IFRS

STAFF PAPER

May 2020

IASB® Meeting

Project	**IFRS 16 and covid-19**
Paper topic	Lessors

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Objective and structure

1. Many respondents to the Board's April 2020 Exposure Draft *Covid-19-Related Rent Concessions (Proposed Amendment to IFRS 16)* (Exposure Draft) asked the Board to consider developing practical relief for lessors similar to that proposed in the Exposure Draft for lessees.

2. The objective of this paper is to provide staff analysis and recommendations on lessor accounting in the light of that feedback. The paper asks the Board whether it would like to undertake a separate project to develop a practical expedient for lessors.

3. This paper should be read in conjunction with Agenda Paper 32A for this meeting, which includes background to the project and a summary of the comment letters received. The analysis in this paper is based on the 96 letters received by the comment letter deadline of 8 May 2020[1]. We will provide an oral update at the Board meeting on comment letters received after the comment letter deadline but before the Board meeting.

4. This paper is structured as follows:

   (a) Feedback overview (paragraphs 5-6);

   (b) Key considerations and approach in this paper (paragraphs 7-10);

[1] At the date of posting this agenda paper, the Board had received late comment letters that are available on the website. We will provide the Board with an update on these comment letters at the Board Meeting.

(c) Staff analysis (paragraphs 11-53);

(d) Key messages and conclusions (paragraphs 54-56);

(e) Staff recommendation and question for the Board (paragraph 57);

(f) Appendix A—Basis for Conclusions paragraph on lessors;

(g) Appendix B—Relevant requirements in IFRS 16 *Leases*.

Feedback overview

5. Many respondents asked the Board to provide practical relief for lessors similar to that proposed for lessees. Of these respondents:

   (a) most said lessors also face significant practical challenges when accounting for covid-19-related rent concessions;

   (b) many said applying a practical expedient similar to that proposed for lessees would appropriately reflect the economics of covid-19-related rent concessions, thereby providing useful information to users of financial statements (investors);

   (c) many were concerned about asymmetry between lessor and lessee accounting if the Board does not provide similar practical relief for lessors. Most of these respondents identified the accounting for subleases as a particular concern; and

   (d) some said a practical expedient for lessors would achieve convergence with the accounting treatment permitted by the Financial Accounting Standards Board (FASB).

6. Many of these respondents asked the Board to consider a practical expedient for lessors as a separate project so that it would not delay the Board finalising a practical expedient for lessees. As explained in Agenda Paper 32A, we agree with these respondents that the Board should not delay finalisation of the proposal in the Exposure Draft. Consequently, this paper considers whether the Board should develop (and expose for comment) a practical expedient for lessors as a separate project.

Key considerations and approach in this paper

7. Many respondents to the Exposure Draft are of the view that the Board's proposal to provide a practical expedient for lessees indicates that it should do the same for lessors. In considering the feedback and deciding whether to provide such a practical expedient, one approach would be to think about whether—having provided a practical expedient for lessees—the Board can justify *not* doing so for lessors. However, such an approach omits some important considerations, for instance:

   (a) the lessee and lessor accounting models in IFRS 16 are not symmetrical and, therefore, are not directly comparable. It does not follow therefore that a decision to provide relief for lessees necessarily justifies providing relief for lessors.

   (b) the lessor accounting model in IFRS 16 is arguably most comparable with and also interacts closely with IFRS 9 *Financial Instruments* (for finance leases) and IFRS 15 *Revenue from Contracts with Customers* (for operating leases). It is therefore important to consider comparability with those Standards and those interactions.

   (c) many entities, not only those party to lease contracts, face many challenges as a result of the covid-19-pandemic. Lessees and lessors face many challenges beyond accounting for rent concessions. Entities also have a significant amount of work to do in applying other IFRS Standards in the light of all the uncertainty created by the pandemic (such as the measurement of expected credit losses on loans and impairment testing of non-financial assets). In that regard, being exposed to challenges in itself is not sufficient justification for standard-setting.

8. Consequently, in considering the feedback and staff analysis that follows, the Board should ask itself **whether there is sufficient justification to develop a practical expedient for lessors**. As always, the Board should not undertake standard-setting lightly and should do so only if there is sufficient reason. By comparison, the Board concluded that developing a practical expedient for lessees

was justified (and could be developed on a timely basis to provide relief when it is most needed) because of a very particular set of circumstances:

(a) it was possible to develop a simple, straightforward practical expedient that only relieves a lessee from applying existing requirements (assessing whether covid-19-related rent concessions are lease modifications and applying the related lease modification requirements). The lessee proposal does not amend or add any recognition and measurement requirements.

(b) the accounting that results from applying that practical expedient is already in IFRS 16 and is already being applied by lessees for changes in lease payments that are not lease modifications. Further, that accounting is simpler than the accounting for a lease modification.

(c) for covid-19-related rent concessions, the accounting that results from applying those existing requirements for changes that are not lease modifications provides useful information to users of financial statements.

(d) the Board was able to tightly ringfence application of the practical expedient, thus minimising the risk of unintended consequences.

9. The staff analysis that follows summarises the detailed feedback received on each of the matters identified in paragraph 5, along with staff analysis that considers whether the matters identified justify the Board undertaking standard-setting. The analysis also considers some other matters that we think are relevant in the light of the feedback. Our analysis is structured as follows:

(a) significant practical challenges (paragraphs 11-24)

(b) useful information for users of financial statements (paragraphs 25-31);

(c) asymmetry between lessee and lessor accounting (paragraphs 32-38);

(d) convergence with the FASB (paragraphs 39-44); and

(e) other observations (paragraphs 45-53).

10. Finally, having considered and analysed all of the feedback from respondents, we summarise our key messages, conclusions and staff recommendation (paragraph 54-57).

Staff analysis

Significant practical challenges

Feedback

11. Most respondents that commented on lessor accounting questioned the suggestion, in paragraph BC3 of the Exposure Draft (see Appendix A), that lessors are not expected to face the same practical challenges as lessees in accounting for covid-19-related rent concessions. These respondents said lessors face significant practical challenges when accounting for covid-19-related rent concessions. These include:

    (a) assessing the law in different jurisdictions. Respondents said it can be difficult to determine if rent remains legally due during the pandemic.

    (b) cost and complexity introduced by lengthy and complex negotiations.

    (c) applying judgement to determine whether a covid-19-related rent concession was captured in the original terms and conditions of the lease.

    (d) assessing modified contracts to classify them as finance or operating leases.

    (e) re-calculating the straight-line lease income recognition after an operating lease modification accounted for as a new lease, and reconsidering prepaid and accrued lease payments.

    (f) determining the correct accounting for a lease modification. These respondents described the existing requirements as ‘ambiguous’. For example, some questioned the interaction between IFRS 9 and IFRS 16, asking ‘whether and how’ IFRS 9 applies to lease modifications.

    (g) billing and lease income recognition are typically managed in different systems, increasing complexity when dealing with lease modifications.

(h) accounting is sometimes performed on an excel spreadsheet. Large volumes of modifications would therefore require large volumes of manual calculations.

12. Respondents emphasised the large volume of contracts affected by covid-19-related rent concessions, and the extent to which this magnifies the challenges described in paragraph 11.

13. Many respondents also questioned some of the rationale underlying the Board's decision not to provide a practical expedient for lessors. They said:

(a) an assumption that lessors should be able to manage lease modifications is not unreasonable in a normal business environment. However, current events are extreme and resources are limited.

(b) many leases, such as real estate leases, typically run for a long time and remain unchanged. Consequently, for some lessors, modifications are rare and systems are not set up to deal with them. In particular, systems are not configured to deal with 'exceptional changes to almost 100% of contracts in a very short timeframe' (CL65: European Public Real Estate Association).

(c) lease contracts are typically not standardised. They are entered into over many years, in many different jurisdictions and via negotiation with many different customers. Consequently, it will rarely be possible for a lessor to apply one assessment to a large volume of contracts to determine whether rent concessions are lease modifications. This is also true for lessors that have grown via acquisition and therefore have leases that they did not originate.

(d) for some lessors with large volumes of leases, leasing is *not* part of their core business. Respondents identified government and not-for-profit entities as examples.

Staff analysis

14. Lessors, like many entities, are undoubtedly facing many extreme challenges during the covid-19 pandemic. The many practical challenges identified in the

comment letter feedback, and the strength of that feedback, reflect the extremely difficult time that lessors are having.

15. We also note the number of stakeholders that spent time and resources sharing their detailed comments with the Board during the 14-day comment period. Stakeholders undoubtedly have many demands on their resources and the fact they spent time writing to the Board demonstrates the potential significance of the practical help they think the Board could provide.

16. However, as described in paragraphs 7-8, the Board should not undertake standard-setting lightly. Therefore, while we are sympathetic to the challenges lessors face, we think it remains important that the Board performs a thorough analysis of the comments received to assess whether any standard-setting is justified.

17. With that in mind, we observe that many of the challenges identified in paragraph 11 would not be resolved by the Board providing a practical expedient. Lessors would still, for example, have to:

    (a) deal with the large volumes of contract changes;

    (b) assess the law in different jurisdictions to determine whether rent remains legally due;

    (c) enter into complex negotiations with each of their tenants;

    (d) determine the required accounting for covid-19-related rent concessions (see also paragraphs 20-22 below);

    (e) perform manual calculations if their billing system is separate from the accounting system; and

    (f) perform manual calculations relating to covid-19-related rent concessions that are accounted for on an excel spreadsheet.

18. We also question the suggestion that the modification requirements in IFRS 16 are 'ambiguous'. Paragraphs 80 and 87 of IFRS 16 explain how a lessor is required to account for a lease modification (these paragraphs are reproduced in Appendix B). In fact, in contrast to lessee accounting IFRS 16 does not specify

lessor accounting requirements for changes in lease payments that are *not* lease modifications[2].

19. The proposed practical relief works neatly for lessees because of the existing requirements in IFRS 16. The practical expedient simply allows lessees to assume that covid-19-related rent concessions are not lease modifications and a lessee then applies the applicable accounting as specified in IFRS 16. Compared to the accounting for lease modifications, this results in simpler accounting for lessees because it requires no reassessment of the discount rate and, in many cases, will result in accounting for a concession as a variable lease payment.

20. The Exposure Draft did not propose a practical expedient that would allow lessors to assume covid-19-related rent concessions are not lease modifications. Consequently, the Exposure Draft did not identify what the accounting by a lessor might be for a change in lease payments that is not a lease modification. If the Board were to undertake a project to develop a practical expedient for lessors, this is something the Board would have to consider. We note that the feedback on lessor accounting relies on an assumption that non-modification accounting would be simple and would require little effort from lessors.

21. Consequently, many of the arguments made by respondents explain the practical benefits for lessors of not having to apply lease modification accounting. Few respondents explained the accounting for a covid-19-related rent concession that would apply if an 'equivalent' practical expedient were available for lessors, nor did they comment on the work that would be involved in applying that accounting. For example, respondents referred to the challenges of considering prepaid and accrued lease payments for an operating lease modification—however, unless a rent concession results in cash accounting for the lease (that is, lease income equal to cash receipts), these considerations would in fact remain.

22. A practical expedient—that would allow lessors to account for covid-19-related rent concessions as if they were not lease modifications—would not eliminate the need to account for those concessions; it would only change that accounting. If,

[2] The lessor accounting model in IFRS 16 was substantially carried forward from IAS 17 *Leases*—an approach that was strongly supported by stakeholders when the Board developed IFRS 16. IFRS 16 added requirements for lease modifications but did not amend or remove requirements for changes in lease payments that are not lease modifications.

as described by respondents, lessor systems are only able to deal with 'a normal business environment', or with leases that 'run for a long time and remain unchanged', the accounting for large volumes of rent concessions will still create practical challenges, even if the Board were to provide a practical expedient similar to that provided for lessees.

23. Extending the Board's practical expedient to lessors would achieve some benefits that were anticipated in the responses—most notably, eliminating the need to assess *whether* covid-19-related rent concessions are lease modifications. However, the practical expedient for lessees also changes the accounting to (specified) simpler accounting—in particular it removes any need to determine a new discount rate and remeasure the lease liability (and right-of-use asset) using that new discount rate. This is something that lessors typically do not need to do. The practical expedient for lessees results in simpler accounting than lease modification accounting, and accounting that is already being applied by lessees today and that lessee systems can deal with.

24. Consequently, the feedback provided by respondents has not changed our view that a practical expedient would provide greater benefit for lessees than it would for lessors.

Useful information for users of financial statements

Feedback

25. Many respondents who provided feedback on lessor accounting thought a practical expedient for lessors would appropriately reflect the economics of covid-19-related rent concessions, thereby providing useful information to investors.

26. These respondents said, in the absence of a practical expedient, a lessor would account for rent concessions as a lease modification, thus treating the modified contract as a new lease from the date of the rent concession (this feedback assumes the lease is an operating lease). Respondents said, in this case, a lessor would reassess the straight-line lease income recognition and, consequently, recognise the effects of any concession over the remaining lease term.

27. Respondents said recognising the effects of a covid-19-related rent concession in profit or loss in the period of the concession is a better reflection of the substance of that arrangement. They said:

(a) covid-19-related rent concessions represent short-term economic relief granted to lessees. They do not represent renegotiations of contract pricing.

(b) recognising the effect of such concessions in the period in which the relief is provided would provide more useful information to investors than recognising that effect over the remaining lease term.

(c) recognising the effects of a covid-19-related rent concession over the lease term might obscure covid-19 effects in a lessor's financial statements by distorting income both during the pandemic and subsequently.

Staff analysis

28. In considering lease modification accounting for operating leases, we note that paragraph 81 of IFRS 16 requires a lessor to 'recognise lease payments from operating lease as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished'.

29. Applying this paragraph, in our view it is not possible to conclude on exactly how a lessor would recognise lease income in every case. The accounting will depend on particular facts and circumstances. However, we think application of paragraph 81 of IFRS 16 would not lead to straight-line income recognition in every case—the circumstances arising during the covid-19 pandemic may result in a lessor recognising lease income other than on a straight-line basis. We also think recognising lease income on a systematic basis that represents the pattern in which benefits from the use of the underlying asset are diminished—as required by paragraph 81 of IFRS 16—provides useful information to investors. This is because income recognition would reflect the provision of the right-of-use to the lessee.

30. Further, we think that in considering whether to undertake a project on this topic, it is important for the Board to keep in mind the interaction between the lessor accounting requirements and related requirements in other Standards. In particular, the accounting for changes in operating leases is very similar to that for changes in similar service contracts applying IFRS 15.

31. Consequently, we think there is a risk that any practical expedient developed by the Board could result in an entity accounting for similar contracts differently (ie those subject to IFRS 16 and those subject to IFRS 15). This would be an unhelpful outcome and would impair the usefulness of information provided to investors. We provide further comments on this in paragraphs 47-49 below.

Asymmetry between lessee and lessor accounting

Feedback

32. Many of the respondents providing this feedback expressed general concerns about asymmetry between lessee and lessor accounting saying, for example, that they were concerned about the lack of 'transactional neutrality'.

33. Most of these respondents were particularly concerned about the effect of asymmetrical accounting for the intermediate lessor in a sublease if covid-19-related rent concessions are granted on both the head lease and the sublease. They observed that an intermediate lessor would:

    (a) potentially apply the practical expedient to the head lease, and recognise a gain from any reduction in lease payments immediately; and

    (b) account for any rent concession provided to the sub-lessee as a lease modification, thus treating the modified contract as a new lease from the date of the rent concession (this feedback assumes the sublease is an operating lease). Respondents said, in this case, the intermediate lessor would reassess the straight-line lease income recognition and, consequently, recognise the effects of any concession granted to the sub-lessee over the remaining lease term.

34. These respondents were concerned about the possible accounting mismatch created by the intermediate lessor recognising a gain on the head lease immediately, but lower income on the sublease over time.

35. A few respondents also questioned the Board's assumption that many leases in which rent concessions are granted are likely to be operating leases for the lessor. These respondents observed that a sublease is more likely to be classified as a finance lease than other leases. This is because, in the case of a sublease, the intermediate lessor classifies the lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

Staff analysis

36. In our view, general concerns about asymmetry in accounting between the lessee and lessor accounting models are not persuasive that a practical expedient is needed for lessors. The lessee and lessor accounting models in IFRS 16 are already asymmetrical. While conceptually desirable, the Board did not develop the Standard with the objective of achieving 'transactional neutrality'. This was in response to extensive feedback received during the development of IFRS 16.

37. We note the concerns expressed about accounting mismatches for intermediate lessors when the sublease is an operating lease. However, as described in paragraphs 28-29, we think it is not possible to conclude on how an intermediate lessor would recognise lease income in every case. Consequently, we question whether such accounting mismatches would arise for all such covid-19-related rent concessions and whether such a mismatch would result from lease income recognition that 'represents the pattern in which benefits from the use of the underlying asset are diminished' (as is required by paragraph 81 of IFRS 16).

38. Finally, we agree with those respondents who said a sublease is more likely to be classified as a finance lease than other leases. However, those respondents that provided a detailed explanation of their concerns did so on the basis of operating lease accounting for the sublease. An intermediate lessor with a finance sublease would be required to remeasure its lease receivable to reflect any revised lease payments granted in a rent concession (see paragraphs 50-53). Consequently, the accounting mismatch described for operating subleases would not arise when a sublease is a finance lease.

Convergence with the FASB

Feedback

39. On 10 April 2020, the FASB staff published a staff Q&A for lessees and lessors that includes interpretive guidance on the application of Topic 842, Leases, to covid-19-related rent concessions. The guidance contained a practical expedient for both lessees and lessors.

40. Some respondents said the absence of a similar practical expedient in IFRS 16 would impair comparability across entities and 'create an uneven playing field'. A few were particularly concerned about practical challenges that a lack of convergence would introduce for lessors that report under both IFRS and US GAAP frameworks.

Staff analysis

41. IFRS 16 and Topic 842 have similar, but not converged, requirements with respect to lessor accounting. At the time of developing the Standards, both Boards substantially carried forward the existing lessor accounting requirements in their respective Standards. The Boards did so in response to extensive feedback, including from investors, that the existing lessor accounting model was well understood and required no substantive change.

42. Although similar, the lessor accounting requirements in IFRS 16 and in Topic 842 are not the same, in particular with respect to the specificity of the requirements—that is, the requirements in Topic 842 are more detailed than those in IFRS 16. There are also three types of leases for lessors in Topic 842—sales-type leases, direct financing leases and operating leases—whereas lessors classify leases as either finance leases or operating leases applying IFRS 16.

43. We acknowledge the points raised by respondents and agree that practical challenges will arise for dual reporters. However, this is the case for lease accounting generally and is not unique to covid-19-related rent concessions. Indeed, we know that during the implementation of IFRS 16 entities, systems providers and others have taken steps to deal with the consequences of differences between the two Standards. In other words, such differences already exist, and stakeholders are dealing effectively with them.

44. Finally we highlight the importance of internal consistency within IFRS Standards. The lessor accounting requirements in IFRS 16 interact, in particular, with requirements in IFRS 9 and IFRS 15 (see paragraphs 47-49). In terms of alignment between accounting requirements, internal consistency within IFRS Standards is in our view the most important matter.

Other observations

Potential accounting outcomes for a lessor applying the practical expedient

45. As mentioned above, IFRS 16 does not specify lessor accounting requirements for changes in lease payments that are not lease modifications. So if the Board were to provide a practical expedient that allows lessors to assume covid-19-related rent concessions are not lease modifications, it would need to determine the accounting to be applied by those applying that practical expedient. This was not contemplated in the Exposure Draft. Most of the feedback received on this topic was provided on the basis that any accounting would be straightforward, however few respondents set out what that accounting would be.

46. In our view, it cannot be assumed that any accounting requirements developed would be as straightforward as the comment letters assume (see also paragraphs 20-22). Consequently, in considering whether to undertake a project on this topic, the Board should be mindful that:

(a) as part of that project, it would need to develop and expose requirements to specify the accounting; and

(b) the accounting that results may not meet the expectations of those asking the Board to develop a practical expedient (see paragraphs 20-22).

Interaction with other Standards

47. In considering this topic, the Board should also keep in mind the interaction of the lessor accounting requirements with other IFRS Standards—in particular:

(a) operating lease accounting requirements are similar in terms of accounting outcomes to the requirements in IFRS 15 that apply to the provision of some services to a customer. Indeed, the requirements for an operating lease modification in IFRS 16 align with those in IFRS 15 for modifications to particular service contracts—this includes the assessment of whether a change is a contract modification (the respective definitions of a lease modification and a contract modification are similar in those Standards).

(b) finance lease accounting requires the application of both IFRS 16 and IFRS 9. Because lessors recognise finance lease receivables, they are required to apply the derecognition and impairment requirements in IFRS 9, as well as account for most modifications applying IFRS 9 (see Appendix B).

48. Feedback received from respondents has been provided on the basis of comparing a potential practical expedient for lessors with the practical expedient proposed for lessees. However, the lessor and lessee accounting models are different and, in our view, are not directly comparable. A more appropriate comparison for lessors would be the accounting for similar scenarios in IFRS 9 (for finance leases) and IFRS 15 (for operating leases). These Standards do not contain the kind of practical expedient that is now being requested for lessors.

49. Consequently, there is a risk that any practical expedient developed by the Board could result in lessors accounting for similar contracts differently. This creates potential comparability challenges for investors (for example, a finance lease receivable is currently capable of being compared with a loan receivable – introducing a practical expedient applicable only to lessors could compromise this). During the development of IFRS 9, IFRS 15 and IFRS 16, the Board considered the various interactions between these Standards. To change one of these Standards in a way that departs from the conclusions reached in those considerations carries a risk of unintended consequences.

Finance leases

50. As mentioned above, a lessor applies both IFRS 16 and IFRS 9 in accounting for finance leases. Paragraph 80 of IFRS 16 requires a lessor to apply IFRS 9 to lease modifications that do not change lease classification—see Appendix B.

Generally, we would expect covid-19-related rent concessions not to change lease classification and would therefore expect IFRS 9 to apply.

51. Applying IFRS 9, a lessor would assess whether the modification of the contractual cash flows results in the derecognition of the finance lease receivable (for example, if the modification is substantial). Given the nature of covid-19-related rent concessions, we would typically expect such a concession not to represent a substantial modification to the lease. As a consequence, if a covid-19-related rent concession is a lease modification, we would expect a lessor to account for it by remeasuring the finance lease receivable to reflect the revised contractual lease payments, discounted at the original discount rate.

52. IFRS 16 includes no specific requirements on how a lessor accounts for a change in lease payments that is not a lease modification. Applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing an accounting policy, we would expect a lessor to apply IFRS 9 to such a change (this is because IFRS 9 includes requirements dealing with similar and related issues). If the application of IAS 8 leads to this conclusion, when a covid-19-rent concession is not a lease modification, a lessor would account for it by remeasuring the finance lease receivable to reflect the revised contractual lease payments using the original discount rate (ie the accounting described in paragraph 51). In addition, we note that the impairment requirements in IFRS 9 are applicable to lease receivables. Therefore, a lessor could not avoid recognising any reduction in lease payments arising from a covid-19-related rent concession in the measurement of finance lease receivables, even if it did not develop the accounting policy described above. Applying the impairment requirements, a lessor would measure and recognise a credit loss for the difference between the cash flows that are due in accordance with the contract and the cash flows that it expects to receive, discounted using the original discount rate (ie applying these requirements, if the carrying amount included amounts that were subject to a rent concession and thus not expected to be paid, they would be included in the measurement of impairment).

53. Consequently, the accounting for a covid-19-related rent concession on a finance lease would be expected to be same, regardless of whether the concession is a

lease modification. We conclude therefore that there is likely to be little benefit in providing a practical expedient for finance leases.

Key messages and conclusions

54. As described in paragraphs 7-8, the question the Board needs to ask itself is whether there is sufficient justification to develop a practical expedient for lessors. It does not directly follow that a decision to provide relief for lessees necessarily justifies providing relief for lessors. Many entities face significant challenges at the moment—there needs to be sufficient reason to undertake standard-setting and the Board needs to be confident that any relief provided will be effective, timely and not carry a significant risk of unintended consequences.

55. Having considered all of the feedback on lessor accounting, we conclude that there is insufficient justification for the Board to develop a practical expedient for lessors. This is because:

    (a) such a practical expedient could not effectively address many of the practical challenges identified by those asking the Board to develop it.

    (b) IFRS 16 contains no requirements addressing how a lessor accounts for a change in lease payments that is not a lease modification. Consequently, a practical expedient would necessarily have to include some new recognition and measurement requirements. Those requirements may:

        (i) take time to develop and expose for comment, preventing a practical expedient being provided in time to be useful (ie during the covid-19 pandemic);

        (ii) not meet the expectations of those asking the Board to develop a practical expedient;

        (iii) not be any simpler than the current requirements; and

        (iv) carry a risk of unintended consequences.

    (c) Any practical expedient could adversely affect the interactions between the lessor accounting requirements and related requirements in IFRS 9 and IFRS 15. This could prevent an entity from accounting for similar contracts consistently, thus impairing the quality of financial reporting.

56. Finally and importantly, we note that in our view the existing lessor accounting requirements provide useful information to investors. For finance leases, a lessor would adjust its measurement of finance lease receivables to reflect any reduction in future contractual lease payments that arises from a convid-19-related rent concession. For operating leases, a lessor would treat a lease modification as a new lease and recognise lease income on a systematic basis that represents the pattern in which benefits from the use of the underlying asset are diminished—this pattern of income recognition would reflect the provision of the right-of-use to the lessee.

Staff recommendation and question for the Board

57. In the light of the above analysis, in our view there is insufficient evidence to suggest that the Board should develop a practical expedient for lessors. Consequently, we recommend that the Board take no further action in response to the feedback on lessor accounting.

Question for the Board
Does the Board agree with the staff recommendation to take no further action in response to the feedback on lessor accounting?

Appendix A—Basis for Conclusions paragraph on lessors

A1 Paragraph BC3 of the Basis for Conclusions to the Exposure Draft explained why the Board did not propose a practical relief for lessors. This paragraph is reproduced below.

BC3 The proposal in this Exposure Draft provides lessees with a practical expedient in accounting for particular covid-19-related rent concessions. The proposal does not address lessor accounting because lessors are not expected to face the same practical challenges as lessees in accounting for covid-19-related rent concessions. For many lessors with a large volume of leases, leasing is a core part of their business. In addition, the consequences for users of a lessor's financial statements are different from those for a lessee. In particular:

(a) IFRS 16 carried forward the lessor accounting model in IAS 17 Leases. Therefore, unlike lessees, lessors have not recently implemented a new accounting model for their leases.

(b) Lessor accounting for modifications to operating leases requires no remeasurement of amounts recognised in a lessor's statement of financial position, whereas lessees are required to remeasure lease liabilities using a revised discount rate for all lease modifications. Many of the real estate leases for which covid-19-related rent concessions are being provided would be operating leases for the lessor.

(c) In the case of a finance lease, lessors apply the requirements in IFRS 9 Financial Instruments to modifications. The information this accounting provides is considered useful for users of a lessor's financial statements and is consistent with the required accounting for other financial instruments in the scope of IFRS 9.

Appendix B—Relevant requirements in IFRS 16

Recognition of lease payments from operating leases

81 A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Lease modification to an operating lease

87 A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Lease modification to a finance lease[3]:

80 For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:

(a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

(i) account for the lease modification as a new lease from the effective date of the modification; and

(ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

(b) otherwise, the lessor shall apply the requirements of IFRS 9.

[3] This paper does not contemplate modifications to a finance lease that is a separate lease. That accounting treatment applies only to modifications that increase the scope of the lease. Consequently, this accounting is not relevant for covid-19-related rent concessions.