



COVID-19-RELATED RENT CONCESSIONS BEYOND 30 JUNE 2021 - PROPOSED AMENDMENTS TO IFRS 16

Issued 25 February 2021

ICAEW welcomes the opportunity to comment on the Covid-19-Related Rent Concessions beyond 30 June 2021 - proposed amendments to IFRS 16 published by IASB in February 2021, a copy of which is available from this [link](#).

We broadly agree with the proposal to extend the availability of the practical expedient available for Covid-19-related rent concessions. However, we suggest that this should be a separate additional option that companies can apply to COVID-19 related rent concessions that fall after 30 June 2021 with no specified backstop date attached.

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Question 1

Extended scope of the practical expedient (paragraph 46B(b) of the [Draft] amendment to IFRS 16)

The Board proposes to amend paragraph 46B(b) of IFRS 16 to extend the availability of the practical expedient in paragraph 46A so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions in paragraph 46B are met. Do you agree with this proposal? Why or why not?

1. We broadly agree with the proposal to amend paragraph 46B(b) of IFRS 16 *Leases* to extend the availability of the practical expedient in paragraph 46A of IFRS 16.
2. However, similar to our comments on the original practical expedient issued in 2020, we are inclined not to put a backstop on the revised practical expedient ie, not to specify that it affects only payments originally due on or before 30 June 2022. Instead, we suggest that it should be available for the duration of the Covid-19 pandemic, with the revised practical expedient available for rent concessions occurring as a direct consequence of the pandemic, subject to the facts and circumstances of each case. 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.
3. We also have some concerns over the clarity and implications of when the proposed amendment could be applied, as discussed in the Basis for Conclusions to the exposure draft. In particular:
 - The conditions appear overly restrictive, particularly given that much has changed in the context of the Covid-19 pandemic since the original amendment was issued in May 2020. For example, a company may not have elected to take up the original practical exemption if rent concessions granted at that time were not significant. This situation may have changed as the pandemic has progressed and the revised practical exemption may now be considered more relevant. However, the company would nevertheless be prevented from taking up the revised practical exemption in this situation.
 - It is also not entirely clear how the conditions set out in BC9 (which state that the revised practical expedient must be applied if the original practical expedient has been applied) interact with BC12 (which implies that the revised practical expedient is not required to be early adopted). For example, is it the intention that once the revised practical expedient is available, an entity that decides to apply paragraph 46A of IFRS 16 must apply both the amendments at the same time? Also, if a company has already applied the original practical expedient, is it required to apply the revised practical expedient in its next annual financial statements which might require early adoption? In practice, we might expect companies to want to apply the revised practical expedient at the earliest opportunity. However, it would be helpful if the final amendments provided further clarity on these points.
 - There is also a lack of clarity over how the restrictions would apply in practice in certain situations. For example, there may be entities that have explicitly applied or not applied the original practical expedient in interim financial statements (and in the EU, some may have issued interims before the original practical expedient was EU-adopted). Although we would usually expect interims to be prepared on the basis of policies expected to be applied at year end, due to the short timetables involved, this may not have been the case on this occasion. We assume that the prohibition on not being able to apply the revised practical expedient, if the original was not taken up, is intended to relate to annual financial statements only. It may be helpful to clarify if this is the case.
4. We are particularly concerned with the implications for companies which have adopted the original practical expedient for Covid-19-related rent concessions, but in the next set of financial statements have applied lease modification accounting for further Covid-19-related

rent concessions granted because they relate to payments due beyond 30 June 2021 and therefore do not qualify for the original practical expedient. Assuming that the proposed revised practical expedient is not available in time for this next set of financial statements, the company would now be required to apply the practical expedient in a later set of financial statements, reversing the lease modification accounting previously applied and with a catch-up adjustment to equity.

5. We have not explored all possible scenarios which may create practical issues. However, there does appear to be a real risk of confusion and complexity resulting from the conditions attached to this extended practical expedient, combined with the transitional requirements (as discussed below). While we accept that some reduction in comparability between companies is inevitable as a result of the optionality attached to the original practical expedient, we believe this is exacerbated with the conditions attached to the proposed extension.
6. On a final point, we also question why intended restrictions on the application of the proposed amendment should be included in the Basis for Conclusions, rather than covered clearly in the transitional provisions.

Question 2

Effective date and transition (paragraphs C1C, C20BA and C20BB of the [Draft] amendment to IFRS 16)

Paragraphs C1C, C20BA and C20BB of the draft amendment to IFRS 16 propose that a lessee applying the practical expedient in paragraph 46A would:

(a) apply the amendment for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued;

(b) apply the amendment 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; and

(c) not be required to disclose the information required by paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in the reporting period in which the lessee first applies the amendment. Do you agree with this proposal? Why or why not?

7. As discussed above, we are concerned that the proposed transitional arrangements (combined with the conditions attached to the proposed revised practical expedient) add complexity and may even undermine the objectives of the original practical expedient.
8. In our view, the extended practical expedient should be a separate additional option that companies can apply to Covid-19-related rent concessions that fall after 30 June 2021 (regardless of whether or not the original practical expedient was adopted). This would address the issues identified regarding retrospective application (and recognising the cumulative effect of the adjustment in opening equity) and concerns regarding the conditions attached to the revised practical expedient, as discussed in response to question 1.
9. We agree with the proposals relating to the effective date and disclosures requirements under IAS 8.