STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)**
Paper topic	Comments on tentative agenda decision

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Introduction

1. In March 2022 the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission about a lessor's application of IFRS 9 *Financial Instruments* and IFRS 16 *Leases* in accounting for a particular rent concession. The rent concession is one for which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract.

2. The objectives of this paper are to:

   (a) analyse comments on the tentative agenda decision (paragraphs 16–86); and

   (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision (paragraph 87).

Structure of the paper

3. This paper includes:

   (a) background information;

   (b) comment letter summary;

(c) staff analysis; and

(d) staff recommendation.

4. Appendix A to this paper sets out the proposed wording of the final agenda decision.

Background information

The fact pattern

5. The submission described a rent concession agreed by a lessor and a lessee on the date the rent concession is granted. For the lessor, the rent concession changes a lease contract classified—applying IFRS 16—as an operating lease. The lessor legally releases the lessee from its obligation to make specifically identified lease payments, some of which are amounts contractually due but not paid (which the lessor had recognised as an operating lease receivable) and some of which are amounts that are not yet contractually due. No other changes are made to the lease contract, nor are there any other negotiations between the lessor and the lessee that might affect the accounting for the rent concession. Before the date the rent concession is granted, the lessor had applied the expected credit loss model in IFRS 9 to the operating lease receivable.

The question

6. The submitter asked:

(a) how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable when it expects to forgive payments due from the lessee under the lease contract before the rent concession is granted; and

(b) whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

Committee's tentative decisions

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

7. In the fact pattern described in the submission, the lessor applies the impairment requirements in IFRS 9 to the operating lease receivable. The lessor estimates expected credit losses on the operating lease receivable by measuring any credit loss to reflect 'all cash shortfalls'. These shortfalls are the difference between all contractual cash flows due to the lessor in accordance with the lease contract and all the cash flows it expects to receive, determined using 'reasonable and supportable information' about 'past events, current conditions and forecasts of future economic conditions'.

8. The Committee concluded that, in the period before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including considering its expectations of forgiving lease payments recognised as part of that receivable.

Lessor accounting for the rent concession—IFRS 9 and IFRS 16

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

9. In the rent concession described in the submission, the lessor legally releases the lessee from its obligation to make specifically identified lease payments, some of which the lessor had recognised as an operating lease receivable. Accordingly, on granting the rent concession, the lessor concludes that the requirements in paragraph 3.2.3(a) of IFRS 9 have been met—its contractual rights to the cash flows from the operating lease receivable expire—because it has agreed to legally release the lessee from its obligation and thus has given up its contractual rights to those specifically identified cash flows.

10. Therefore, on the date the rent concession is granted, the lessor derecognises the operating lease receivable (and associated expected credit loss allowance) and recognises any difference as a loss in profit or loss.

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

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

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

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

14. The Committee concluded that the lessor accounts for the rent concession described in the submission by applying:

    (a) the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor had included in an operating lease receivable on the date the rent concession is granted; and

    (b) the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor had not included in an operating lease receivable.

Summary

15. Based on its analysis, the Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a lessor to determine how to apply the expected credit loss model in IFRS 9 to an operating lease receivable

and account for the rent concession described in the request. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan and, instead, published the tentative agenda decision for comment.

Comment letter summary

16. We received 23 comment letters on the tentative agenda decision by the comment deadline. All comments received, including any late comment letters, are available on our website.[1] This agenda paper includes analysis of only the comment letters received by the comment deadline, which are reproduced in Agenda Paper 4A.

17. Seven respondents agree with all the Committee's analysis and conclusions for the reasons explained in the tentative agenda decision.

18. Four respondents agree with aspects of the Committee's analysis and conclusions and request clarification about other aspects or raise additional questions they suggest the Committee analyse.

19. Eleven respondents disagree with some or all of the Committee's analysis and conclusions. These respondents say:

    (a) they either (i) disagree with the approach described in the tentative agenda decision for application of the expected credit loss (ECL) model to the operating lease receivable in the submitted fact pattern; or (ii) view that approach as only one possible interpretation of IFRS 9;

    (b) on the date a rent concession is granted, it remains unclear whether IFRS 9 or IFRS 16 takes precedence;

    (c) the tentative agenda decision is not persuasive in concluding that forgiven lease payments are not accrued lease payments or lease incentives applying IFRS 16; and

    (d) the conclusions in the tentative agenda decision could affect a much wider population of transactions than the narrow fact pattern submitted. This could

[1] At the date of posting this agenda paper, there was one late comment letter.

result in differing accounting treatments for similar transactions or create opportunities for structuring.

20. One respondent does not express a view on the Committee's technical analysis and conclusions. This respondent requests clarification about application of the ECL model in IFRS 9 when cash shortfalls are not related to credit risk.

21. Many respondents suggest ways to proceed. These respondents say, rather than publishing an agenda decision, the Committee should ask the IASB to either (a) consider the questions as part of the post-implementation review (PIR) of IFRS 9's impairment requirements or the PIR of IFRS 16; or (b) undertake a standard-setting project to address the questions submitted. Some of these respondents note the Committee's recommendation for the IASB to consider narrow-scope standard-setting for lessees and suggest that the IASB address questions about rent concessions for both lessors and lessees as part of the same standard-setting project.

22. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

23. We first provide background information about the recognition of operating lease receivables to frame our analysis of comments on the tentative agenda decision (paragraphs 25–29).

24. We separately analyse comments related to:

    (a) application of the ECL model in IFRS 9 to the operating lease receivable (paragraphs 30–46);

    (b) lessor accounting for the rent concession – IFRS 9 and IFRS 16 (paragraphs 47–73);

    (c) requests for additional guidance or consideration through a PIR or a standard-setting project (paragraphs 74–85); and

    (d) other comments (paragraph 86).

Background information about recognising the gross carrying amount of an operating lease receivable

25. A lessor applies IFRS 16 to its leases—both operating leases and finance leases. Having classified a lease as an operating lease, a lessor applies paragraphs 81–87 of IFRS 16 in recognising and measuring assets, liabilities, income and expenses arising from that operating lease, including, for example, operating lease receivables. Therefore, a lessor applies IFRS 16 in recognising the *gross carrying amount* of operating lease receivables.

26. Paragraphs 81–87 of IFRS 16 contain relatively few detailed requirements about the recognition and measurement of items arising from operating leases. In developing IFRS 16, the IASB largely carried forward—unchanged—requirements for lessor accounting from IAS 17 *Leases* as requested by stakeholders. In comparison, the IASB developed IFRS 15 *Revenue from Contracts with Customers* as a comprehensive model for revenue recognition.

27. Paragraph 81 of IFRS 16 requires a lessor to 'recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis'. The lessor applies 'another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished'. It follows, therefore, that when a lessor has performed by making the underlying asset available for use by the lessee for a period of time, it recognises income applying paragraph 81 of IFRS 16. Assuming the lessor has not received payments from the lessee in exchange for that performance at the time of recognising income, an asset arises for the lessor:

    Dr. Asset

        Cr. Operating lease income

28. IFRS 16 provides no requirements about when an operating lease receivable arises for a lessor. However, operating lease receivables are financial assets, being the contractual right to receive cash (or another financial asset). Therefore, depending on the terms and conditions of the contract, when it recognises lease income a lessor could recognise an operating lease receivable (representing the contractual amounts

due) and/or accrued lease payments (representing any difference between lease income recognised and the operating lease receivable).

29. Accordingly, a lessor recognises an operating lease receivable when it has (a) performed and recognised operating lease income applying paragraph 81 of IFRS 16; and (b) a contractual right to payment for that performance (payment is contractually due from the lessee). If—for operational reasons—the lessor invoices the lessee in advance of performing (and thus in advance of recognising income), the contract is executory at that point and will remain so until either the lessor performs (by making the underlying asset available for use by the lessee for a particular period of time) or the lessee performs (by paying the lessor for that use).

Application of the ECL model in IFRS 9 to the operating lease receivable

30. The tentative agenda decision states:

> Paragraph 2.1(b)(i) of IFRS 9 states that 'operating lease receivables recognised by a lessor are subject to the derecognition and impairment requirements' of IFRS 9. Therefore, a lessor is required to apply the impairment requirements in IFRS 9 to an operating lease receivable from the date on which it recognises that receivable.
>
> IFRS 9 defines credit loss as 'the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls)…'. Paragraph 5.5.17 of IFRS 9 states that 'an entity shall measure expected credit losses…in a way that reflects (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions'.
>
> Consequently, in the fact pattern described in the request, the lessor applies the impairment requirements in IFRS 9 to the

> operating lease receivable. The lessor estimates expected credit losses on the operating lease receivable by measuring any credit loss to reflect 'all cash shortfalls'. These shortfalls are the difference between all contractual cash flows due to the lessor in accordance with the lease contract and all the cash flows it expects to receive, determined using 'reasonable and supportable information' about 'past events, current conditions and forecasts of future economic conditions'.
>
> Therefore, the Committee concluded that, in the period before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including considering its expectations of forgiving lease payments recognised as part of that receivable.

Respondents' comments

31. Most respondents comment on the application of the ECL model in IFRS 9 to the operating lease receivable. We discuss these comments below under the following categories:

    (a) all versus only credit-related cash shortfalls;

    (b) default or possible default events;

    (c) future changes to contractual terms;

    (d) treatment of receivables recognised applying IFRS 15; and

    (e) timing of ECL measurement.

All versus only credit-related cash shortfalls

32. A few respondents, including the Public Accountants and Auditors Board of Zimbabwe and Ernst & Young Global Limited (EY), say a lessor should not recognise an ECL allowance when the reason for granting a rent concession is not credit-related. A few respondents agree (or do not disagree) with the statement in the tentative

agenda decision that the lessor estimates expected credit losses on the operating lease receivable by measuring any credit loss ‘to reflect all cash shortfalls’ but say that other interpretations of IFRS 9 are possible. For example, the Hong Kong Institute of Certified Public Accountants (HKICPA) says:

> …the objective and the underlying concept of the ECL model in IFRS 9 (e.g. significant increase in credit risk, loss given default) is to reflect the changes in credit risks since the initial recognition of the financial instruments….This may imply that the measurement of ECL should be driven by credit-related factors. Given the above, we consider both approaches, i.e. including all cash shortfalls or only those credit-related cash shortfalls into the measurement of ECL, could be acceptable under the existing IFRS Standards.

33. The Autorité des Normes Comptables (ANC) says:

> We understand that there has been a long standing debate among stakeholders as to whether to restrict the cash shortfalls used to measure ECLs on financial assets to those arising from the counterparty’s credit situation (and thus, ignoring shortfalls arising from the entity’s decision to waive cash flows for reasons other than credit risk). The TAD as drafted, inadvertently or not, concludes on that debate. This conclusion would apply to any financial asset to which the requirements in IFRS 9 apply, without having considered the possible unintended consequences…

34. A few respondents suggest that the fact pattern in the tentative agenda decision be restricted to one in which the rent concession is granted because of the lessee’s credit situation or financial difficulties. For example, KPMG IFRG Limited (KPMG) says ‘we believe that if a modification does not relate to the lessee’s financial difficulties, then expected modifications should not be considered in the determination of the expected cash flows for the purposes of IFRS 9’.

Default or possible default events

35. Some respondents say the Committee did not consider default or possible default events in reaching its conclusions and ask for clarification. For example, the Brazilian Association of Public Companies says 'the definitions of lifetime expected credit losses and 12-month expected credit losses in Appendix A of IFRS 9 refer to 'losses that result from default events'. We noted that the TAD did not consider such definitions in its tentative conclusion'. Petrobras asks the Committee to clarify the interplay between 'expectations of forgiving lease payments' as stated in the tentative agenda decision and the definitions in Appendix A to IFRS 9 that refer to 'losses that result from default events' in the measurement of expected credit losses. PricewaterhouseCoopers International Limited (PwC) says, even if there has been a default event, ECL measurement would need to factor in the lessor's expectations about collateral received that would mitigate expected losses, and the Committee should clarify this consideration.

Future changes to contractual terms

36. A few respondents say the tentative agenda decision, in its analysis of credit losses, incorrectly anticipates future changes to contractual terms. For example, KPMG says 'we do not think that the definition [of 'credit loss' in Appendix A to IFRS 9] requires an entity to anticipate the future cash flows of modifications (in the absence of forbearance events) in the measurement of the expected credit loss, because contractual terms arising from a yet to occur modification are not part of the contractual terms of the instrument at the measurement date'. EY says:

> …it has been a commonly understood principle that one should not take into consideration future changes to contractual terms when applying IFRS 9 measurement principles. In the stated fact pattern, the contractual cash flows are those of the original unmodified contract (as the concessions are only expected, and the contract has not yet been modified)….On this basis, there are, in fact, no cash shortfalls, and therefore, there is no impact on the ECL until the contract is modified….

Treatment of receivables recognised applying IFRS 15

37. A few respondents say the application of the ECL model to the operating lease receivable in the tentative agenda decision is inconsistent with application of that model to receivables recognised applying IFRS 15, and they ask the Committee to clarify why different approaches are followed. Some of these respondents, including the HKICPA and Mazars, say rent concessions that a lessor grants following a commercial negotiation unrelated to the lessee's credit risk could be viewed as similar to price concessions in IFRS 15—in which case price concessions to trade receivables could be treated as a reduction of revenue instead of an impairment loss. The HKICPA observes that:

> …when the IASB developed IFRS 15, it decided not to develop detailed requirements for differentiating between a price concession and impairment losses due to the difficulties in determining whether the entity has explicitly offered a price concession or whether the entity has chosen to accept the risk of default by the customer. We consider that the same challenge would also exist in differentiating between a lease concession and impairment losses.

38. Some of these respondents say there is a risk of unintended consequences if the tentative agenda decision is finalised as proposed. For example, the ANC seeks 'clarifications as to *whether*, and if so, *how* the proposed analysis would apply to receivables and contract assets that an entity recognises applying IFRS 15…and to which IFRS 9 applies'. They say 'concerns exist that the analysis in the TAD could be applied to situations other than those described in the submission and thus, could have unintended consequences'. Deloitte Touche Tohmatsu Limited (Deloitte) says:

> It is common for lease arrangements to include a service component that is accounted for applying IFRS 15 by the lessor. Therefore, whilst the TAD addresses the forgiveness of operating lease payments, we believe that it is important to consider that the forgiveness of payments in a lease agreement may in fact relate to payments that are allocated to components accounted for in different IFRS Accounting Standards (either

IFRS 15 or IFRS 16) and ensure that the conclusion reached on the application of IFRS 9 to the receivable previously recognised is compatible with both.

Timing of ECL measurement

39. PwC and Deloitte make comments about the timing of ECL measurement or remeasurement:

    (a) PwC says 'the final agenda decision should better reflect the assessment and measurement of ECL at different points in time, rather than only focus on the measurement of ECL after an event of default….without a clear articulation in the final agenda decision as to how the Committee considered the probability of default and the possible outcomes at specified points in time, the agenda decision does not fully address how the lessor applies the ECL model to the lease receivables recognised, in periods before the forgiveness is granted'.

    (b) Deloitte says: 'it would be useful if the agenda decision specified that the ECL should be remeasured at the derecognition date, consistent with the discussion of the Transition Resource Group for Impairment of Financial Instruments at its meeting in April 2015. We believe that this is important because…., in the case presented, we would expect that, after application of the ECL model, the net carrying amount of the lease receivable at the derecognition date would be nil and no derecognition loss would arise'.

Staff analysis

40. There is a simple principle behind the ECL model applied to financial assets in the scope of the impairment requirements in IFRS 9—an entity cannot carry a financial asset at a net amount that is more than the amount the entity expects to receive. The IASB stated in paragraph BC5.83 of the Basis for Conclusions on IFRS 9 that 'a model that faithfully represents the economic phenomenon of expected credit losses should provide users…with relevant information about the amount, timing and uncertainty of an entity's future cash flows'; the IASB 'also sought to ensure that the model address the criticisms of the incurred loss model in IAS 39…[which had] delayed the recognition of credit losses…'.

41. The ECL model in IFRS 9 is applied to the gross carrying amount of a receivable. IFRS 9 defines gross carrying amount of a financial asset as ‘the amortised cost of a financial asset, before adjusting for any loss allowance’. Paragraphs 25–29 of this paper provide background information about a lessor recognising the gross carrying amount of an operating lease receivable applying IFRS 16. If the lessor expects to forgive some or all of the amounts it has recognised as an operating lease receivable, it first considers the measurement of the gross carrying amount of that receivable. As stated in paragraph 5.4.4 of IFRS 9 and illustrated in paragraph B3.2.16(r) of IFRS 9, ‘an entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof’.

42. After considering the measurement of the gross carrying amount of the operating lease receivable, the lessor applies the ECL model to that receivable. In measuring expected credit losses to reflect an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes—and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions—a lessor determines those possible outcomes considering all cash shortfalls. The lessor is not limited to considering only cash shortfalls resulting from a default or possible default event or related to rent concessions being contemplated because of the lessee’s credit situation or financial difficulties.

43. Ultimately, to achieve the objective of providing useful information about the amount, timing and uncertainty of future cash flows, the net carrying amount of the operating lease receivable—the gross carrying amount less the expected credit loss allowance—is required to reflect the cash flows the entity expects to receive, regardless of the reason for expected cash shortfalls. Further, to delay the recognition of credit losses until there is evidence of a credit loss event would be inconsistent with the overall objective to recognise expected credit losses on a timely basis.

44. In response to specific points raised by respondents, we observe:

    (a) in considering its expectations of forgiving lease payments that are part of an operating lease receivable, the lessor is not anticipating future changes to the contractual terms of the lease contract. The lessor—in applying the ECL model—is required to estimate the cash flows it expects to receive based on the current contractual terms. In doing so, the lessor factors in its expectations of collecting—or not collecting—lease payments from the lessee.

(b) the submission did not ask how the lessor would consider, in applying the ECL model, its rights to collateral or other credit enhancements as part of the lease contract and the fact pattern includes no information about collateral or other credit enhancements; therefore, the tentative agenda decision did not analyse the lessor's consideration of cash flows expected from foreclosure of collateral in estimating expected cash shortfalls. Paragraph B5.5.55 of IFRS 9 sets forth requirements for considering cash flows expected from collateral in measuring expected credit losses.

(c) in terms of progression of ECL measurement over time, the lessor evaluates its expectations and plans for granting forgiveness and factors those in when estimating all cash shortfalls on the operating lease receivable—applying paragraph 5.5.17 of IFRS 9. We agree with Deloitte that the lessor would remeasure expected credit losses at the derecognition date as required by IFRS 9. We suggest clarifying in Appendix A that on the date the rent concession is granted, the lessor remeasures expected credit losses on the operating lease receivable (and recognises any change to the expected credit loss allowance in profit or loss)—and then derecognises the operating lease receivable (and associated expected credit loss allowance).

45. The requirements in IFRS 15 and IFRS 16 are not the same with respect to price concessions. IFRS 15 provides a comprehensive model for revenue recognition from contracts with customers and includes requirements for recognising receivables and contract assets[2]. Those receivables and contract assets are required to be assessed for impairment applying IFRS 9, as are operating lease receivables. However, IFRS 15 includes requirements for determining the transaction price, including variable

[2] IFRS 15 describes a receivable as 'an entity's right to consideration that is unconditional'; it distinguishes a receivable from a contract asset.

consideration, in a contract with a customer that are different from the requirements in IFRS 16 for operating leases. A seller applying the variable consideration requirements in IFRS 15 might account for a price concession by adjusting the amount of revenue it recognises—whereas there are no similar requirements in IFRS 16 for rent concessions.

46. In summary, we continue to agree with the Committee's conclusion on the lessor's application of the ECL model in IFRS 9 to its operating lease receivable—before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including considering its expectations of forgiving lease payments recognised as part of that receivable.

Lessor accounting for the rent concession – IFRS 9 and IFRS 16

Recognition of an operating lease receivable – IFRS 16

Respondents' comments

47. Although the tentative agenda decision did not analyse the requirements for when a lessor should recognise an operating lease receivable, a few respondents provided comments on this topic. For example, the Group of Latin American Standards Setters says 'in accordance with its classification as an operating lease in the terms of IFRS 16, the lessor must recognize, in accordance with paragraph 81 of the standard…an account receivable as a counterpart to the recognized income'.

48. KPMG says there is diversity in when lease payments are recognised as receivables. This respondent says:

> — there is no guidance in IFRS 16 on when a lessor recognises a receivable, in contrast to IFRS 15;
>
> — there is no linkage between performance by the lessor and recognition of a receivable…. In other cases, recognition of an operating lease receivable lags performance by the lessor – e.g.

when the lessor offers upfront lease incentives such as rent-free periods; and

— there appears to be no restriction in IFRS 16 that prevents a lessor recognising income that it knows to be uncollectable.

49. David Hardidge says, in practice, lessors follow a variety of approaches in accounting for amounts contractually due but not yet paid, with some recognising a lease receivable and some not. This respondent says each of the approaches produces different revenue, expense and net profit outcomes.

Staff analysis

50. IFRS 16 provides no requirements on when an operating lease receivable arises for a lessor. However, as we discuss in paragraphs 27–29 of this paper, when a lessor has performed by making the underlying asset available for use by the lessee for a period of time, it recognises income applying paragraph 81 of IFRS 16. Assuming the lessor has not received lease payments from the lessee at the time of recognising income, an asset arises to be recognised by the lessor. Depending on the terms and conditions of the contract, the asset that arises when the lessor recognises income could be an ‘operating lease receivable’ (for amounts that are contractually due) and/or ‘accrued lease payments’ (for any difference between lease income recognised and the operating lease receivable).

51. Therefore, as explained in paragraph 29 of this paper, the recognition of an operating lease receivable is linked to a lessor’s performance in that the lessor recognises an operating lease receivable when it has performed and has a contractual right to payment from the lessee in exchange for that performance. As noted by respondents, in some situations such as during an upfront rent-free period in a lease, the lessor has performed but does not yet have a contractual right to payments from the lessee in exchange for that performance—and therefore, the lessor recognises income and accrued lease payments (rather than an operating lease receivable). In other situations, a lessor, for operational reasons, invoices the lessee in advance of performing (and thus in advance of recognising income)—the contract is executory at that point and will remain so until either the lessor or lessee performs.

Interaction between derecognition of an operating lease receivable (IFRS 9) and a lease modification (IFRS 16)

52. The tentative agenda decision states:

> Paragraph 2.1(b)(i) of IFRS 9 states that operating lease receivables recognised by a lessor are subject to the derecognition requirements in IFRS 9. Consequently, on granting the rent concession, the lessor considers whether the requirements for derecognition in paragraph 3.2.3 of IFRS 9 are met.
>
> In the rent concession described in the request, the lessor legally releases the lessee from its obligation to make specifically identified lease payments, some of which the lessor had recognised as an operating lease receivable. Accordingly, on granting the rent concession, the lessor concludes that the requirements in paragraph 3.2.3(a) of IFRS 9 have been met—that is, its contractual rights to the cash flows from the operating lease receivable expire—because it has agreed to legally release the lessee from its obligation and thus has given up its contractual rights to those specifically identified cash flows. Therefore, on the date the rent concession is granted, the lessor derecognises the operating lease receivable (and associated expected credit loss allowance) and recognises any difference as a loss in profit or loss….
>
> The rent concession described in the request meets the definition of a lease modification in IFRS 16. The rent concession is 'a change to the consideration for the lease…that was not part of the original terms and conditions of the lease'. Therefore, the lessor applies paragraph 87 of IFRS 16 and accounts for the modified lease as a new lease from the date the rent concession is granted….
>
> In accounting for the modified lease as a new lease, a lessor applies paragraph 81 of IFRS 16 and recognises as income the lease payments to be made by the lessee over the lease term

(including any prepaid or accrued lease payments relating to the original lease) on either a straight-line basis or another systematic basis.

Respondents' comments

53. The HKICPA says:

> …based on a literal reading of the requirements in IFRS 9, operating lease receivables are subject to the derecognition requirements under IFRS 9. However, we consider that the forgiveness of the lease receivable is provided by the lessor to the lessee as part of a wider modification of the lease, and therefore it is also acceptable that both the operating lease receivables and future lease payments forgiven be accounted for holistically under IFRS 16.

54. EY says:

> Practice generally understood that IFRS 16 did not intend to change existing practice for lessors. This was confirmed in paragraph BC65 of IFRS 16. Before the adoption of IFRS 16, under IAS 17/SIC 15, any substantive change to lease payments (both recognised lease receivables and future lease payments) would be considered a contract modification….
>
> We believe that by requiring the lessor to consider lease receivables differently from future lease payments and other deferred rents, the TAD concludes that the lease contract has two units of account (one for those lease payments recognised as a lease receivable and the other representing future lease payments relating to revenue not yet recognised). We believe this conclusion would represent a significant change in practice for many lessors. Also, whether a concession is deemed to be a forgiveness of past or future rents is somewhat arbitrary because it does not change the substance of the transaction, nor the expected total net consideration for the lease.

55. KPMG says:

> The effect of the tentative agenda decision is that the lessor does not adjust operating lease income if it modifies a lease contract to forgive specified lease payments that are included in an operating lease receivable at the date of the lease modification. We believe that this conclusion is inconsistent with the core requirement in IFRS 16.81 that 'a lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis'.

Staff analysis

56. Once a lessor recognises an operating lease receivable (for amounts contractually due), that receivable is clearly subject to the derecognition requirements in IFRS 9 as stated in paragraph 2.1(b)(i) of IFRS 9. Most respondents agree with this aspect of the tentative agenda decision.

57. Therefore, on granting the rent concession, the lessor needs to consider whether the derecognition requirements in IFRS 9 are met. The facts described in the submission are critical to the conclusion that those derecognition requirements are met. In the submitted fact pattern, the lessor's forgiveness of lease payments results in the lessee being legally released from making separately identified lease payments that the lessor had recognised as an operating lease receivable; on granting the rent concession, the lessor's rights to the cash flows from the operating lease receivable expire. No other changes are made to the lease contract, nor are there any other negotiations between the lessor and the lessee that might affect the accounting for the rent concession.

58. If there had been other changes made to the lease contract, all of the changes to the lease contract negotiated between a lessor and a lessee would need to be considered together—and, depending on those other changes, the lessor may conclude that the derecognition requirements in IFRS 9 are not met. However, that is not the fact pattern described and analysed in the tentative agenda decision. Paragraph 79 of this paper discusses situations in which there are other changes to a lease contract beyond forgiveness of lease payments.

59. We disagree with the view that the tentative agenda decision is inconsistent with the requirement in paragraph 81 of IFRS 16 related to the recognition of lease income. When the lessor has performed, it recognises—applying paragraph 81 of IFRS 16—lease income on either a straight-line basis or another systematic basis. If the lessor has recognised an operating lease receivable and then forgives amounts included in that operating lease receivable (such that the derecognition requirements in IFRS 9 are met), those amounts forgiven are recognised in profit or loss—either by considering them as part of the ECL allowance or as a result of derecognition. The forgiveness of amounts included in a receivable relates to the past (those amounts are already contractually due) versus forgiveness of payments that relate to the future (treated as a lease modification in IFRS 16).

Accrued lease payments

60. The tentative agenda decision states:

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

Respondents' comments

61. A few respondents disagree with the Committee's observation that lease payments due from the lessee that the lessor has recognised as an operating lease receivable are not accrued lease payments; those respondents say IFRS 16 does not define 'accrued lease payments'. For example, the ANC says:

> We observe that (i) paragraph 87 of IFRS 16 does not distinguish 'lease receivables' and 'accrued lease payments' (it solely refers to 'prepaid or accrued lease payments') and (ii) IFRS 16 does not define 'accrued lease payments'. Accordingly,

> an alternative view exists whereby, in the fact pattern described in the submission, all unpaid amounts relating to revenue recognised before the contract's modification date, and thus the operating lease receivable, can be part of 'accrued lease payments'—those unpaid amounts accrued as part of the lease….Absent any clear requirements in this respect, we think the Committee's analysis is only one possible reading of the requirements in IFRS 16.

62. PwC says:

> The Committee's statement [about accrued lease payments] does not appear to be dependent on the specific fact pattern where the modification is only a reduction in the lease payments over the term of the lease; the statement would appear to apply to all lease modifications, including those where the future payments under the lease are increased in compensation, or where the scope of the lease is changed. We believe that, if finalised as drafted, this statement could have unintended consequences and produce different accounting results for transactions that are economically similar.

Staff analysis

63. Paragraph 87 of IFRS 16 on lease modifications uses a different phrase to that used in paragraph 2.1(b)(i) of IFRS 9. Paragraph 87 of IFRS 16 refers to 'accrued lease payments', which arise from the application of paragraph 81 of IFRS 16; paragraph 2.1(b)(i) of IFRS 9 refers to 'operating lease receivables recognised by a lessor', representing the lessor's contractual right to receive lease payments. Had the IASB intended to refer to the same items in paragraph 87 of IFRS 16 and paragraph 2.1(b)(i) of IFRS 9, in our view it would have used the same phrase. We see a reason for referring to 'accrued lease payments' in paragraph 87 of IFRS 16 and not 'operating lease receivables'—it is because IFRS 9 applies to the derecognition and impairment of operating lease receivables. Had the IASB also referred to 'operating lease receivables' in paragraph 87 of IFRS 16, there would have been two sets of requirements applying to the same items in a fact pattern such as the one submitted.

64. As we discuss in paragraphs 27–29 of this paper, when a lessor has performed and thus recognised income applying paragraph 81 of IFRS 16, an asset arises for the lessor (assuming it has not received payments from the lessee in exchange for that performance at the time of recognising income). If the lessor recognises an operating lease receivable (as is the case for the lessor in the submitted fact pattern), the lessor would not also recognise the *same* amounts as 'accrued lease payments'—to do so would double count the asset arising from the lessor's performance. As stated in paragraph 28 of this paper, an operating lease receivable represents the contractual amounts due, and accrued lease payments represent any difference between lease income recognised and the operating lease receivable. Consequently, as stated in the tentative agenda decision the lessor does not consider the forgiven lease payments—recognised as an operating lease receivable—to be 'accrued lease payments'.

Lease incentives

65. Although the tentative agenda decision does not refer explicitly to lease incentives, a few respondents comment on them. IFRS 16 defines lease incentives as 'payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee'.

Respondents' comments

66. A few respondents say forgiveness of lease payments meets the definition of lease incentives. For example, KPMG says:

> The agenda paper asserts that the forgiveness does not meet the definition of a lease incentive but no arguments for this are presented. The tentative agenda decision itself is silent on this point….If the Committee's view is that the forgiveness of specified lease payments does not meet the definition of a lease incentive because it is not a "payment", then we disagree. In our experience, lease incentives may be monetary or non-monetary – transfers of value from a lessor to a lessee in connection with leases generally reduce operating lease income.

67. Similarly, Mazars says:

> Lease incentives can take different forms, including for example 'nominal payments' made by the lessor to the lessee that are settled net in the lease payments—such payments reduce the amounts owed by the lessee but involve no formal cash outflow from the lessor. We would question the relevance of the requirements in IFRS 16 if that Standard were to distinguish incentives settled in cash from those that are settled net. This would also not align with how a lessor would account, at the lease commencement date, for rent-free periods, which are lease incentives. In the absence of any reference in the lease incentive definition as to how incentives should be settled, we are of the opinion that the Committee cannot reject the view whereby an entity may account for the rent concession described in the submission as a lease incentive.

68. The ANC says forgiving lease payments is, in substance, equivalent to a rent-free (or reduced rent) period, and SIC Interpretation 15 *Operating Leases—Incentives* (SIC-15) considered rent-free periods as incentives. This respondent acknowledges that IFRS 16 superseded SIC-15 but says the reading of it can usefully inform the understanding of lease incentives in IFRS 16 because IFRS 16 substantially carried forward the lessor accounting requirements in IAS 17.

69. The HKICPA says 'the forgiven amount recognised as an operating lease receivable does not meet the definition of a lease incentive under IFRS 16…[but] we consider that the substance of lease receivables forgiven could be similar to lease incentives (i.e. an incentive to enter into the modified lease)…'. The Accounting Standards Board of Japan says 'we believe that rent concessions could be interpreted as "assumptions by the lessor of costs of the lessee".'

Staff analysis

70. As we stated in the [March 2022 agenda paper](), in our view the lessor's forgiveness of lease payments recognised as an operating lease receivable does not meet the definition of lease incentives—that forgiveness is neither a payment (cash or non-

cash) made by the lessor to the lessee, nor is it the reimbursement or assumption by the lessor of costs of the lessee. IFRS 16 defines lease payments as ‘comprising…: (a) fixed payments…, less any lease incentives…’[(b) –(d) omitted]. Lease incentives are part of the definition of lease payments—and could be thought of as *negative* lease payments; lease payments (and their forgiveness) are *not* part of the definition of lease incentives.

71. We view a lessor’s forgiveness of an operating lease receivable (that meets the derecognition requirements in IFRS 9) as different from the lessor granting a rent-free period. If the lessor has granted a rent-free period, it has performed but does not yet have a contractual right to payment in exchange for that performance—whereas if a lessor has recognised an operating lease receivable, those amounts are contractually due from the lessee. As noted earlier, if the lessor then forgives amounts included in that operating lease receivable (such that the derecognition requirements in IFRS 9 are met), it recognises those amounts forgiven in profit or loss—either by considering them as part of the ECL allowance or as a result of derecognition. That forgiveness relates to the past (to amounts already contractually due); it does not relate to the future—and it does not reduce future operating lease income over the lease term, as would be the case for a rent-free period.

72. If—as described by one respondent—the ‘substance’ of a lessor forgiving amounts included in an operating lease receivable is to offer the lessee an incentive to enter into a modified lease, it appears that that fact pattern would be different from the submitted fact pattern. Paragraph 79 of this paper discusses situations in which there are other changes to a lease contract beyond forgiveness of lease payments.

Staff conclusion—lessor accounting

73. For the reasons discussed in paragraphs 47-72 above, we continue to agree with the Committee’s conclusions in the tentative agenda decision that a lessor applies the derecognition requirements in IFRS 9 to the operating lease receivable and applies the lease modification requirements in IFRS 16 to future lease payments under the lease.

Requests for additional guidance or consideration through a PIR or a standard-setting project

Scope of the agenda decision

Respondents' comments

74. A few respondents comment on the applicability of the tentative agenda decision to fact patterns involving rent concessions that are more common than the submitted fact pattern. For example, the ANC says:

> The TAD discusses a fact pattern in which the rent concession is one for which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract….In our view, this fact pattern is less common than the circumstances in which the forgiveness of lease payments is made alongside other changes to the lease (for example, lease term's extension, modifications to the future lease payments, etc.). We seek clarifications as to whether the analysis set out in the TAD would also be applicable to those fact patterns….

75. A few respondents suggest the tentative agenda decision may create structuring opportunities such as when, for example, a lessor forgives lease payments in one year and increases lease payments in subsequent years. Deloitte says in such a scenario, with a lease agreement 'legally structured as modified', the lessor applying the tentative agenda decision would recognise an impairment loss or derecognition loss in profit or loss for the forgiven payments and recognise lease income for the increased lease payments over the term of the new lease—in effect, double counting the lease income arising from the increased lease payments. Mazars says:

> …in a situation in which the lessor forgives the lease receivable in exchange for an increase of future lease payments, would the lessor include its expectations regarding the forgiveness of the lease receivable in measuring the expected credit loss according to IFRS 9? And would it derecognise the lease receivable against P&L at the date of grant, if it expects to receive increased lease payments in the future?...we consider

that treating differently rent concessions on a lease receivable and rent concessions on future lease payments is a source of structuring opportunities which is detrimental to comparability.

76. A few respondents say the nature of negotiations between a lessor and lessee contribute to the potential for structuring opportunities and diversity in accounting. For example, the ANC says the 'length of the negotiations between the lessor and the lessee to agree on a lease modification (including a rent concession), the allocation of that concession, the existence and amounts of lease payments already made at the modification date are possible inputs to create, wittingly or unwittingly, variations in accounting outcomes for similar transactions'.

77. Deloitte says 'it would be worth considering whether the forgiveness of a lease payment should always be viewed as a cash shortfall, including, for example, when the forgiveness is in fact granted as an incentive for an increase of the scope of a lease contract that the lessor would not obtain in the absence of the forgiveness of the lease payments that are owed (or other economically similar lease incentives)'.

Staff analysis

78. Feedback suggests that some respondents are uncomfortable with the analysis in the tentative agenda decision because of a concern that it will be applied to more common—and more complicated—fact patterns than the submitted fact pattern. Those other fact patterns involve negotiations that result in changes to lease contracts that go beyond the lessor forgiving specifically identified lease payments.

79. In our view, all changes to a lease contract negotiated between a lessor and a lessee need to be considered together. If there are changes (for example, an extension of the lease term or an increase in the scope or future payments) negotiated at the same time as (and in addition to) forgiveness of lease payments, the lessor considers holistically all the changes to determine whether its rights to the cash flows from operating lease receivables expire or, instead, will be settled through future payments by the lessee. When there are other changes to the lease contract beyond forgiveness of lease payments, the lessor may not be legally releasing the lessee from making payments contractually due—rather, it may be accepting settlement of the outstanding net

receivable through future payments to be made by the lessee. In that case, part of the future payments are not lease payments for the new lease (as referred to in paragraph 87 of IFRS 16) but, instead, are being used to settle the outstanding operating lease receivable.

80. The conclusions reached in the tentative agenda decision very much depend on the specific fact pattern described. It is therefore important that those conclusions are not assumed to apply to fact patterns different from the one described in the agenda decision. To help in this respect, we suggest adding wording to the tentative agenda decision to state that the Committee considered only the fact pattern described in the agenda decision and did not consider rent concessions that include other changes to the lease contract or other negotiations between the lessor and the lessee that might affect the accounting for the rent concession.

Requests for consideration through a PIR or a standard-setting project

Respondents' comments

81. Many respondents suggest ways to proceed. These respondents say, rather than publishing an agenda decision, the Committee should ask the IASB to either (a) consider the questions as part of the PIR of IFRS 9's impairment requirements or the PIR of IFRS 16; or (b) undertake a standard-setting project. Some of these respondents suggest that the IASB address questions about rent concessions for both lessors and lessees in the same standard-setting project so that they can be considered 'in a consistent and homogenous manner'.

82. A few respondents suggest that the IASB consider the matters both through a PIR and a standard-setting project. For example, PwC suggests that the IASB consider questions about (a) the application of the ECL model to operating lease receivables (such as determining whether expected cash shortfalls relate to recognised receivables or unrecognised contractual payments) as part of the PIR of IFRS 9's impairment requirements; and (b) application of paragraph 87 of IFRS 16 with respect to past-due payments (and whether IFRS 9 or IFRS 16 takes precedence) through a standard-setting project. PwC says 'issues raised for lessors…are equally, if not more,

significant than for the lessee side from a consistency of application and outcome perspective'.

83. KPMG suggests that a possible course of action to address lessor accounting would be to treat the forgiveness of lease payments as a lease incentive—and amend the definition of a lease incentive (or paragraph 77 of IFRS 16) to specify that the amount that adjusts operating lease income is the amount specified in paragraph 3.2.12 of IFRS 9.

Staff analysis

84. In paragraphs 30–73 of this paper, we consider and analyse respondents' points of disagreement with the tentative agenda decision that result in their suggestions for action other than finalising the agenda decision. Based on that analysis, we continue to agree with the Committee's technical analysis and conclusions in the tentative agenda decision for the submitted fact pattern. Accordingly, we conclude that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a lessor to determine how to apply the ECL model in IFRS 9 to an operating lease receivable and account for the rent concession described in the submission. For that reason, we recommend finalising the agenda decision.

85. As discussed in paragraphs 74–80 of this paper, some of the concerns about the tentative agenda decision relate to whether—and, if so, how—the analysis would be applied to fact patterns different from the submitted fact pattern. As discussed in paragraph 80 of this paper, we suggest adding wording to the agenda decision to further clarify that the Committee considered only the fact pattern submitted and not others that include changes to the lease contract beyond those in the submitted fact pattern.

Other comments

86. The following table summarises respondents' comments on other matters together with our analysis of those comments.

Respondents' comments	Staff analysis and conclusions
1. Lessee accounting and the practical expedient for covid-19-related rent concessions Masahiro Hoshino suggests that the tentative agenda decision also address (a) the lessee's accounting for forgiveness of lease payments, and (b) reconsiders the practical expedient in paragraphs 46A–46B of IFRS 16 related to covid-19-related rent concessions.	*We recommend no change.* Lessee accounting for rent concessions and the covid-19-related practical expedient in IFRS 16 are outside the scope of the agenda decision. At the March 2022 meeting, the Committee recommended that the IASB consider undertaking a narrow-scope standard-setting project to address a lessee's accounting for a rent concession in which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract. We expect to discuss that recommendation with the IASB at a future meeting.
2. Relief for lessors in determining a lease modification David Hardidge says, in situations in which lease payments have not yet been recognised, lessors should be provided with relief in determining whether a rent concession is a lease modification—similar to the 'relief' provided to lessees in paragraphs 46A–46B of IFRS 16.	*We recommend no further action.* In 2020 (at the time of developing the covid-19-related practical expedient for lessees), the IASB considered and decided not to provide a practical expedient for lessors.
3. Rent forgiveness contemplated in the original terms and conditions	*We recommend some changes.* The submitted fact pattern is limited to one in which a lessor legally releases the lessee from its obligation to make specifically identified

Respondents' comments	Staff analysis and conclusions
ACTEO-AFEP-MEDEF[3] says some rent forgiveness would not be considered a lease modification—such as government actions contemplated in the original terms and conditions of a lease—and these situations should be taken into account in the tentative agenda decision.	lease payments; other actions—including government actions contemplated in the original terms and conditions of the lease—are outside the scope of the agenda decision. We suggest clarifying in Appendix A that the rent concession changes the original terms and conditions of the lease.
4. Prepaid leases The Norwegian Accounting Standards Board says the tentative agenda decision does not address its application to leases with prepayments, which are common in the respondent's jurisdiction. This respondent also raises a question about 'similar issues' arising from the interaction of IFRS 15 and IFRS 9 for a fact pattern involving customer breach of a non-cancellable contract requiring prepayment.	*We recommend no further action.* We understand that this respondent is referring to leases with lease payments 'due annually in advance' of each lease year with the lessor recognising an operating lease receivable in advance of recognising income applying paragraph 81 of IFRS 16. The clarification suggested below (under *6. When an amount becomes 'contractually due'*) will clarify that the submitted fact pattern is one in which the lessor recognises an operating lease receivable for amounts that it has recognised as income. The interaction of IFRS 15 and IFRS 9 is outside the scope of this agenda decision.
5. Partial versus full forgiveness	*We recommend no further action.*

[3] ACTEO is the Association pour la participation des entreprises françaises à l'harmonisation comptable internationale; AFEP is the Association française des entreprises privées; and MEDEF is the Mouvement des Entreprises de France.

Respondents' comments	**Staff analysis and conclusions**
The ASBJ asks for clarity about whether 'forgiveness' as used in the tentative agenda decision means full as well as partial forgiveness of receivables.	The agenda decision refers to the lessor's forgiveness of specifically identified lease payments, and the analysis—consistent with IFRS 9's requirements—refers to 'contractual cash flows' and 'contractual rights to cash flows'. In our view, the agenda decision is therefore clear that the focus is on cash flows, which could be all or part of a receivable.
6. When an amount becomes 'contractually due' Mazars says, according to the tentative agenda decision, the accounting treatment would differ depending on whether the amounts are 'contractually due but not paid' or 'not yet contractually due' and asks for a more precise description of when an amount becomes 'contractually due'.	*We recommend some changes.* We suggest clarifying in Appendix A that the lessor has recognised lease income as well as an operating lease receivable for the amounts contractually due but not paid. We discuss in paragraphs 28–29 of this paper the link between recognising operating lease income and an operating lease receivable. IFRS 16 provides no requirements about when an operating lease receivable arises for a lessor and the submission did not ask about when such an asset arises. Therefore, we recommend no changes to the agenda decision to describe or define when an amount becomes 'contractually due'.
7. *Effect on derecognition for transfers of financial assets* The ANC says the analysis in the tentative agenda decision about the application of IFRS 9 for impairment could also affect	*We recommend no further action.* Transfers of financial assets are outside the scope of the agenda decision. In our view, the analysis in the agenda decision about the application of the ECL model in IFRS 9

Respondents' comments	Staff analysis and conclusions
the reading of the requirements for the derecognition of financial assets in paragraphs 3.2.1–3.2.23 of IFRS 9—in particular those in paragraph 3.2.6 regarding the transfer (or retention) of substantially all the risks and rewards of ownership of a financial asset, and assessing whether future concessions that an entity expects to grant are part of an instrument's credit risk or dilution risk.	would have no effect on how an entity applies the requirements in IFRS 9 for transfers of financial assets.
8. Recognition of lease income other than on a straight-line basis ACTEO-AFEP-MEDEF says the tentative agenda decision should state that the application of paragraph 81 of IFRS 16 would not lead to straight-line income recognition in every case.	*We recommend some changes.* For completeness, we suggest adding to the agenda decision that the lessor applies another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished (as required by paragraph 81 of IFRS 16).
9. Presentation and disclosure requirements EY says, for clarity, the agenda decision should address (a) presentation in the income statement (whether to present the effect of the rent concession as part of operating lease income); and (b) relevant disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* and IFRS 16.	*We recommend no further action.* The submitter did not ask about presentation and disclosure for the submitted fact pattern. IFRS 16 does not include requirements for lessor presentation of operating leases in the statement of profit or loss. We think it is unnecessary to remind lessors, through the agenda decision, about existing disclosure requirements in IFRS Accounting Standards.

Respondents' comments	Staff analysis and conclusions
10. Reference lessee accounting PwC says any final agenda decision should reference the Committee's recommendation that the IASB consider undertaking a narrow-scope standard-setting project to address a lessee's accounting for particular rent concessions.	*We recommend no change.* The scope of this agenda decision is limited to the lessor's, rather than the lessee's, accounting, and we think referring to the lessee's accounting could be confusing. At the March 2022 meeting, the Committee recommended that the IASB consider undertaking a narrow-scope standard-setting project to address a lessee's accounting for a rent concession in which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract. We expect to discuss that recommendation with the IASB at a future meeting.

Staff recommendation

87. Based on our analysis, we recommend finalising the agenda decision, as published in the IFRIC *Update* in March 2022, with changes to the tentative agenda decision as suggested in Appendix A to this paper. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee
1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 87 of this paper? 2. Do Committee members have any comments on the wording of the agenda decision in Appendix A?

Appendix A—proposed wording of the final agenda decision

Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)

The Committee received a request about a lessor's application of IFRS 9 and IFRS 16 in accounting for a particular rent concession. The rent concession is one for which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract. The Committee considered only the fact pattern described in this agenda decision; it did not consider rent concessions that include other changes to the lease contract or other negotiations between the lessor and the lessee that might affect the accounting for the rent concession.

The fact pattern

The request described a rent concession agreed by a lessor and a lessee on the date the rent concession is granted. For the lessor, the rent concession changes the original terms and conditions of a lease contract classified—applying IFRS 16—as an operating lease. The lessor legally releases the lessee from its obligation to make specifically identified lease payments, some of which are amounts contractually due but not paid (which the lessor had recognised as an operating lease receivable and as income applying paragraph 81 of IFRS 16) and some of which are amounts that are not yet contractually due. No other changes are made to the lease contract, nor are there any other negotiations between the lessor and the lessee that might affect the accounting for the rent concession. Before the date the rent concession is granted, the lessor had applied the expected credit loss model in IFRS 9 to the operating lease receivable.

The question

The ~~submitter~~ request asked:

(a) how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable when it expects to forgive payments due from the lessee under the lease contract before the rent concession is granted; and

(b) whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

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

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

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

Consequently, in the fact pattern described in the request, the lessor applies the impairment requirements in IFRS 9 to the operating lease receivable. The lessor estimates expected credit losses on the operating lease receivable by measuring any credit loss to reflect ‘all cash shortfalls’. These shortfalls are the difference between all contractual cash flows due to the lessor in accordance with the lease contract and all the cash flows it expects to receive, determined using ‘reasonable and supportable information’ about ‘past events, current conditions and forecasts of future economic conditions’.

Therefore, the Committee concluded that, ~~in the period~~ before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including considering its expectations of forgiving lease payments recognised as part of that receivable.

Lessor accounting for the rent concession – IFRS 9 and IFRS 16

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

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

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

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

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

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

In accounting for the modified lease as a new lease, a lessor applies paragraph 81 of IFRS 16 and recognises as income the lease payments to be made by the lessee over the lease term (including any prepaid or accrued lease payments relating to the original lease) on either a straight-line basis or another systematic basis. The lessor applies another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

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

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