IFRIC *Update* September 2022

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings. Past *Update*s can be found in the IFRIC *Update* archive.

The Committee met on 13 September 2022 and discussed:

Agenda decisions for the IASB's consideration

- Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)—Agenda Paper 2
- Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition—Agenda Paper 3
- Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)—Agenda Paper 4

Other matters

- Lack of Exchangeability (Amendments to IAS 21)—Agenda Paper 5
- Matters Reported to the IASB—Agenda Paper 6
- Work in Progress—Agenda Paper 7

Addendum to IFRIC Update—Committee's agenda decisions

- Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)—Agenda Paper 2
- Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition—Agenda Paper 3
- Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)—Agenda Paper 4

Related information

The work plan

Supporting consistent application

Agenda decisions for the IASB's consideration

Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)—Agenda Paper 2

The Committee considered feedback on the tentative agenda decision published in the June 2022 IFRIC *Update* about how an entity accounts for insurance contracts that generate cash flows in more than one currency.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the International Accounting Standards Board (IASB) will consider this agenda decision at its October 2022 meeting. If the IASB does not object to the agenda decision, it will be published in October 2022 in an addendum to this IFRIC *Update*.

Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition—Agenda Paper 3

The Committee considered feedback on the tentative agenda decision published in the March 2022 IFRIC *Update* about an entity's acquisition of a special purpose acquisition company (SPAC)—specifically, how the entity accounts for warrants on acquiring the SPAC.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB will consider this agenda decision at its October 2022 meeting. If the IASB does not object to the agenda decision, it will be published in October 2022 in an addendum to this IFRIC *Update*.

Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)—Agenda Paper 4

The Committee considered feedback on the tentative agenda decision published in the March 2022 IFRIC *Update* about a lessor's application of IFRS 9 and IFRS 16 in accounting for a particular rent concession.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB will consider this agenda decision at its October 2022 meeting. If the IASB does not object to the agenda decision, it will be published in October 2022 in an addendum to this IFRIC *Update*.

Other matters

Lack of Exchangeability (Amendments to IAS 21)—Agenda Paper 5

The Committee discussed the IASB's Lack of Exchangeability project, which proposes to amend IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Committee members provided advice on the project's direction after considering the feedback on the Exposure Draft.

The IASB will consider the Committee's advice when it discusses the matter at a future meeting.

Matters Reported to the IASB—Agenda Paper 6

The Committee received an update on matters previously reported to the IASB.

Work in Progress—Agenda Paper 7

The Committee received an update on the status of open matters not discussed at its September 2022 meeting.

Addendum to IFRIC *Update*—Committee's agenda decisions

Agenda decisions, in many cases, include explanatory material. Explanatory material may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Accounting Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change (for example, an entity may need to obtain new information or adapt its systems to implement a change). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Accounting Standards.

The Committee discussed the following matters and decided not to add standard-setting projects to the work plan.

Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)—Agenda Paper 2

Published in October 2022[1]

The Committee received a request about how an entity accounts for insurance contracts with cash flows in more than one currency.

The request asked:

a. whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and
b. how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts with cash flows in more than one currency (a multi-currency group of insurance contracts).

Identifying portfolios of insurance contracts

IFRS 17 requires an entity to recognise and measure groups of insurance contracts. The first step in establishing groups of insurance contracts is to identify portfolios of insurance contracts. Paragraph 14 of IFRS 17 states that 'a portfolio comprises contracts subject to similar risks and managed together'. The request asks whether currency exchange rate risks are among the risks an entity considers when assessing whether insurance contracts are 'subject to similar risks'.

IFRS 17 defines financial risk and insurance risk (a non-financial risk). Financial risk is defined to include 'the risk of a possible future change in … [a] currency exchange rate'. When IFRS 17 requires an entity to consider or reflect only particular types of risk (for example, only non-financial risk), it explicitly refers to the risks to be considered or reflected.

[1] [In accordance with paragraph 8.7 of the *Due Process Handbook*, at its October 2022 meeting, the IASB discussed, and did not object to, this agenda decision.]

Therefore, the Committee concluded that, because paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risk, an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. However, 'similar risks' does not mean 'identical risks'. Therefore, an entity could identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The Committee observed that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.

Measuring a multi-currency group of insurance contracts

An entity measures a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. Paragraph 30 of IFRS 17 states that 'when applying IAS 21 … to a group of insurance contracts that generate cash flows in a foreign currency, an entity shall treat the group of contracts, including the contractual service margin, as a monetary item'.

Paragraph 8 of IAS 21 defines monetary items as 'units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency' and paragraph 20 describes a foreign currency transaction as 'a transaction that is denominated or requires settlement in a foreign currency'. Paragraphs 21–24 of IAS 21 require an entity:

a. to recognise on initial recognition a foreign currency transaction in the functional currency at the spot exchange rate at the date of the transaction;
b. to determine the carrying amount of a monetary item in conjunction with other relevant IFRS Accounting Standards; and
c. to translate at the end of the reporting period foreign currency monetary items into the functional currency using the closing rate.

The requirements in both IFRS 17 and IAS 21 refer to transactions or items that are denominated or require settlement in a single currency. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items with cash flows in more than one currency.

Therefore, the Committee observed that, in measuring a multi-currency group of insurance contracts, an entity:

a. applies all the measurement requirements in IFRS 17 to the group of insurance contracts, including the requirement in paragraph 30 to treat the group—including the contractual service margin—as a monetary item.
b. applies IAS 21 to translate at the end of the reporting period the carrying amount of the group—including the contractual service margin—into the entity's functional currency at the closing rate (or rates).
c. uses its judgement to develop and apply an accounting policy that determines on initial recognition the currency or currencies in which the group—including the contractual service margin—is denominated (currency denomination). The entity could determine that the group—including the contractual service margin—is denominated in a single currency or in the multiple currencies of the cash flows in the group.

The entity develops an accounting policy on currency denomination that results in information that is relevant and reliable (as described in paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and is applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8). The accounting policy is developed based on the entity's specific circumstances and the terms of the contracts in the group. The entity cannot simply presume that the contractual service margin for the group is denominated in the functional currency. Such a presumption would, in effect, fail to treat the contractual service margin as a monetary item as required by paragraph 30 of IFRS 17.

Single-currency denomination versus multi-currency denomination

The entity's accounting policy on currency denomination determines which effects of changes in exchange rates are changes in financial risk accounted for applying IFRS 17 and which of these effects are exchange differences accounted for applying IAS 21.

A single-currency denomination treats:

a. changes in exchange rates between the currency of the cash flows and the currency of the group of contracts as changes in financial risk that an entity accounts for applying IFRS 17; and
b. changes in exchange rates between the currency of the group of contracts and the functional currency as exchange differences that an entity accounts for applying IAS 21.

A multi-currency denomination treats all changes in exchange rates as exchange differences that an entity accounts for applying IAS 21.

In applying IFRS 17, there is a single contractual service margin for the group of insurance contracts. Appendix A to IFRS 17 defines the contractual service margin as representing 'the unearned profit the entity will recognise as it provides insurance contract services under the insurance contracts in the group.' Accordingly, under a multi-currency denomination, the entity would:

a. assess whether the group of contracts is onerous considering the contractual service margin as a single amount.
b. prevent the carrying amount of the contractual service margin being negative by, when necessary to do so, recognising a loss.
c. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future to the amounts denominated in the multiple currencies. This would result in the entity allocating each of the currency amounts of the contractual service margin translated into the functional currency equally to each coverage unit.

Conclusion

In the light of its analysis, the Committee considered whether to add to the work plan a standard-setting project on how to account for the foreign currency aspects of insurance contracts. The Committee observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee could address it in an efficient manner. Consequently, the Committee decided not to add a standard-setting project to the work plan.

Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition—Agenda Paper 3

Published in October 2022[2]

The Committee received a request about an entity's acquisition of a special purpose acquisition company (SPAC). The request asked how the entity accounts for warrants on acquiring the SPAC.

In the fact pattern the Committee discussed:

a. the entity acquires a SPAC that has raised cash in an initial public offering (IPO), obtaining control of the SPAC. The purpose of the acquisition is for the entity to obtain the cash and the SPAC's listing on a stock exchange. The SPAC does not meet the definition of a business in IFRS 3 *Business Combinations* and, at the time of the acquisition, has no assets other than cash.
b. before the acquisition, the SPAC's ordinary shares are held by its founder shareholders and public investors. The ordinary shares are determined to be equity instruments as defined in IAS 32 *Financial Instruments: Presentation*. In addition to ordinary shares, the SPAC had also issued warrants to both its founder shareholders and public investors (the SPAC warrants):
    i. *founder warrants* were issued at the SPAC's formation as consideration for services the founders provided.
    ii. *public warrants* were issued to public investors with ordinary shares at the time of the IPO.
c. the entity issues new ordinary shares and new warrants to the SPAC's founder shareholders and public investors in exchange for the SPAC's ordinary shares and the legal cancellation of the SPAC warrants. The SPAC becomes a wholly-owned subsidiary of the entity and the entity replaces the SPAC as the entity listed on the stock exchange.
d. the SPAC's founder shareholders and public investors are not SPAC employees nor will they provide services to the entity after the acquisition.
e. the fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the SPAC's identifiable net assets.

Which IFRS Accounting Standard applies to the SPAC acquisition?

Paragraph 2(b) of IFRS 3 states that IFRS 3 does not apply to 'the acquisition of an asset or a group of assets that does not constitute a business'. In such cases, that paragraph requires the acquirer to 'identify and recognise the individual identifiable assets acquired … and liabilities assumed'.

In the fact pattern discussed, the acquisition of the SPAC is the acquisition of an asset or a group of assets that does not constitute a business. Therefore, the entity identifies and recognises the individual identifiable assets acquired and liabilities assumed as part of the acquisition.

[2] [In accordance with paragraph 8.7 of the *Due Process Handbook*, at its October 2022 meeting, the IASB discussed, and did not object to, this agenda decision.]

What are the individual identifiable assets acquired and liabilities assumed?

In the fact pattern discussed, the entity acquires the cash held by the SPAC. The entity also considers whether it assumes the SPAC warrants as part of the acquisition and, consequently, whether it assumes a liability if those warrants are classified as financial liabilities.

In assessing whether it assumes the SPAC warrants as part of the acquisition, the entity considers the specific facts and circumstances of the transaction, including the terms and conditions of all agreements associated with the acquisition. For example, the entity considers the legal structure of the transaction and the terms and conditions of the SPAC warrants and the new warrants the entity issues.

The entity might conclude that the facts and circumstances are such that it:

a. *assumes the SPAC warrants as part of the acquisition*—in this case, the entity issues ordinary shares to acquire the SPAC and assumes the SPAC warrants as part of the acquisition. The entity then issues new warrants to replace the SPAC warrants it has assumed.
b. *does not assume the SPAC warrants as part of the acquisition*—in this case, the entity issues both ordinary shares and new warrants to acquire the SPAC and does not assume the SPAC warrants.

Additional considerations applicable when an entity concludes that it assumes the SPAC warrants as part of the acquisition

How does the entity account for SPAC warrants assumed as part of the acquisition?

In the fact pattern discussed, the SPAC's founder shareholders and public investors are not SPAC employees nor will they provide services to the entity after the acquisition. Instead, the SPAC's founder shareholders and public investors hold the SPAC warrants solely in their capacity as owners of the SPAC. Therefore, the entity applies IAS 32 to determine whether the SPAC warrants are financial liabilities or equity instruments.

How does the entity account for the replacement of the SPAC warrants?

The entity applies IAS 32 and IFRS 9 *Financial Instruments* to account for the replacement of the SPAC warrants with new warrants.

However, because the entity negotiated the replacement of the SPAC warrants as part of the SPAC acquisition, it determines whether it accounts for any of the new warrants it issues as part of that acquisition. No IFRS Accounting Standard specifically applies in making this determination. Therefore, the entity applies paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing and applying an accounting policy that results in information that is relevant and reliable.

Does the entity also acquire a stock exchange listing service?

In the fact pattern discussed, the SPAC's stock exchange listing does not meet the definition of an intangible asset because it is not 'identifiable' as described in paragraph 12 of IAS 38 *Intangible Assets*. Accordingly, the stock exchange listing is not an identifiable asset acquired. Nonetheless, the Committee observed that:

a. paragraph 2 of IFRS 2 states that ‘an entity shall apply this IFRS in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received … In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this IFRS applies.’
b. paragraph 13A of IFRS 2 states that ‘… if the identifiable consideration received (if any) by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, typically this situation indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received by the entity. The entity shall measure the identifiable goods or services received in accordance with this IFRS. The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).’

The fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the identifiable net assets acquired. Therefore, the Committee concluded that, in applying paragraphs 2 and 13A of IFRS 2, the entity:

a. receives a stock exchange listing service for which it has issued equity instruments as part of a share-based payment transaction; and
b. measures the stock exchange listing service received as the difference between the fair value of the instruments issued to acquire the SPAC and the fair value of the identifiable net assets acquired.

Which IFRS Accounting Standard applies to the instruments issued?

Depending on the specific facts and circumstances of the transaction, the entity issues ordinary shares—or ordinary shares and new warrants—in exchange for acquiring cash, for acquiring the stock exchange listing service and for assuming any liability related to the SPAC warrants. The Committee observed that:

a. IAS 32 applies to all financial instruments, with some exceptions. These exceptions include ‘financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies …’ (paragraph 4 of IAS 32).
b. IFRS 2 applies to ‘share-based payment transactions in which an entity acquires or receives goods or services. Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets …’ (paragraph 5 of IFRS 2).

Therefore, the Committee concluded that the entity applies:

a. IFRS 2 in accounting for instruments issued to acquire the stock exchange listing service; and
b. IAS 32 in accounting for instruments issued to acquire cash and assume any liability related to the SPAC warrants—these instruments were not issued to acquire goods or services and are not in the scope of IFRS 2.

Additional considerations applicable if the entity concludes that it does not assume the SPAC warrants as part of the acquisition

Which types of instrument were issued for the SPAC's net assets and which were issued for the service?

If the entity concludes that the facts and circumstances are such that it does not assume the SPAC warrants as part of the acquisition, the entity issues both ordinary shares and new warrants to acquire cash and a stock exchange listing service. In this case, the entity determines to what extent it issued each type of instrument to acquire (i) the cash, and (ii) the stock exchange listing service. No IFRS Accounting Standard specifically applies to this determination. Therefore, the entity applies paragraphs 10–11 of IAS 8 in developing and applying an accounting policy that results in information that is relevant and reliable.

The Committee observed that:

a. an entity could allocate the shares and new warrants to the acquisition of cash and the stock exchange listing service on the basis of the relative fair values of the instruments issued (that is, in the same proportion as the fair value of each type of instrument to the total fair value of all issued instruments). For example, if 80% of the total fair value of the instruments issued comprises ordinary shares, the entity could conclude that 80% of the fair value of instruments issued to acquire cash also comprises ordinary shares.
b. an entity could use other allocation methods if they meet the requirements in paragraphs 10–11 of IAS 8. However, an accounting policy that results in the entity allocating all the new warrants issued to the acquisition of the stock exchange listing service solely to avoid the new warrants being classified as financial liabilities applying IAS 32 would not meet these requirements.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for warrants on acquiring a SPAC in the fact pattern the Committee discussed. Consequently, the Committee decided not to add a standard-setting project to the work plan.

Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)—Agenda Paper 4

Published in October 2022[3]

The Committee received a request about a lessor's application of IFRS 9 and IFRS 16 in accounting for a particular rent concession. The rent concession is one for which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract.

The fact pattern

The request described a rent concession agreed by a lessor and a lessee on the date the rent concession is granted. The rent concession changes the original terms and conditions of a lease contract classified by the lessor—applying IFRS 16—as an operating lease. The lessor legally releases the lessee from its obligation to make specifically identified lease payments:

a. some of these lease payments are amounts contractually due but not paid. Paragraph AG9 of IAS 32 states that 'a lessor does not regard an operating lease as a financial instrument, except as regards individual payments currently due and payable by the lessee'. Therefore, the lessor has recognised these amounts as an operating lease receivable. Applying paragraph 81 of IFRS 16, the lessor has also recognised the amounts as income.
b. some of these lease payments are not yet contractually due.

No other changes are made to the lease contract, nor are there any other negotiations between the lessor and the lessee that might affect the accounting for the rent concession. Before the date the rent concession is granted, the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable.

The question

The request asked:

a. how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable before the rent concession is granted if it expects to forgive payments due from the lessee under the lease contract; and
b. whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

Applying the expected credit loss model in IFRS 9 to the operating lease receivable

Paragraph 2.1(b)(i) of IFRS 9 states that 'operating lease receivables recognised by a lessor are subject to the derecognition and impairment requirements' in IFRS 9. Therefore, a lessor is required to apply the impairment requirements in IFRS 9 to the gross carrying amount of an operating lease receivable from the date on which it recognises that receivable, taking into account applicable derecognition requirements in IFRS 9.

[3] [In accordance with paragraph 8.7 of the *Due Process Handbook*, at its October 2022 meeting, the IASB discussed, and did not object to, this agenda decision.]

IFRS 9 defines credit loss as 'the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls)…'. Paragraph 5.5.17 of IFRS 9 states that 'an entity shall measure expected credit losses … in a way that reflects (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions'.

Consequently, in the fact pattern described in the request, the lessor applies the impairment requirements in IFRS 9 to the operating lease receivable. The lessor estimates expected credit losses on the operating lease receivable by measuring any credit loss to reflect 'all cash shortfalls'. These shortfalls are the difference between:

a. all contractual cash flows due to the lessor in accordance with the lease contract (and included in the gross carrying amount of the operating lease receivable); and
b. all the cash flows the lessor expects to receive, determined using 'reasonable and supportable information' about 'past events, current conditions and forecasts of future economic conditions'.

Therefore, the Committee concluded that, before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects 'an unbiased and probability-weighted amount …', 'the time value of money', and 'reasonable and supportable information …' (as required by paragraph 5.5.17 of IFRS 9). This measurement of expected credit losses includes the lessor considering its expectations of forgiving lease payments recognised as part of that receivable.

Accounting for the rent concession—IFRS 9 and IFRS 16

Applying the derecognition requirements in IFRS 9 to the operating lease receivable

Paragraph 2.1(b)(i) of IFRS 9 states that operating lease receivables recognised by a lessor are subject to the derecognition requirements in IFRS 9. Consequently, on granting the rent concession, the lessor considers whether the requirements for derecognition in paragraph 3.2.3 of IFRS 9 are met.

In the rent concession described in the request, the lessor legally releases the lessee from its obligation to make specifically identified lease payments, some of which the lessor has recognised as an operating lease receivable. Accordingly, on granting the rent concession, the lessor concludes that the requirements in paragraph 3.2.3(a) of IFRS 9 have been met—that is, its contractual rights to the cash flows from the operating lease receivable expire—because it has agreed to legally release the lessee from its obligation and thus has given up its contractual rights to those specifically identified cash flows. Therefore, on the date the rent concession is granted, the lessor remeasures expected credit losses on the operating lease receivable (and recognises any change to the expected credit loss allowance in profit or loss) and derecognises the operating lease receivable (and associated expected credit loss allowance).

Applying the lease modification requirements in IFRS 16 to future lease payments under the lease

The rent concession described in the request meets the definition of a lease modification in IFRS 16. The rent concession is ‘a change in … the consideration for a lease … that was not part of the original terms and conditions of the lease’. Therefore, the lessor applies paragraph 87 of IFRS 16 and accounts for the modified lease as a new lease from the date the rent concession is granted.

Paragraph 87 of IFRS 16 requires a lessor to consider any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. The Committee observed that lease payments contractually due from the lessee that the lessor has recognised as an operating lease receivable (to which the derecognition and impairment requirements in IFRS 9 apply) are not accrued lease payments. Consequently, neither those lease payments nor their forgiveness are considered—applying paragraph 87 of IFRS 16—as part of the lease payments for the new lease.

In accounting for the modified lease as a new lease, a lessor applies paragraph 81 of IFRS 16 and recognises the lease payments (including any prepaid or accrued lease payments relating to the original lease) as income on either a straight-line basis or another systematic basis.

The Committee concluded that the lessor accounts for the rent concession described in the request on the date it is granted by applying: (a) the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor has recognised as an operating lease receivable; and (b) the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor has not recognised as an operating lease receivable.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a lessor to determine how to apply the expected credit loss model in IFRS 9 to an operating lease receivable and account for the rent concession described in the request. Consequently, the Committee decided not to add a standard-setting project to the work plan.