

IFRS Developments

IASB proposes amendment to IFRS 16 for COVID-19 related rent concessions

What you need to know

- ▶ The IASB held a supplementary Board meeting on 17 April 2020 to discuss proposing amendments to IFRS 16 Leases to account for COVID-19 related rent concessions
- ▶ The Board agreed to propose amending IFRS 16 to provide relief to lessees from applying lease modification accounting to COVID-19 related rent concessions
- ▶ The proposed exemption would apply to lessees only. Lessors would be required to apply the existing requirements of IFRS 16
- ▶ The Exposure Draft will have a comment period of 14 days from the date of issue

Highlights

On 17 April 2020, the International Accounting Standards Board (the IASB or Board) held a supplementary meeting to discuss IFRS 16 *Leases* (IFRS 16) and rent concessions granted by lessors to lessees due to the COVID-19 pandemic.

At the meeting the Board voted unanimously to propose amendments to IFRS 16 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.

An Exposure Draft (ED) of the amendments is expected to be issued shortly, with a comment period of 14 days from the date of issue.

Background

As the COVID-19 pandemic continues to disrupt economies worldwide, a number of lessors are providing rent concessions to lessees, often in the form of rent holidays or rent reductions for a period of time.

Under IFRS 16, entities need to assess whether these rent concessions meet the definition of lease modifications and, if so, account for them in accordance with IFRS 16. This has created two particular concerns in the current climate. Firstly, for entities with a large number of lease contracts with rent concessions, there is a significant administrative burden in assessing each contract to determine whether there is a lease modification. Secondly, applying lease modification accounting can be complex. To address these concerns, the IASB is proposing to amend IFRS 16 to provide relief to lessees for rent concessions specifically arising from the COVID-19 pandemic.

On 10 April 2020, the staff of the US Financial Accounting Standards Board (FASB) published a staff Q&A for lessees and lessors that includes interpretative guidance on the application of Topic 842 *Leases* to COVID-19 related rent concessions. The Q&A states that lessee and lessors can elect not to analyse each lease contract to determine whether enforceable rights and obligations for concessions exist in the contract and can then elect to apply or not apply the lease modification guidance in Topic 842 and Topic 840 *Leases* to those contracts.

On 10 April 2020, the IASB released a document, prepared for educational purposes, highlighting requirements within IFRS 16 and other IFRS standards that are relevant for entities considering how to account for rent concessions granted as a result of the COVID-19 pandemic. However, that document does not change, remove, nor add to, the requirements in IFRS standards. Therefore, in order to provide relief from applying the lease modification requirements, the IASB is proposing to amend IFRS 16.

Proposed amendments to IFRS 16

The Board tentatively decided to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification, requiring lessees that apply the exemption to account for COVID-19 related rent concessions as if they were not lease modifications.

Scope of the exemption

The exemption 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 (substantially¹) 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
- ▶ There is no substantive change to other terms and conditions of the lease

Application of the exemption by lessees will be permitted but not required.

Lessee accounting for changes in lease payments when applying the exemption

If a reduction in lease payments (such as forgiveness of payments) does not result from a lease modification or the proposed exemption is elected, a lessee would generally account for that change in payments as a negative variable lease payment, in profit or loss in the period in which the event occurs. The lessee would also make a corresponding adjustment to the lease liability to derecognise any part of the lease liability that has been extinguished by the forgiveness of lease payments.

¹ During the meeting, the Board agreed to add the word 'substantially' to make it clear that if the lease payments are higher simply because of time value of money, that would still be eligible for the exemption.

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A change in lease payments that reduces payments in one period, but proportionally increases payments in another ('deferred lease payments'), does not extinguish the lessee's lease liability, rather the change only affects the timing of individual payments and the lessee would continue to reduce the lease liability for payments made to the lessor.

Transition and effective date

Lessees would be required to apply the exemption retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but would not be required to restate prior period figures. Instead, a lessee would recognise any difference arising on initial application of the amendment in opening retained earnings (or other component of equity, as appropriate) in the annual reporting period that includes the date of initial application.

The exemption will be effective immediately on issue of the final amendment, currently planned for May 2020.

Disclosure

Entities applying the exemption will be required to disclose that fact.

Lessor accounting

The Board tentatively decided not to consider any amendments to lessor accounting for the following reasons:

- a) For most lessors with a large volume of leases, leasing is part of their ordinary activities and so they would have processes and systems in place for changes to lease payments.
- b) Lessors are expected to typically use a small number of standard lease contracts for leases of similar assets within a jurisdiction and are likely to offer similar rent concessions to many lessees. Therefore, lessors are expected to often be able to apply one assessment of whether a rent concession is a lease modification to many contracts.
- c) IFRS 16 substantially retained the lessor accounting model in IAS 17 *Leases*. Unlike many lessees, lessors are not currently preparing their first annual financial statements applying a new accounting model to their leases. Consequently, the need for relief for lessors is less significant than it is for lessees.
- d) The lease modification accounting required by IFRS 16 for a lessor is not expected to be complicated.

Next steps

The Board expects to issue an ED of the amendments by the end of April with a comment period of 14 days.