By teleconference	**April 2020**	**Agenda ref 1B**
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IFRS 16 *Leases* and covid-19 — shortened comment letter period

Purpose

1. On Friday 17 April 2020, the Board will consider a staff recommendation to publish an exposure draft proposing an amendment to IFRS 16 *Leases* related to covid-19-related rent concessions. If the Board agrees, the staff recommend a 14-day comment period for that exposure draft. A comment period of less than 30 days requires approval from 75 per cent of the Trustees.
2. **This paper asks whether the Due Process Oversight Committee (DPOC) agrees to recommend that the Trustees approve a 14-day comment period if the Board decides to request approval of such a comment period.**

Background to the issue

3. The Board has been informed that many lessors around the world have provided, or are expected to provide, rent concessions to lessees as a result of the covid-19 pandemic. This is particularly prevalent in the retail industry and, in some cases, is being encouraged or required by government. Rent concessions provided include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods.
4. IFRS 16 contains requirements that address the accounting for such rent concessions—that accounting generally depends on whether the rent concession is a lease modification (as defined in IFRS 16).
5. However, stakeholders have informed the Board that applying those requirements to a potentially large volume of covid-19-related rent concessions could be complex, especially for lessees—particularly in the light of the many other

challenges stakeholders face during the pandemic. Complexity in applying the requirements arises in two main ways:

(a) assessing whether rent concessions are lease modifications—this assessment requires consideration of whether the change in lease payments was part of the original terms and conditions of the lease. The prevalence of rent concessions during the covid-19 pandemic makes this assessment difficult in two ways: (i) entities may need to assess a large volume of contracts; and (ii) the assessment itself might be difficult. (For example, a lease contract or applicable law or regulation may contain clauses, such as force majeure, which were developed without contemplating the covid-19 pandemic. It may be difficult to determine whether rent concessions offered—or mandated by government—are captured by the operation of such clauses).

(b) applying the required accounting for rent concessions that are lease modifications—while this is not unduly onerous for an individual lease modification, the volume of leases subject to rent concessions arising from the covid-19 pandemic may mean this accounting would occupy resources at a time when lessees are likely to have other, more significant, concerns to deal with arising from the pandemic.

6. In addition, many entities are currently preparing their first annual financial statements applying IFRS 16[1]. The Board had expected the first year of application of the new requirements to be challenging and costly in any event for lessees with large volumes of leases—and feedback received during the implementation period indicates that this has been the case. The challenges arising as a result of the covid-19 pandemic therefore arise on top of an already challenging period for lessee accounting.

Staff recommendation—a proposed amendment to IFRS 16

7. The staff is recommending that the Board provide lessees with an optional exemption from assessing whether a covid-19-related rent concession is a lease

[1] IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

modification. A lessee would apply the exemption consistently to contracts with similar characteristics and in similar circumstances.

8. Such an exemption would:

   (a) remove the practical challenge of possibly having to assess a large volume of contracts to determine whether a covid-19-related rent concession is a lease modification;

   (b) eliminate the need to remeasure lease liabilities using a revised discount rate for potentially large volumes of contracts thus simplifying the mechanics of the accounting; and

   (c) still enable useful information to be provided to users of the financial statements.

9. The FASB staff provided similar practical relief in a staff Q&A document published on the FASB's website on 10 April 2020. Prior to this Q&A document the requirements in IFRS 16 and in the US GAAP leases guidance on rent concessions were substantially the same. In accordance with our due process the proposed relief requires standard setting as it introduces an exception that does not currently exist in IFRS 16.

10. The exemption would be applicable only to changes in lease payments arising as a direct result of the covid-19 pandemic and occurring within a limited timeframe (affecting only reductions in payments originally due in 2020).

Recommended comment period

11. The proposed exemption described in paragraph 7 will be of benefit to entities only if it is provided in a timely manner. Therefore, the staff are recommending the Board sets a comment period of 14 days. This should enable the Board to finalise any amendment to IFRS 16 by the end of May 2020, which we would expect to benefit many affected entities with a 31 March 2020 year-end and all affected entities with later year-ends.

12. Comment periods for exposure drafts are usually 120 days. However, the Board can, and does on occasion, seek the DPOC's approval for a comment period of no less than 30 days in accordance with the *Due Process Handbook*. The *Handbook* also contemplates that 'in exceptional circumstances' the comment period can be less than 30 days, <u>but it is explicit that there must be some comment period</u>.

Comment letters are an essential part of developing high-quality IFRS Standards. A comment period of less than 30 days requires approval from 75 per cent of the Trustees[2].

13. While a 14-day comment period is very short, it would still enable stakeholders to respond to the proposed amendment. The staff recommendation of a 14-day comment period reflects not only that any amendment needs to be made expeditiously in order for the proposed relief to have the desired effect, but also the narrow scope of the amendment, its proposed limited life (applying only to changes made to lease payments in 2020 as a result of covid-19) and its expected limited effect on the information that would be made available to users. (Even a comment period as short as 14 days would permit users to express a contrary view on this point.)

14. The staff think it would be helpful for the Board to be aware in advance of its meeting on Friday 17 April as to whether the DPOC would agree to recommend that the Trustees approve a 14-day comment period for the exposure draft if the Board decides to request that approval from the Trustees.

Question for the DPOC

15. **Does the DPOC agree to recommend that the Trustees approve a 14-day comment period for a potential amendment to IFRS 16 if the Board decides to request approval of such a comment period?**

[2] Paragraph 6.8 of the Handbook states 'in exceptional circumstances, and only after formally requesting and receiving prior approval from 75 per cent of the Trustees, the IASB may reduce the period for public comment on an Exposure Draft to below 30 days but may not dispense with a comment period'.