

IFRS Developments

IASB issues Exposure Draft on COVID-19 related rent concessions

What you need to know

- ▶ The IASB proposes to amend IFRS 16 to provide relief to lessees from applying lease modification accounting to COVID-19 related rent concessions
- ▶ The proposed relief would apply to lessees only. Lessors would be required to apply the existing requirements of IFRS 16
- ▶ Comments are due by 8 May 2020

Highlights

On 24 April 2020, the International Accounting Standards Board (the IASB or Board) issued an Exposure Draft *Covid-19-Related Rent Concessions* (the ED). The Board is proposing an amendment to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a result of the COVID-19 pandemic.

Many lessors have provided rent concessions to lessees as a result of the COVID-19 pandemic. Rent concessions include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Applying the requirements in IFRS 16 for changes to lease payments, particularly assessing whether the rent concessions are lease modifications, and applying the required accounting, could be practically difficult in the current environment. The objective of the proposals in the ED is to provide lessees with practical relief during the COVID-19 pandemic, while still providing useful information about leases to users of the financial statements.

Due to the urgent need to provide relief to lessees, the ED has been issued with a 14-day comment period. Comments are due by 8 May 2020.

Our publication *IFRS Developments*, Issue 166: IASB proposes amendments to IFRS 16 for COVID-19 related rent concessions, summarises the discussions held at the Board meeting on 17 April 2020, when the Board tentatively decided to issue the ED.

Proposed amendment to IFRS 16

Lease modifications

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification.

The practical expedient will apply only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- ▶ 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
- ▶ Any reduction in lease payments affects only payments originally due in 2020 (for example, a rent concession would meet this condition if it results in reduced lease payments in 2020 and increased lease payments that extend beyond 2020)
- ▶ There is no substantive change to other terms and conditions of the lease

Disclosure

A lessee that applies the practical expedient will disclose that fact.

Transition and effective date

Lessees will apply the practical expedient 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.

A lessee will apply the amendment 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.

Lessor accounting

The proposed amendment applies to lessees only. Lessors will be required to apply the existing requirements of IFRS 16.

Next steps

Comments are due by 8 May 2020. We encourage stakeholders to provide feedback to the IASB on the proposed amendment.

How we see it

The proposed amendment to IFRS 16 will provide relief to lessees for accounting for rent concessions specifically arising from the COVID-19 pandemic.

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ED None

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