

STAFF PAPER

May 2020

IASB[®] Meeting

Project	IFRS 16 and covid-19		
Paper topic	Due process and permission to ballot		
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Objective and structure

1. Agenda Paper 32A for this meeting asks the Board to redeliberate the proposals in the April 2020 Exposure Draft *Covid-19-Related Rent Concessions (Proposed Amendment to IFRS 16)* (Exposure Draft). If the Board agrees with the staff recommendations in that paper, we will be in a position to begin the balloting process for an amendment to IFRS 16.
2. The objective of this paper is to:
 - (a) set out the steps in the IFRS Foundation Due Process Handbook (*‘Due Process Handbook’*) that the Board has taken in developing the amendment to IFRS 16;
 - (b) ask the Board to confirm that it is satisfied that it has complied with the due process requirements;
 - (c) seek the Board’s permission to begin the balloting process for the amendment to IFRS 16; and
 - (d) ask whether any Board member intends to dissent from the issuance of the amendment to IFRS 16.
3. This paper should be read in conjunction with Agenda Paper 32A, which provides project background and summarises the proposed amendment to IFRS 16.
4. This paper is structured as follows:
 - (a) Likely effects of the amendment (paragraphs 5-7);

- (b) Due process steps and permission to ballot (paragraphs 8-15).
- (c) Staff recommendations and questions for the Board.

Likely effects of the amendment

5. We expect the amendment to provide practical relief to lessees. This is because lessees applying the practical expedient would not need to:
 - (a) assess whether potentially high volumes of covid-19-related rent concessions are lease modifications; and
 - (b) determine new discount rates in remeasuring lease liabilities related to those contracts.

6. Almost all respondents to the Exposure Draft agreed that the practical expedient would provide significant practical relief to lessees.

7. We also expect that a lessee applying the practical expedient will continue to provide useful information about their leases to users of financial statements. This is because:
 - (a) the lease liability will continue to represent the present value of future lease payments owing to the lessor, thus providing a faithful representation of a lessee's obligations under the lease contract.
 - (b) some respondents to the Exposure Draft and users of financial statements said that the accounting treatment for a lessee applying the practical expedient fairly reflects their understanding of the economics of a covid-19-related rent concession. Specifically, stakeholders thought the recognition of any effects of a covid-19-rent concession in profit or loss appropriately reflects the 'extraordinary' nature of the pandemic.
 - (c) the staff recommendations in Agenda Paper 32A would require a lessee to disclose the amount recognised in profit or loss resulting from covid-19-related rent concessions. We acknowledge that the amendment may affect comparability between the statements of profit or loss of lessees that apply the practical expedient and those that do not. However, we

think the recommended disclosure requirement would enable users of financial statements to understand the effects of applying the practical expedient and thereby ensure that lessees continue to provide useful information about their leases.

Due process steps and permission to ballot

Effective date

8. The effective date of the amendment to IFRS 16 is discussed in Agenda Paper 32A for this meeting. We recommend an effective date of annual periods beginning on or after 1 June 2020, with earlier application permitted. This is as proposed in the Exposure Draft.

Re-exposure

9. Respondents to the Exposure Draft welcomed the Board's timely response to address the issue and supported the amendment proposed in the Exposure Draft. There was also general consensus among respondents that the proposal in the Exposure Draft should be finalised and issued as quickly as possible.
10. The staff recommendations in Agenda Paper 32A include only three changes to the proposal in the Exposure Draft:
 - (a) to extend the availability of the practical expedient from rent concessions that reduce only lease payments originally due in 2020, to those that reduce only lease payments originally due on or before 30 June 2021. This is not a fundamental change to the proposals in the Exposure Draft. Instead, it increases the length of time the practical expedient is available in direct response to comment letter feedback.
 - (b) to include an additional disclosure requirement for a lessee applying the practical expedient. This would require such a lessee to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from covid-19-related rent concessions. This is in direct response to feedback received from users of financial statements and others.

- (c) specify that in the reporting period in which a lessee first applies the amendment, it is not required to disclose the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
11. We think the recommendations in Agenda Paper 32A for this meeting respond to the feedback received on the Exposure Draft and do not represent fundamental changes on which respondents have not had opportunity to comment. Consequently, on the basis of the re-exposure criteria in paragraphs 6.25-6.29 of the *Due Process Handbook*, we recommend that the Board finalises the amendment to IFRS 16 without re-exposure.

Intention to dissent

12. In accordance with paragraph 6.23 of *Due Process Handbook*, we are asking whether any Board member intends to dissent from the issuance of the amendment to IFRS 16.

Confirmation of due process steps

13. We think the Board has undertaken all due process activities required in the *Due Process Handbook* and, thus, is able to finalise the amendment. The appendix to this paper summarises the due process steps taken in developing the amendment to IFRS 16.
14. We request permission to start the balloting process if the Board is satisfied that it has been provided with sufficient analysis, and has undertaken appropriate consultation and due process to support issuing the amendment.

Proposed timetable for balloting and publication

15. The balloting process for the amendment to IFRS 16 will commence after this meeting, with the amendment planned for issuance on or around 28 May 2020.

Staff recommendations and questions for the Board

Questions for the Board

1. **Re-exposure**—does the Board agree with our recommendation in paragraph 11 of this paper not to re-expose the amendment to IFRS 16?
2. **Dissent**—does any Board member intend to dissent from the issuance of the amendment to IFRS 16?
3. **Permission to ballot**—is the Board satisfied it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendment to IFRS 16?

Appendix—Summary of due process steps

A1. The table below summarises the required due process steps for developing a narrow-scope amendment.

Step	Actions
Consideration of information gathered during consultation	
The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	All comment letters received by the Board have been posted on the project webpage .
Board and IFRS Interpretations Committee (Committee) meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	The Board discussed the project in its April 2020 and May 2020 public meetings. All papers are available on the meetings webpage. The project webpage also has up-to-date information about all technical papers and decisions made relating to the project.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	See the analysis in paragraphs 5-7 of this paper.
Finalisation	
Due process steps are reviewed by the Board.	This paper asks the Board to review the due process steps for the project.
Need for re exposure of a Standard is considered.	Paragraphs 9-11 of this paper discuss re-exposure. We recommend the Board not re-expose the amendment.
The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Agenda Paper 32A for this meeting discusses the effective date. Consistent with the proposal in the Exposure Draft, we recommend an effective date of annual reporting periods beginning on or after 1 June 2020, with earlier application permitted.
Drafting	
Drafting quality assurance steps are adequate.	The Translations, Taxonomy and Editorial teams will review the pre-ballot draft. We intend to send a draft of the amendment to external parties for review before finalisation. This process allows external parties to review and report back to the staff on the clarity and understandability of the draft.
Publication	
Press release to announce the final Standard.	A press release will be published with the amendment.
A Feedback Statement is provided which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received.	Not considered necessary because the amendment is narrow in scope. According to paragraph 6.38 of the <i>Due Process Handbook</i> , a Feedback Statement is required for all new IFRS Standards and major amendments.
Standard is issued.	The amendment will be made available on our website when issued.