

STAFF PAPER

March 2021

IASB[®] Meeting

Project	IFRS 16 and covid-19		
Paper topic	Feedback and project redeliberations		
CONTACTS	Kathryn Donkersley	kdonkersley@ifrs.org	+44 (0) 20 7246 6970

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB[®] *Update*.

Objective and structure

1. The Board published the Exposure Draft *Covid-19-Related Rent Concessions beyond 30 June 2021 (Proposed Amendment to IFRS 16)* on 11 February 2021. The 14-day comment letter period closed on 25 February 2021.
2. The objectives of this paper are to:
 - (a) summarise feedback on the Exposure Draft. This includes feedback in comment letters and from additional outreach with users of financial statements (investors).
 - (b) provide staff analysis and recommendations about whether, and how, the Board should finalise the proposal in the Exposure Draft.
3. This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraph 4);
 - (b) Background (paragraphs 5-8);
 - (c) Comment letters received (paragraphs 9-12);
 - (d) Feedback summary (paragraphs 13-24);
 - (e) Staff analysis (paragraphs 25-76);
 - (f) Staff recommendation and question for the Board;
 - (g) Appendix—Analysis of other comments.

Summary of staff recommendations

4. We recommend that the Board finalise the proposal in the Exposure Draft with an additional explanatory transition paragraph similar to the following:

‘Applying paragraph 2 of this Standard, a lessee shall apply the practical expedient in paragraph 46A consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the lessee applying *Covid-19-Related Rent Concessions* (see paragraph C20A) or *Covid-19-Related Rent Concessions beyond 30 June 2021* (see paragraph C20BA).’

Background

5. In May 2020, the Board issued *Covid-19-Related Rent Concessions*, which amended IFRS 16 *Leases*. The 2020 amendment permitted lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.
6. Among other conditions, the 2020 amendment permitted a lessee to apply the practical expedient only to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. If a rent concession reduces lease payments both before and after 30 June 2021, IFRS 16—as amended in 2020—does not permit the practical expedient to be applied to that concession.
7. The Exposure Draft proposed an amendment to paragraph 46B(b) of IFRS 16 to extend the availability of the practical expedient so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

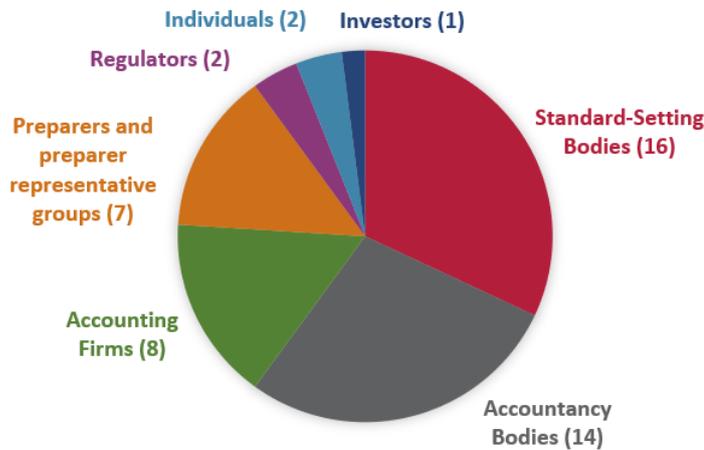
8. The Exposure Draft also proposed:
- (a) that a lessee apply the amendment retrospectively, recognising the cumulative effect of initially applying that amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.
 - (b) an effective date for the amendment of annual reporting periods beginning on or after 1 April 2021, with earlier application permitted—including in financial statements not yet authorised for issue at the date the amendment is issued. In practical terms, this means a lessee is permitted, but not required, to apply the proposed amendment immediately when it is issued.

Comment letters received

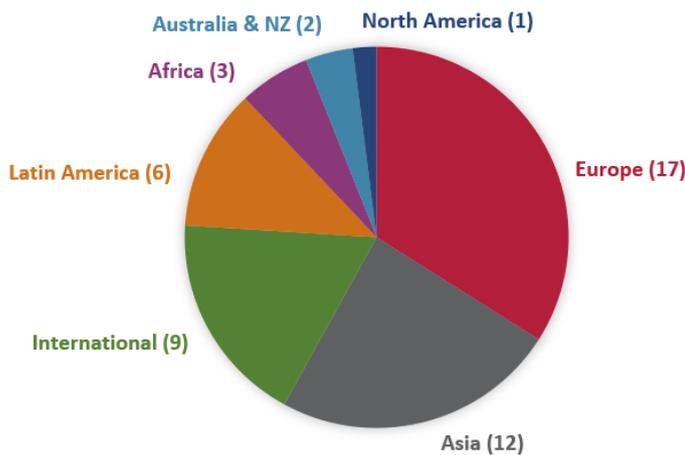
9. We received 50 comment letters by the comment deadline. All comment letters received, including any late comment letters, are available on our [website](#). This agenda paper includes analysis of only the comment letters received by the comment deadline¹. We will provide an oral update at the Board meeting of comment letters received after the comment deadline but before the Board meeting.

¹ At the date of posting this agenda paper, the Board had received one late comment letter that is available on the [website](#).

10. The chart below shows a breakdown of the comment letters received by respondent type:



11. The chart below shows a breakdown of the comment letters received by geography:



12. Throughout this paper, we use the following terms to describe the extent to which respondents provided particular feedback:

<i>Term</i>	<i>Extent of response among respondents</i>
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or a large minority
Some	a small minority, but more than a few
A few	a very small minority

Feedback summary

Feedback from investors

13. The Board received one investor comment letter, from EFFAS, before the comment deadline. In addition, during the comment period staff conducted outreach with ten investors and analysts. This included buy-side, sell-side and credit analysts and investment professionals in Africa, Asia and Europe. This was in addition to the six investors and analysts that provided feedback before the Exposure Draft was published—this feedback was reported in [Agenda Paper 32](#) for the February 2021 supplementary Board meeting and is not repeated in the paragraphs below.
14. All of the investors that provided feedback since the Exposure Draft was published supported the Board extending the availability of the practical expedient beyond 30 June 2021. This support was in the light of the current circumstances around the pandemic, which were not anticipated in May 2020 when the Board initially developed the practical expedient. All of these investors also confirmed that, in their view, it is important that the Board continues to limit the availability of the practical expedient to a particular time frame.
15. With regard to the specific length of the potential extension:
 - (a) almost all investors supported the proposed extension to 30 June 2022;
 - (b) one investor would prefer the Board to limit the extension to 31 December 2021; and
 - (c) most investors would not support a longer extension—for example to 31 December 2022. EFFAS, on the other hand, while supporting the proposed extension to 30 June 2022 said an extension to 31 December 2022 would be ‘more adequate’.
16. We also asked investors whether the information provided by lessees applying the practical expedient is useful. Half of these investors had not yet seen financial statements in which the practical expedient had been applied. Those that had seen such financial statements said the information provided was useful, although two added that they would have liked more detail.

Comment letter feedback*Overview*

17. Almost all respondents supported the Board extending the availability of the practical expedient. They agreed with the Board's view that the pandemic remains at its height and that rent concessions captured by the proposed extension would be consistent with what the Board had in mind when it initially developed the practical expedient. Respondents described the proposed amendment as 'a pragmatic solution to the ongoing accounting challenges lessees are facing' and said that it would provide much needed practical relief. A few respondents acknowledged that one reason the Board developed the original practical expedient was because, at that time, lessees were applying IFRS 16 for the first time and that this is no longer the case. However, these respondents thought the current challenges lessees are facing because the pandemic remains at its height nevertheless justify an extension to the availability of the practical expedient.
18. Respondents also said the proposed amendment would provide useful information because it would allow lessees to account for similar covid-19-related rent concessions consistently—thus reducing uncertainty for lessees and investors about the reporting of rent concessions during the height of the pandemic.
19. Some respondents also highlighted the urgency of the matter. They expressed support for the accelerated project timetable and asked the Board to finalise the amendment as quickly as possible. One respondent said they would have liked more time to consider the proposed amendment.
20. The few respondents that disagreed with extending the availability of the practical expedient did so because they would prefer the Board to consider a broader principles-based amendment to the lease modification requirements in IFRS 16—for example, providing relief for rent concessions provided as a result of other significant events (such as another pandemic, an earthquake, a tsunami or a wildfire). These respondents did not raise concerns specific to the proposed extension. Instead, they repeated feedback provided when the Board first developed the practical expedient in May 2020.

Length of the proposed extension

21. Most respondents agreed with the specific length of the extension proposed in the exposure draft—that is, they supported the Board extending the availability of the practical expedient to 30 June 2022. Some respondents asked the Board to extend the availability of the practical expedient beyond 30 June 2022, or to remove the time frame.

Transition and Effective Date

22. Almost all respondents agreed with the effective date proposed in the Exposure Draft. Many respondents agreed with the proposed transition requirements, although some respondents requested changes. These respondents thought the transition requirements were too restrictive and asked the Board to permit:
- (a) optional application of the proposed amendment—that is, permit lessees to choose whether to apply the practical expedient to rent concessions captured by the proposed scope extension, irrespective of whether the lessee has previously applied the practical expedient to other similar contracts.
 - (b) the following alternative transition options, in addition to the cumulative catch-up transition approach proposed in the Exposure Draft:
 - (i) retrospective application applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
 - (ii) prospective application, or a specific exemption from applying the practical expedient to any covid-19-related rent concession to which lease modification accounting has already been applied. These two suggestions would be similar in terms of practical effects.

23. Some respondents asked the Board to bring some of the transition content in the Basis for Conclusions on the Exposure Draft into IFRS 16 itself.

Other feedback

24. Some other suggestions were made by one or a few respondents. We have analysed these comments in the Appendix.

Staff analysis

25. In the light of strong support for the project from respondents (see paragraphs 17-19), we recommend that the Board take steps to finalise the proposal in the Exposure Draft.
26. The sections that follow:
- (a) provide a more detailed summary of the feedback on each area described in the comment letter overview in paragraphs 17-24. This also incorporates investor feedback described in paragraphs 13-16; and
 - (b) present staff analysis and recommendations about whether the Board should make any changes to the proposed amendment.
27. Our staff analysis is structured as follows:
- (a) length of the proposed extension (paragraphs 28-34);
 - (b) optional application of the proposed extension (paragraphs 35-55);
 - (c) alternative transition options (paragraphs 56-68); and
 - (d) transition content in the Basis for Conclusions on the Exposure Draft (paragraphs 69-76).

Length of the proposed extension*Exposure Draft proposal*

28. The Exposure Draft proposed to extend the availability of the practical expedient by one year, so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions are met.

Feedback

29. Most respondents agreed with the proposal in the Exposure Draft. Some explained their reasoning, saying an extension to 30 June 2022 would provide relief when it is needed most and should be sufficient to avoid the need for further urgent standard-setting. As described in paragraphs 15, almost all investors that provided

feedback on the Exposure Draft supported extension of the practical expedient to 30 June 2022, and most would not support extending it beyond that date.

30. Some respondents also reiterated the importance of limiting application of the practical expedient to a specified time frame—saying this approach provides a ‘necessary safeguard’ against the practical expedient being applied too broadly and giving rise to unintended consequences. As described in paragraph 14, this point was also made by all investors that provided feedback on the Exposure Draft.
31. However, some respondents asked the Board to extend the availability of the practical expedient beyond 30 June 2022. Suggestions—each made by a few respondents—included:
 - (a) extending the availability of the practical expedient to a later specific date, such as 31 December 2022 or 31 December 2023.
 - (b) linking the availability of the practical expedient to the pandemic—for example extending the availability of the practical expedient until covid-19 ceases to be classified as a global pandemic.
 - (c) removing the time-based condition in paragraph 46B(b) of IFRS 16 and allowing a lessee to apply the practical expedient to any rent concession that is a direct consequence of the covid-19 pandemic.
32. These respondents highlighted the unpredictable nature of the pandemic, with a few highlighting potential new strains of the virus and the differing rates of vaccine rollout in different jurisdictions. Some also expressed concerns about the possibility of further extensions to the practical expedient if the Board does not extend it far enough. They thought this would be unhelpful for lessees and investors, particularly in the light of the complexity of the necessary transition proposals (see paragraphs 35-68).

Staff analysis

33. In our view, the feedback does not provide compelling evidence that the Board should extend the availability of the practical expedient beyond 30 June 2022. Most respondents agreed with the proposal in the Exposure Draft, and those that asked for a longer extension did not provide any new evidence beyond that

considered by the Board when it developed the Exposure Draft. Further, any extension beyond 30 June 2022 would be contrary to the feedback received from most investors that commented on the Exposure Draft.

34. Consequently, we recommend the Board make no change to the proposal in the Exposure Draft in response to feedback about the length of the proposed extension of the practical expedient.

Optional application of the proposed amendment

Exposure Draft proposal

35. Paragraph BC8 of the Basis for Conclusions on the Exposure Draft explained the following:

‘A lessee that chooses to apply the practical expedient in paragraph 46A of IFRS 16 is required by paragraph 2 to apply it consistently to all lease contracts with similar characteristics and in similar circumstances. This Exposure Draft proposes to amend only the date within the condition in paragraph 46B(b)—it neither introduces a new practical expedient nor a new option to apply (or not apply) the practical expedient. Therefore, a lessee that has already applied the practical expedient in paragraph 46A must also apply the extended scope of the practical expedient proposed in this Exposure Draft (see paragraph BC9). Similarly, the proposal in this Exposure Draft does not allow a lessee to elect to apply the practical expedient if the lessee has previously elected not to apply it to eligible rent concessions. Some lessees may not yet have established an accounting policy on applying (or not applying) the practical expedient to eligible rent concessions. If such a lessee decides to apply the practical expedient, the lessee would be required to do so retrospectively and to apply it consistently to contracts with similar characteristics and in similar circumstances.’.

Feedback

36. Some respondents described the content of paragraph BC8 as ‘too restrictive’. They asked the Board to make application of the proposed extended scope of the practical expedient optional, irrespective of whether a lessee has applied the practical expedient previously to similar eligible rent concessions.
37. Respondents provided the following examples of scenarios in which a lessee may want to apply an amended practical expedient despite having not applied it previously to similar eligible rent concessions:
- (a) additional rent concessions captured by the proposed scope extension may make application of the practical expedient more beneficial than it was before. This might be the case, for example, if a lessee had been granted relatively few eligible rent concessions early in the pandemic.
 - (b) rent concessions granted early in the pandemic may have been immaterial or ineligible for the practical expedient. Respondents acknowledged that in this case a lessee would have had no reason to establish an accounting policy relating to applying, or not applying, the practical expedient. However, respondents said such lessees may nevertheless have disclosed a policy of not applying the practical expedient.
 - (c) lessees may have reluctantly chosen not to apply the practical expedient because of uncertainty as to whether it would be endorsed in time for use in their issued financial statements.
38. A few of the respondents requesting optional application of the proposed amendment acknowledged that this could impair comparability. However, they still thought the Board should make the proposed amendment optional because the objective of the practical expedient is to provide relief to lessees. A few added that they did not see comparability as a significant issue because, during periods of financial crisis such as during the covid-19 pandemic, financial statements are likely to be affected by many one-off items.

39. A few other respondents explicitly agreed with the Board's conclusions in paragraph BC8. In their view:
- (a) the scenarios described in paragraph BC8 represent a correct application of the requirements for changes in accounting policy in IAS 8; and
 - (b) the limited optionality described in paragraph BC8 is helpful in mitigating any concerns about comparability, including those referred to in the Alternative View on the Exposure Draft.

Staff analysis—overview

40. As described in paragraph BC8, the Exposure Draft proposes to amend *only* the date within condition (b) of the practical expedient—it neither introduces a new practical expedient nor a new option to apply (or not apply) the practical expedient.
41. We think it is helpful to consider, by analogy, an amendment to any other area of IFRS Standards for which an accounting policy choice is permitted. For example, say the Board were to make an amendment to the cost model in IAS 16 *Property, Plant and Equipment*. A company that applies the cost model in accounting for its property, plant and equipment would be required to apply the amendment. Conversely, a company that applies the revaluation model in accounting for its property, plant and equipment would not apply the amendment because it would be irrelevant.
42. The amendment proposed in the Exposure Draft would work in a similar way. A lessee that already applies the practical expedient would be required to apply the extended scope. A lessee that has already established an accounting policy of not applying the practical expedient (for example, by issuing financial statements after the May 2020 amendment becomes effective in which the practical expedient has not been applied to material eligible rent concessions) would be unaffected by the proposed amendment. In other words, the Board has not actively decided that the proposed amendment should be mandatory for some lessees and irrelevant for others—instead, this is a natural consequence of amending an area of IFRS Standards for which there is an accounting policy choice. Consequently, we disagree with those respondents who say the content of paragraph BC8 is too

restrictive. Paragraph BC8 is only explanatory—it does not contain any requirements or restrictions.

43. Consequently, to respond to the feedback in paragraphs 36-39, the Board would need to introduce additional optionality into the proposed amendment. Specifically, the Board would need to explicitly permit:
- (a) a lessee that has previously elected not to apply the practical expedient to eligible rent concessions to apply it for the first time on initial application of the proposed amendment (paragraphs 45-49); and/or
 - (b) a lessee that has previously applied the practical expedient to eligible rent concessions to choose not to apply the proposed extended scope (paragraphs 50-52).
44. Introducing any additional options into the proposed amendment would reduce the comparability of reported information because it could result in a lessee accounting for similar rent concessions differently during the height of the pandemic. It would also increase the complexity of the proposed amendment—something we think is undesirable, particularly in the light of the urgent nature of the project. We note that many respondents supported the proposals as exposed and, in our view, introducing new options after the Exposure Draft consultation has the potential for unintended consequences. The paragraphs that follow present staff analysis specific to each of the two options in paragraph 43.

Staff analysis—lessees that have not previously applied the practical expedient

45. We continue to think that if a lessee has established an accounting policy of not applying the practical expedient, it should not be permitted to apply the extended scope of the practical expedient solely as a result of the amendment proposed in the Exposure Draft. Such an approach would result in a lessee accounting for similar rent concessions differently during the height of the pandemic. We agree with those respondents who say the content of paragraph BC8 is a correct application of the requirements for changes in accounting policy in IAS 8. We think a lessee changing its policy to not apply the practical expedient part way through the limited period for which the practical expedient is available would not

result in more relevant information for investors (as is required by paragraph 14(b) of IAS 8 for a change in accounting policy).²

46. That said however, the mandatory effective date of the May 2020 amendment is annual reporting periods beginning on or after 1 June 2020. Consequently, lessees that have already issued annual financial statements in which the practical expedient has been applied would have done so by applying the May 2020 amendment early. A lessee that has not applied the practical expedient would have had no reason to apply that amendment early and would be able to do so when it becomes mandatorily effective.
47. We acknowledge that some lessees may have disclosed an expectation of being unaffected by the May 2020 amendment because they did not intend to apply the practical expedient. Paragraph 30 of IAS 8 requires an entity—that has not applied a new IFRS Standard that has been issued but is not yet effective—to disclose known or reasonably estimable information relevant to assessing the possible impact that application of the Standard will have on the financial statements. However, because the entity has not yet applied that amendment, we think such disclosure would not restrict it from ‘selecting and applying’ the practical expedient in accordance with paragraph 13 of IAS 8 when the May 2020 amendment becomes effective. In our view, a lessee cannot be regarded as having *applied* an accounting policy not to use an optional practical expedient before that practical expedient is mandatorily effective.
48. Consequently, if a lessee that has not previously applied the practical expedient wishes to do so because of the extended scope, then we think it would likely be able to do so before it issues financial statements for a reporting period in which the May 2020 amendment becomes mandatorily effective. Such a lessee would need to apply the practical expedient consistently to all eligible rent concessions with similar characteristics and in similar circumstances, potentially revisiting its accounting for rent concessions granted during early 2020. We think this is the correct approach because it would result in a lessee applying the same accounting

² Paragraph 14 of IAS 8 states that an entity changes an accounting policy only if required by an IFRS Standard or the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows.

for all similar eligible rent concessions during the height of the covid-19 pandemic.

49. We are therefore of the view that it would neither be helpful nor necessary for the Board to introduce an option for a lessee to apply the practical expedient for the first time on initial application of the proposed amendment.

Staff analysis—lessees that have previously applied the practical expedient

50. Only a few respondents asked the Board to permit a lessee that has previously applied the practical expedient to not apply the proposed extended scope. Those respondents did so because such an option would avoid any risk of a lessee having to reverse lease modification accounting applied to a rent concession that was not within the scope of the May 2020 amendment but that would be within the scope of any new amendment.
51. In our view, the Board should not introduce such an option, primarily for the reasons in paragraph 44. That is, introducing options would reduce comparability, increase complexity and carry a risk of unintended consequences. We think it would be rare that a lessee that has previously applied the practical expedient would not want to apply its extended scope—particularly given the strong support for that extended scope in the feedback on the Exposure Draft. Finally, we also think situations in which a lessee would need to reverse lease modification accounting would be relatively rare (see paragraph 62).
52. We are therefore of the view that the costs of introducing an option for a lessee that has previously applied the practical expedient to not apply the proposed scope extension would outweigh any potential benefits.

Staff analysis—summary and conclusion

53. We disagree with those respondents who support additional optionality because the objective of the practical expedient is ‘to provide relief to lessees’. This is only one part of the objective. The overall objective is to provide relief while enabling lessees to continue providing useful information about their leases to investors. We think achievement of this objective would be impaired if a lessee could freely

choose to start or stop applying the practical expedient part way through the period of its availability.

54. Further, we note that most requests for optionality sought to enable a lessee that has not previously applied the practical expedient to be able to apply it for the first time as a result of the proposed amendment. In other words, these requests were asking for additional optionality that would benefit lessees further, rather than additional optionality to avoid a problem created by the proposed amendment. Feedback illustrates that the practical expedient already provides benefit to lessees. We think the potential further benefits of introducing additional optionality are not justified when they come at the cost of impairing the usefulness of information provided to investors.
55. Consequently, and for the reasons described in paragraphs 40-52, we recommend the Board make no change to the proposal in the Exposure Draft in response to feedback about optional application of the proposed amendment.

Alternative transition options

Exposure Draft proposal

56. Paragraph C20BA of the Exposure Draft proposed that a lessee apply the amendment retrospectively, recognising the cumulative effect of initially applying that amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.
57. Paragraphs BC9 and BC10 of the Basis for Conclusions on the Exposure Draft explained the following:

BC9 The amendment proposed in this Exposure Draft would require a lessee that has already applied the practical expedient in paragraph 46A to apply it to rent concessions:

- (a) that reduce lease payments beyond 30 June 2021 but not beyond 30 June 2022;
- (b) that are eligible for the practical expedient in all other respects; and

(c) with similar characteristics and in similar circumstances to rent concessions to which the lessee has previously applied the practical expedient.

BC10 It is possible that such a lessee could have already issued financial statements that reflect lease modification accounting for a rent concession that becomes eligible for the practical expedient as a result of the proposed amendment. Although the Board expects this scenario to be rare, the proposed transition approach would require such a lessee to undo lease modification accounting for that concession.

Feedback

58. Many respondents agreed with the transition approach proposal in the Exposure Draft. A few agreed that the transition scenario described in paragraph BC10 would be rare saying, when it does arise, lessees should be required to reverse lease modification accounting and it would not be unduly complex to do so. Conversely, one respondent disagreed with the Board's view and thought that the scenario described in paragraph BC10 would not be rare. Few preparers commented on the transition requirements beyond stating agreement with them and requesting that some of the content in the Basis for Conclusions on the Exposure Draft be added to IFRS 16 (see paragraphs 69-76).
59. Some respondents asked the Board to allow alternative transition options, noting that additional options would be helpful to lessees. The paragraphs that follow analyse the two most prevalent options—each of which was suggested by a few respondents:
- (a) retrospective application in accordance with IAS 8; and
 - (b) prospective application, or a specific exemption from applying the practical expedient to any covid-19-related rent concession to which lease modification accounting has already been applied.

Staff analysis—retrospective application in accordance with IAS 8

60. A lessee applying this transition approach would apply the amendment retrospectively and—different from the proposal in the Exposure Draft—would

restate comparative information. Respondents asking the Board to permit this transition option did so because, in their view, this approach would provide more useful information to investors, allowing them to see comparable results across all reporting periods affected by covid-19-related rent concessions.

61. We agree there would be some cases in which the restatement of comparative information would provide greater comparability across different reporting periods. This would be the case for a lessee that has already issued financial statements in which lease modification accounting has been applied to a rent concession captured by the extended scope of the practical expedient.
62. However, we continue to think that—if the Board can finalise any amendment by the end of March—these situations will be relatively rare. As described in [Agenda Paper 32](#) for the February 2021 supplementary Board Meeting, we think this issue would be likely to affect only December year-end reporters and, if there were many affected lessees, the Board would have received requests to extend the availability of the practical expedient before January 2021.
63. We also note that all respondents asking the Board to permit restatement of comparative information would like the option in addition to the transition approach proposed in the Exposure Draft, not instead of it. Allowing multiple transition options would increase complexity and reduce comparability of information reported by different lessees.

Staff analysis—prospective application

64. A lessee applying a prospective transition approach would apply the practical expedient to eligible rent concessions granted after the date of initial application of the proposed amendment. A few respondents asked the Board to provide a specific exemption from applying the practical expedient to any covid-19-related rent concession to which lease modification accounting has already been applied. We have analysed these options together because, in practical terms, they would have similar effects.
65. Respondents asking the Board to permit these transition options did so because such an approach would avoid a lessee being required to reverse any lease modification accounting already applied to rent concessions eligible for the

extended scope of the practical expedient. That is, such an approach would avoid the scenario described in paragraph BC10.

66. The Board considered requiring a prospective transition approach when developing the Exposure Draft. However, the Board decided not to propose this approach because it could result in lessees that apply the practical expedient accounting for similar rent concessions differently during the height of the pandemic. Specifically, it would result in lessees accounting for similar rent concessions differently depending on whether they were granted before or after the date of initial application of the proposed amendment.
67. We also note that, again, respondents requesting this approach would like it to be an option in addition to the transition approach proposed in the Exposure Draft. As described in paragraph 63, this would increase complexity and reduce comparability of the information reported by different lessees.

Staff analysis—conclusion

68. For the reasons described in paragraphs 60-67, in our view the potential benefits of allowing any of the additional transition approaches requested by respondents do not outweigh the costs. Therefore, we recommend the Board make no change to the proposal in the Exposure Draft in response to feedback received about introducing additional transition options.

Transition content in the Basis for Conclusions on the Exposure Draft

Exposure Draft proposal

69. As described in paragraphs 35 and 57, the Basis for Conclusions contained detailed information about the transition approach proposed in the Exposure Draft. That content explained circumstances in which a lessee would be required to apply the proposed extended scope of the practical expedient, and the circumstances in which a lessee would need to reverse lease modification accounting already performed for rent concessions captured by the extended scope.

Feedback

70. Some respondents asked the Board to include this content in IFRS 16 itself, instead of in the Basis for Conclusions. They said this would improve clarity and reduce confusion about the practical application of the transition requirements.

Staff analysis

71. In the light of feedback received, we agree that additional clarity about the practical application of the transition requirements could be useful to stakeholders.
72. However, introducing additional transition content into IFRS 16 carries a risk of unintended consequences. The cumulative catch-up transition approach proposed in the Exposure Draft is not unusual—proposed paragraph C20BA uses identical wording to other similar transition paragraphs in IFRS Standards, including IFRS 16 itself (paragraph C20A). We think it could be unhelpful to use different or additional words to describe a transition approach that is used identically elsewhere in the Standards. We think this is of particular concern when the Board is developing an urgent amendment. In our view, an urgent project is not the best time to introduce changes to standard wording.
73. To help the Board make an informed decision, we have considered what content we think could be included in IFRS 16 if the Board were to add such content. We think the Board should not make any amendments to the standard wording in proposed paragraph C20BA for the reasons described above. However, the Board could consider adding a transition paragraph similar to the following:

‘Applying paragraph 2 of this Standard, a lessee shall apply the practical expedient in paragraph 46A consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the lessee applying *Covid-19-Related Rent Concessions* (see paragraph C20A) or *Covid-19-Related Rent Concessions beyond 30 June 2021* (see paragraph C20BA).’

74. We note that, as described in paragraphs 41-42, this additional paragraph is explanatory only. It does not introduce new requirements, or change the proposals in the Exposure Draft. There is a risk that including such content in IFRS 16

itself—instead of in the Basis for Conclusions—could set an unhelpful precedent about explanatory material appearing in the Standards. Working through the practical consequences of an IFRS amendment—including its transition requirements—is a normal part of implementation. The Board would not want to set a precedent of explaining the practical consequences of transition requirements within the Standards.

75. However, we understand why respondents have made this request and think the proposal in the Exposure Draft—along with its associated transition complexities—is something of a special case. We also think that the explanatory wording proposed in paragraph 73 carries minimal risk of unintended consequences. This is because:
- (a) the practical effect of the proposed wording is limited to reminding lessees to apply the existing requirement in paragraph 2 of IFRS 16.
 - (b) stakeholders have had opportunity to comment on the application of paragraph 2 in this circumstance—and indeed have provided comments that we have analysed in this paper.
76. On balance therefore, we recommend that the Board include an additional paragraph in the transition requirements, similar to that in paragraph 73.

Staff recommendation and question for the Board

Question for the Board

1. Does the Board agree with the staff recommendation to finalise the proposal in the Exposure Draft with an additional explanatory transition paragraph as described in paragraph 73 of this paper?

Appendix—Analysis of other comments

A1. The table below summarises other comments received, together with our analysis and conclusions. Each of these comments was received by one or a few respondents. We have presented the comments in three sections, being comments related to:

- (a) the amendment proposed in the Exposure Draft;
- (b) the original practical expedient; and
- (c) lessor accounting.

	Respondents' comments	Staff analysis and conclusions
Comments related to the amendment proposed in the Exposure Draft		
1	<p><i>New practical expedient</i></p> <p>Respondents asked the Board to consider developing a new optional practical expedient instead of extending the availability of the existing practical expedient. Respondents said this approach would enable the Board to eliminate any complexity on transition.</p>	<p><i>We recommend no change to the proposal in response to this feedback</i></p> <p>In our view, introducing a new practical expedient would create more complexity and practical issues than the proposal in the Exposure Draft. For example, the Board would need to identify a start date for that new practical expedient, ensuring that the intended population of rent concessions would be captured by one of the original and new practical expedients. Further, we think two similar practical expedients—both of which are optional—would increase the number of different accounting treatments a lessee could apply to similar rent concessions during the height of the pandemic. This could impair comparability and make it difficult for a lessee to clearly explain which accounting approach has been applied to which rent concessions.</p> <p>Finally, we think this would be a more significant amendment than the amendment proposed in the Exposure Draft and could not be finalised within a time frame that would be helpful to lessees during the height of the pandemic.</p>

	Respondents' comments	Staff analysis and conclusions
2	<p><i>Interaction between effective date and transition requirements</i></p> <p>Respondents said there was an inconsistency between:</p> <p>(a) the statement in paragraph BC8 that a lessee that has already applied the practical expedient must also apply the proposed extended scope of the practical expedient;</p> <p>(b) the proposed effective date permitting, but not requiring, a lessee to apply the proposed extended scope immediately.</p>	<p><i>We recommend no change to the proposal in response to this feedback</i></p> <p>We disagree that there is an inconsistency. The scenarios described in paragraph BC8—along with everything in the proposed amendment—become relevant to a lessee only when it applies the proposed amendment. If a lessee chooses not to apply the proposed amendment early, those scenarios will not be relevant until the mandatory effective date.</p> <p>We think the underlying issue raised by respondents is that, if a lessee chooses not to apply the proposed amendment early, it is likely that the lessee would apply lease modification accounting to rent concessions captured by the proposed extended scope of the practical expedient. That lessee would then need to reverse the lease modification accounting when the proposed amendment becomes mandatorily effective. We agree with this.</p> <p>However, in the light of the feedback received we think it unlikely that a lessee with rent concessions captured by the proposed extended scope would choose not to early apply the proposed amendment. These are the same lessees who have asked the Board to extend the scope of the practical expedient, and to finalise and make available that extended scope quickly. We therefore think it unlikely that they would choose not to apply that extended scope immediately.</p>
3	<p><i>Interim financial statements</i></p> <p>Respondents said it is unclear whether early application of the proposed amendment could be applied in interim financial statements not yet authorised for issue at the date the amendment is issued.</p>	<p><i>We recommend no change to the proposal in response to this feedback</i></p> <p>Proposed paragraph C1C of IFRS 16 makes reference to ‘financial statements’ and not ‘annual financial statements’ when permitting early application. We note this wording is identical to the wording of the effective date paragraph in the May 2020 amendment, which we understand lessees were able to apply to both interim and annual financial statements without problems.</p>

	Respondents' comments	Staff analysis and conclusions
Comments related to the original practical expedient		
4	<p><i>Additional disclosures</i></p> <p>Respondents asked the Board to require a lessee applying the practical expedient to provide additional disclosures about:</p> <ul style="list-style-type: none"> (i) the nature of rent concessions received; (ii) how the practical expedient was applied; and (iii) the items in the financial statements affected by rent concessions and the related amounts. 	<p><i>We recommend no change to the proposal in response to this feedback</i></p> <p>This feedback relates to the original practical expedient and not to the proposed amendment. The Board considered additional disclosure requirements when it developed the original practical expedient—see paragraphs 65-75 of Agenda Paper 32A for the May 2020 supplementary Board Meeting.</p> <p>In addition, we note that information about the items requested is already required by paragraph 60A of IFRS 16. The requirement in paragraph 60A(a) to disclose information about the nature of the contracts to which a lessee has applied the practical expedient would help with the requests in (i) and (ii). The requirement in paragraph 60A(b) to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient would help with the request in (iii).</p>
5	<p><i>Illustrative Examples</i></p> <p>Respondents asked the Board to develop illustrative examples to demonstrate the accounting for a lessee applying the practical expedient.</p>	<p><i>We recommend no change to the proposal in response to this feedback</i></p> <p>This feedback relates to the original practical expedient and not to the proposed amendment. The Board considered developing illustrative examples when it developed the original practical expedient—see paragraphs 47-53 of Agenda Paper 32A for the May 2020 supplementary Board Meeting.</p> <p>No additional information beyond that considered in May 2020 has been identified.</p>

	Respondents' comments	Staff analysis and conclusions
Comments related to lessor accounting		
6	<p><i>Lessor accounting for rent concessions</i></p> <p>Respondents asked the Board to consider developing a similar practical expedient for lessors, or to consider the accounting for rent concessions by lessors more generally.</p>	<p><i>We recommend no action in response to this feedback</i></p> <p>The Board considered developing a practical expedient for lessors in response to feedback on the April 2020 Exposure Draft <i>Covid-19-Related Rent Concessions</i>—see Agenda Paper 32C for the May 2020 supplementary Board Meeting.</p> <p>No additional information beyond that considered in May 2020 has been identified.</p>
7	<p><i>Lessor accounting for operating lease income</i></p> <p>Respondents asked the Board to consider the accounting for operating lease income by a lessor when collectability of lease payments is not probable, and other related issues.</p>	<p><i>We recommend no action in response to this feedback</i></p> <p>This feedback is unrelated to both the proposed amendment and the practical expedient.</p>