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Exposure Draft ED/2021/2

Covid-19-Related Rent Concessions beyond 30 June 2021

Proposed amendment to IFRS 16

Comments to be received by 25 February 2021

IASB[®]

 IFRS[®]

Exposure Draft

**Covid-19-Related Rent Concessions beyond
30 June 2021**

Proposed amendment to IFRS 16

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Exposure Draft ED/2021/2 *Covid-19-Related Rent Concessions beyond 30 June 2021* is published by the International Accounting Standards Board (Board) for comment only. Comments need to be received by 25 February 2021 and should be submitted by email to commentletters@ifrs.org or online at <https://www.ifrs.org/projects/open-for-comment/>.

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Introduction

Why is the Board publishing this Exposure Draft?

The International Accounting Standards Board (Board) issued *Covid-19-Related Rent Concessions*, which amended IFRS 16 *Leases*, in May 2020. The 2020 amendment permitted lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.

Among other conditions, the 2020 amendment permitted lessees to apply the practical expedient only to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. The Board included this condition to:

- (a) provide relief to lessees during the height of the pandemic when they were expected to need it most;
- (b) address concerns from users of financial statements about the usefulness of the information that would be provided if the practical expedient were to be applied beyond when it is needed most; and
- (c) make the practical expedient easier to apply.

The Board has now been informed that lessors are granting rent concessions to lessees that reduce lease payments beyond 30 June 2021 but are eligible for the practical expedient in all other respects. Further, at the time of publishing this Exposure Draft, the Board's view is that the covid-19 pandemic is still at its height.

The objective of the proposal in this Exposure Draft is to continue providing lessees with practical relief during the height of the covid-19 pandemic while enabling them to continue providing useful information about their leases to users of financial statements.

Proposal in this Exposure Draft

The Exposure Draft proposes an amendment to 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 for applying the practical expedient are met.

Who would be affected by the proposal?

The proposal in this Exposure Draft would affect lessees that elect to apply the practical expedient and are granted rent concessions that: (a) reduce lease payments originally due after 30 June 2021, but not beyond 30 June 2022; and (b) meet the other conditions for applying the practical expedient. The proposal would also affect users of these lessees' financial statements. The proposal would not affect lessees that have already established an accounting policy of not applying the practical expedient to eligible rent concessions.

Next step

The Board will consider the comments it receives on the proposal in this Exposure Draft and will decide whether to proceed with the proposed amendment. The Board plans to complete any resulting amendment to IFRS 16 by the end of March 2021.

Invitation to comment

The Board invites comments on the proposal in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) address the questions as stated;
- (b) indicate the specific paragraph(s) to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in the proposal that is difficult to translate; and
- (e) include any alternative the Board should consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Questions for respondents

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?

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?

Deadline

The Board will consider all written comments received by 25 February 2021 (14 days).

How to comment

Please submit your comments electronically:

Online <https://www.ifrs.org/projects/open-for-comment/>

By email commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

[Draft] Amendment to IFRS 16 Leases

Paragraph 46B has been amended. Paragraphs C1C, C20BA and C20BB have been added. New text is underlined, and deleted text is struck through.

Lessee

...

Measurement

...

Subsequent measurement

...

Lease modifications

...

46B The practical expedient in paragraph 46A 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 on or before 30 June ~~2022~~2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June ~~2022~~2021 and increased lease payments that extend beyond 30 June ~~2022~~2021); and
- (c) there is no substantive change to other terms and conditions of the lease.

...

Appendix C Effective date and transition

Effective date

...

C1C [Draft] Covid-19-Related Rent Concessions beyond 30 June 2021, issued in [Month] 2021, amended paragraph 46B and added paragraphs C20BA and C20BB. A lessee shall apply that 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 [date the amendment is issued].

Transition

...

Covid-19-related rent concessions for lessees

...

C20BA A lessee shall apply [Draft] Covid-19-Related Rent Concessions beyond 30 June 2021 (see paragraph C1C) retrospectively, recognising the cumulative effect of initially applying that 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.

C20BB In the reporting period in which a lessee first applies [Draft] Covid-19-Related Rent Concessions beyond 30 June 2021, a lessee is not required to disclose the information required by paragraph 28(f) of IAS 8.

Approval by the Board of Exposure Draft *Covid-19-Related Rent Concessions beyond 30 June 2021* published in February 2021

The Exposure Draft *Covid-19-Related Rent Concessions beyond 30 June 2021*, which proposes an amendment to IFRS 16, was approved for publication by 12 members of the International Accounting Standards Board. Mr Anderson voted against its publication. His alternative view is set out after the Basis for Conclusions.

Hans Hoogervorst Chairman

Suzanne Lloyd Vice-Chair

Nick Anderson

Tadeu Cendon

Martin Edelmann

Françoise Flores

Zachary Gast

Jianqiao Lu

Bruce Mackenzie

Thomas Scott

Rika Suzuki

Ann Tarca

Mary Tokar

Basis for Conclusions on Exposure Draft *Covid-19-Related Rent Concessions beyond 30 June 2021*

This Basis for Conclusions accompanies, but is not part of, the Exposure Draft Covid-19-Related Rent Concessions beyond 30 June 2021. It summarises the considerations of the International Accounting Standards Board (Board) when developing the Exposure Draft. Individual Board members gave greater weight to some factors than to others.

Background

- BC1 In May 2020 the Board issued *Covid-19-Related Rent Concessions*, which amended IFRS 16 *Leases*. The 2020 amendment permitted lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. Users of financial statements supported a lessee recognising in profit or loss at the time of the covid-19 pandemic the effects of a rent concession occurring as a direct consequence of the pandemic. They did, however, have concerns that the practical expedient, because it is optional, could affect comparability between lessees that apply the practical expedient and those that do not. In the light of those concerns, the 2020 amendment added paragraph 60A of IFRS 16, which requires a lessee applying the practical expedient to disclose that fact, as well as the amount recognised in profit or loss to reflect changes in lease payments that arise from rent concessions to which the practical expedient is applied.
- BC2 Among other conditions, the 2020 amendment permitted lessees to apply the practical expedient only to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. If a rent concession reduces lease payments originally due both before and after 30 June 2021, the 2020 amendment did not permit the practical expedient to be applied to any part of that concession.
- BC3 When it developed the practical expedient in May 2020, the Board observed that the economic effects of the covid-19 pandemic could continue for some time and a lessee could conclude that many future changes in lease payments would be a consequence of the pandemic. In the Board's view, it was necessary to limit application of the practical expedient to a particular timeframe to:
- (a) provide relief to lessees when they were expected to need it most;
 - (b) be responsive to concerns from users of financial statements about comparability if the practical expedient were to be applied beyond when it is needed most; and
 - (c) make the practical expedient easier to apply and help lessees in identifying rent concessions occurring as a direct consequence of the covid-19 pandemic.

- BC4 The Board has now been informed that lessors are granting rent concessions to lessees as a result of the covid-19 pandemic that reduce lease payments beyond 30 June 2021 but are eligible for the practical expedient in all other respects. Further, at the time of publishing this Exposure Draft, the Board's view is that the covid-19 pandemic is still at its height.

Proposed amendment to IFRS 16

- BC5 The proposal in this Exposure Draft would 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. In the Board's view, this proposed amendment would:
- (a) continue to provide lessees with practical relief during the height of the covid-19 pandemic.
 - (b) enable lessees to account for similar covid-19-related rent concessions consistently during the height of the pandemic. In the Board's view, this accounting, together with the disclosure requirements in paragraph 60A of IFRS 16, would enable lessees to continue providing useful information about their leases to users of financial statements.
 - (c) avoid any unintended consequences if the practical expedient were to be applied beyond when it is needed most.
- BC6 The Board's intention is to provide relief to lessees when they are expected to need it most—it is not to provide relief for every change in lease payments that relates to the pandemic. Given that the pandemic is still at its height, some rent concessions that reduce lease payments beyond 30 June 2021 are consistent with what the Board had in mind when it developed the practical expedient in May 2020. The rationale explained in paragraph BC3, for limiting application of the practical expedient to a particular timeframe, remains relevant at the time of developing the proposal in this Exposure Draft in early 2021.
- BC7 The Board considered initial feedback from preparers and users of financial statements when deciding how far to extend the timeframe in paragraph 46B(b). Lessees told the Board they had already been granted covid-19-related rent concessions that reduce lease payments up to 31 December 2021 and were in negotiations that could soon result in reductions in lease payments beyond that date. Most users of financial statements who provided initial feedback supported extending the timeframe in paragraph 46B(b) but had mixed views on how long that extension should be, with some suggesting 31 December 2021 and others suggesting 30 June 2022. The Board observed that extending the timeframe in paragraph 46B(b) to 31 December 2021 may lead to further requests for amendment in a few months' time. The Board noted the importance of extending the timeframe sufficiently to meet the objective of providing relief when it is needed most, thus avoiding any further amendments and giving stakeholders certainty

about the period during which the practical expedient would be available. On the other hand, extending the scope of the practical expedient too far would be unresponsive to users of financial statements concerned about comparability if the practical expedient were to be applied beyond when it is needed most. On balance, the Board proposed to amend the practical expedient 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.

Transition and effective date

- BC8 A lessee that chooses to apply the practical expedient in paragraph 46A of IFRS 16 is required by paragraph 2 to apply it consistently to all lease contracts with similar characteristics and in similar circumstances. This Exposure Draft proposes to amend only the date within the condition in paragraph 46B(b)—it neither introduces a new practical expedient nor a new option to apply (or not apply) the practical expedient. Therefore, a lessee that has already applied the practical expedient in paragraph 46A must also apply the extended scope of the practical expedient proposed in this Exposure Draft (see paragraph BC9). Similarly, the proposal in this Exposure Draft does not allow a lessee to elect to apply the practical expedient if the lessee has previously elected not to apply it to eligible rent concessions. Some lessees may not yet have established an accounting policy on applying (or not applying) the practical expedient to eligible rent concessions. If such a lessee decides to apply the practical expedient, the lessee would be required to do so retrospectively and to apply it consistently to contracts with similar characteristics and in similar circumstances.
- BC9 The amendment proposed in this Exposure Draft would require a lessee that has already applied the practical expedient in paragraph 46A to apply it to rent concessions:
- (a) that reduce lease payments beyond 30 June 2021 but not beyond 30 June 2022;
 - (b) that are eligible for the practical expedient in all other respects; and
 - (c) with similar characteristics and in similar circumstances to rent concessions to which the lessee has previously applied the practical expedient.
- BC10 It is possible that such a lessee could have already issued financial statements that reflect lease modification accounting for a rent concession that becomes eligible for the practical expedient as a result of the proposed amendment. Although the Board expects this scenario to be rare, the proposed transition approach would require such a lessee to undo lease modification accounting for that concession.
- BC11 The Board considered proposing that the amendment be applied prospectively, which would avoid the need to undo lease modification accounting as described in paragraph BC10. However, this approach could result in lessees that apply the practical expedient accounting for similar rent concessions

COVID-19-RELATED RENT CONCESSIONS BEYOND 30 JUNE 2021

differently during the height of the covid-19 pandemic, which would not provide useful information to users of financial statements. Further, lessees that had asked the Board to extend the scope of the practical expedient confirmed that they expect the scenario described in paragraph BC10 to cause no significant problems in implementing the proposed amendment. The Board therefore proposes to require lessees to apply the amendment retrospectively. In the Board's view, it would rarely be necessary or helpful for a lessee applying the proposed amendment to restate prior period financial statements. Therefore, the Board proposes to require lessees to recognise 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.

- BC12 The Board also proposes an effective date of annual reporting periods beginning on or after 1 April 2021, with earlier application permitted. By choosing to apply the proposed amendment early, lessees would be able to apply the extended scope of the practical expedient immediately in any set of financial statements not yet authorised for issue at the date the amendment is issued. However, by setting the effective date as annual reporting periods beginning on or after 1 April 2021, the Board is enabling, rather than requiring, immediate application, thereby ensuring lessees have time to implement the proposed amendment if needed.

Alternative view of Mr Nick Anderson on Exposure Draft *Covid-19-Related Rent Concessions beyond 30 June 2021*

AV1 Mr Anderson voted against the publication of this Exposure Draft. He is concerned that an extension to the period during which the practical expedient is available will further impede comparability between lessees that apply the practical expedient and those that do not. He notes that support from users of financial statements for the 2020 amendment was predicated on limiting the practical expedient to a specific timeframe that the proposed amendment would extend by 12 months.



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