could also be addressed by the amendment. Specifically, whether or when these would be viewed as a substantive change to other terms and conditions of the lease and, if not considered a substantive change, confirming that the guidance in IFRS 16 paragraph 40 in respect of calculating a revised discount rate would not apply.

Lessor accounting

14. BC3 explains how the proposals do not address lessor accounting because lessors are not expected to face the same practical challenges as lessees in accounting for Covid-19-related rent concessions. However, it is our understanding that lessors will often face the same practical challenges as lessees in determining whether rent concessions are lease modifications, particularly when accounting for operating leases.
15. Lessors do not often negotiate concessions for a significant proportion of their lease portfolio all at one time. In addition, Covid-19-related concessions are often being negotiated at an individual lessee level, meaning that concessions may be bespoke to individual situations, adding complexity to determining modification accounting. Further, in many jurisdictions, governments are also mandating alternative reliefs to lessors that may lead to additional accounting challenges.
16. We believe consideration should be given to expanding the scope of the practical expedient to include lessors. However, further consideration of any practical expedient for lessors should not delay the finalisation of the proposed amendments outlined in this ED.

Guidance and educational material

17. We believe that further guidance should be included within the amendments to help preparers understand how to apply the practical expedient. In particular how to account for variable lease payments, and the period of time over which the lower rent income (negative variable rent), if not a modification, should be spread ie, if the credit to the income statement should be recognised in full as soon as the rent concession is received or spread over the period of time relating to the concession. There also appears to be some inconsistencies on this matter between the Educational material (*Accounting for covid-19-related rent concessions applying IFRS 16 Leases*) and the proposed amendments in this ED .
18. It would also be helpful to include illustrative examples. We note that the staff paper (AP32b) that accompanied the recent board discussion (p14) had some simple examples of rent concessions, rent deferral, mix of rent concessions/deferral compared to the 'no change' situation. We believe that including similar illustrative examples would be helpful for preparers applying the practical expedient. That said, we note within the staff paper, for each example the interest appeared to be the same as in the 'no change' situation. However, for a deferral that would not seem to reflect a constant discount rate applied to the lease liability (as with a deferral, the lease liability would be higher). It may be that the examples were drafted in this way intentionally to keep them simple. Nevertheless, this may be a matter worth considering if illustrative examples are included alongside the proposed amendments.
19. We suggest that the recent Educational material is reviewed to ensure it is consistent with the guidance in this ED, IFRS 9 and IFRS 16. In addition to the comment raised in paragraph 17, we have noted that there is a reference in the Educational material to partial lease liability extinguishment and a cross reference to IFRS 9. Whilst derecognition of lease liabilities is in the scope of IFRS 9, it is not entirely clear how this would now reconcile with the Basis for Conclusions in this ED, specifically paragraph BC7.
20. We have noted that in the Basis for Conclusions (BC5(a)) the IASB states that a 'change that results in more than an insubstantial increase in total payments for the lease could not result solely from a Covid-19-related rent concession (as described in this Exposure Draft), except to the extent the increase reflects the time value of money.' In our view, this statement differs slightly from the guidance in the Educational material.

Sub-leases

21. We note that the ED does not mention sub-leases. The proposals in the ED might lead to the conclusion that the practical expedient could apply to the head lease but not for the sub-lease. Further clarity on this point would be useful, particularly as sub-lessors will face more complexity as lease classification under IFRS 16 is different for sub-lessors compared to lessors. For example, in a scenario in which a sub-lessor has directly passed on to its lessee the benefit it has received from its lessor, it would be unhelpful for that to create a mismatch.

Question 2—Effective date and transition (paragraphs C1A and C20A of the [Draft] amendment to IFRS 16)

Paragraphs C1A and C20A of the draft amendment to IFRS 16 propose that a lessee would apply the amendment:

(a) for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued; and

(b) retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose and why.

22. We agree with the proposed effective date and that the amendments should be applied retrospectively. That said, we believe it would be helpful for the amendments to be accompanied by an illustrative example to demonstrate the adjustments required to opening retained earnings when an entity applies the practical expedient and recognises the gain as payments are made.