

STAFF PAPER

May 2020

IASB[®] Meeting

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

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Objective and structure

1. The Board published the Exposure Draft *Covid-19-Related Rent Concessions (Proposed Amendment to IFRS 16)* (Exposure Draft) on 24 April 2020. The 14-day comment letter period closed on 8 May 2020.
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 13-30);
 - (e) Approach to project redeliberations (paragraphs 31-32);
 - (f) Staff analysis (paragraphs 33-86);
 - (g) Staff recommendations and questions for the Board;
 - (h) Appendix—New IFRS 16 paragraphs proposed in the Exposure Draft.

Summary of staff recommendations

4. We recommend that the Board finalise the proposal in the Exposure Draft with the following changes:
 - (a) extend the condition proposed in paragraph 46B(b) to capture covid-19-related rent concessions for which any reduction in lease payments affects only payments originally due *on or before 30 June 2021*.
 - (b) require a lessee applying the practical expedient to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from covid-19-related rent concessions.
 - (c) specify that in the reporting period in which a lessee first applies the amendment, it is not required to disclose the quantitative information required by paragraph 28(f) of IAS 8.

Background

5. The Exposure Draft proposed an amendment to IFRS 16 to permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications. Instead, lessees that apply the practical expedient would account for those rent concessions as if they were not lease modifications.
6. The proposed practical expedient would apply only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:
 - (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
 - (b) any reduction in lease payments affects only payments originally due in 2020 (for example, a rent concession would meet this condition if it results in reduced lease payments in 2020 and increased lease payments that extend beyond 2020); and

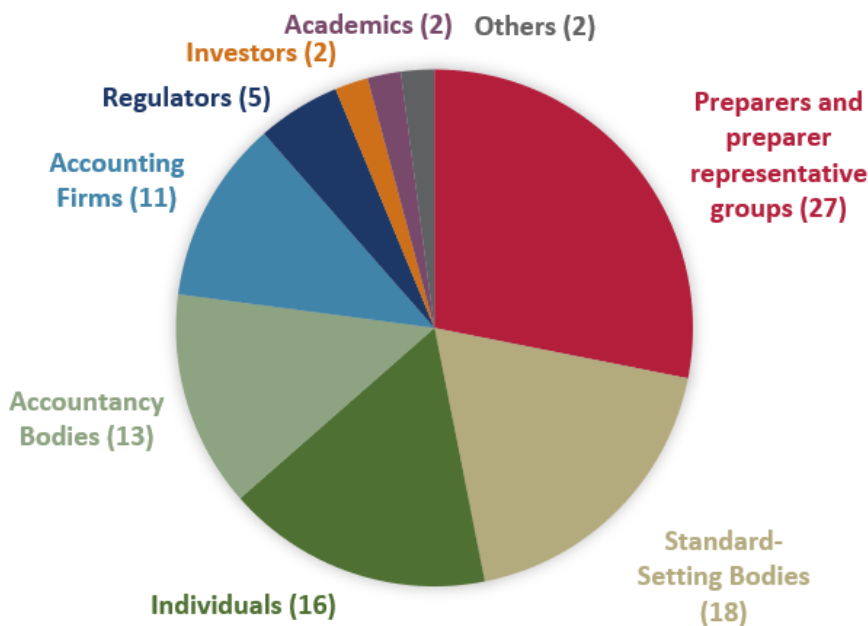
(c) there is no substantive change to other terms and conditions of the lease.

7. The Exposure Draft proposed no change for lessors.
8. Appendix A contains the new paragraphs proposed in the Exposure Draft.

Comment letters received

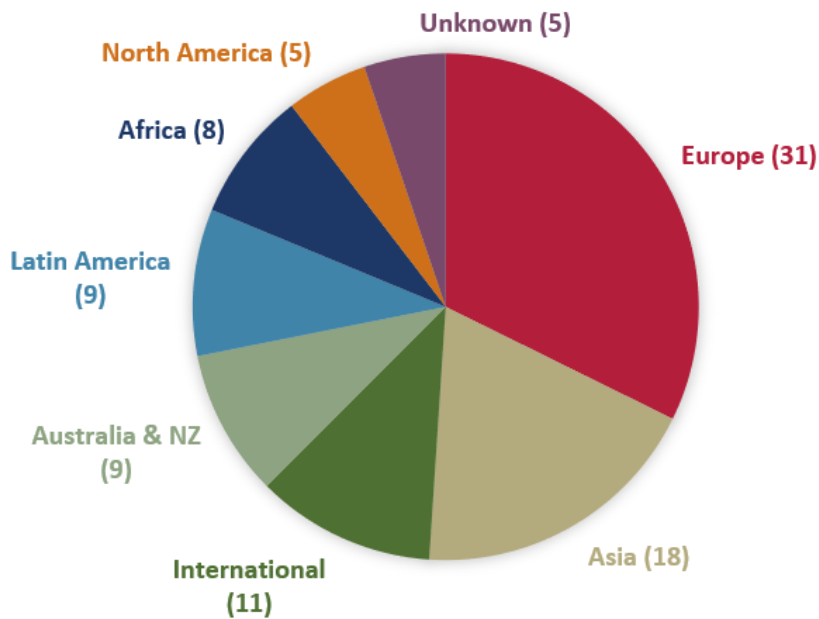
9. We received 96 comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our [website](#). This agenda paper includes analysis of only the comment letters received by the comment letter deadline¹. We will provide an oral update at the Board meeting on comment letters received after the comment letter deadline but before the Board meeting.

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



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

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 users of financial statements

13. The Board received two comment letters from users of financial statements before the comment letter deadline². In addition, during the comment period, staff

² At the date of posting this agenda paper, the Board had received late comment letters that are available on the [website](#). We will provide the Board with an update on these comment letters at the Board Meeting.

conducted outreach meetings with seven investors and analysts: two sell-side analysts, a buy-side analyst, two credit analysts and two investment professional body representatives.

14. Investors understood the need for practical relief and supported the Board's efforts to help lessees at a challenging time. Some investors described the covid-19 pandemic as an extraordinary event and said immediate recognition of the effects of a covid-19-related rent concession in profit or loss would provide them with useful information.
15. That said, many investors noted that they do not like accounting policy choices and would prefer the practical expedient to be mandatory, rather than optional. In particular, investors were concerned about profit or loss comparability between lessees that apply the practical expedient and those that do not. However, investors also understood the Board's rationale for making the practical expedient optional and agreed that a mandatory practical expedient would not be as helpful to lessees. Most investors said they could support the practical expedient as proposed provided lessees adequately disclose its effects (see paragraph 16 below)—a few investors described the proposed practical expedient as a 'reasonable compromise'.
16. Almost all investors noted the importance of clear disclosure of the effects of the practical expedient on the financial statements. In particular, investors want to understand:
 - (a) the quantitative profit or loss effect of applying the practical expedient. This information would help to address investor concerns about comparability. Specifically, it would enable investors to understand any difference in lessees' profit or loss arising from application of the practical expedient.
 - (b) the amount and timing of any cash flow effects of covid-19-related rent concessions.
17. Finally, a few investors explicitly supported the Board's proposed conditions in paragraph 46B of the Exposure Draft, which limit the population of rent concessions to which lessees can apply the practical expedient. These investors

were concerned about the practical expedient being applied too broadly and, in particular, supported the Board limiting its application to a particular timeframe.

Comment letter feedback

Overview

18. Almost all respondents expressed support for the project. They agreed that accounting for covid-19-related rent concessions is creating significant practical challenges for lessees and thanked the Board for taking steps to help. Almost all respondents agreed that the proposed practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements. Respondents said the proposals are practical, well timed and will provide significant relief to lessees. Some respondents added that, in their view, a lessee's accounting treatment applying the practical expedient appropriately reflects the economics of a covid-19-related rent concession.
19. Many respondents also highlighted the urgency of the issue, supporting the Board's accelerated timetable. Respondents encouraged the Board to finalise an amendment by the end of May so that the proposed practical expedient is available for lessees with a June 2020 reporting date.
20. Many respondents made suggestions for improvement. However, some also said they would not want their suggestions to delay finalisation of the amendment. For example, one of these respondents encouraged the Board to 'enact the practical expedient in its current form, without amendment, rather than to attempt a revision process which may cause delay. The benefits of rapid action on this issue significantly outweigh any benefits that might be gained from revision of the text to address perceived issues' (CL83: RSM International).
21. The few respondents that disagreed with the proposed practical expedient did so because they would prefer the Board to consider a broader principles-based approach, rather than focussing the amendment only on covid-19-related rent concessions. These respondents identified other significant events that might also give rise to rent concessions and, in their view, should warrant a similar practical

expedient. Examples included an earthquake, an oil crisis or the recent economic unrest in Hong Kong.

Lessors

22. Many respondents asked the Board to provide similar practical relief for lessors. This was mainly because, in their view:
- (a) lessors also face significant practical challenges in accounting for covid-19-related rent concessions;
 - (b) applying a similar practical expedient to that proposed for lessees would lead to accounting outcomes that reflect the economics of covid-19-related rent concessions; and
 - (c) a practical expedient for lessors would achieve symmetry between lessee and lessor accounting and align with the relief provided by the Financial Accounting Standards Board.
23. Many of these respondents asked the Board to consider a practical expedient for lessors as a separate project so that it would not delay the Board finalising a practical expedient for lessees.

Conditions for applying the proposed practical expedient

24. Many respondents asked the Board to reconsider the proposed condition—in paragraph 46B(b) of the Exposure Draft—that the practical expedient can be applied to a covid-19-related rent concession only if any reduction in payments affects only payments originally due in 2020. These respondents were primarily concerned about similar rent concessions being accounted for differently, particularly if the covid-19 pandemic continues for a long time.
25. Some respondents also asked the Board to make various other changes to the conditions in proposed paragraph 46B.

Other feedback

26. Some respondents asked the Board to provide detailed guidance about how a lessee would account for rent concessions that are not lease modifications (that is,

how a lessee applying the practical expedient would account for its covid-19-related rent concessions).

27. Some respondents asked the Board to specify whether a lessee should apply the practical expedient on a lease-by-lease basis, to groups of similar contracts or to all covid-19-related rent concessions.
28. A few respondents thought the practical expedient should be mandatory, rather than optional.
29. A few respondents asked the Board to consider including additional disclosure requirements for a lessee applying the practical expedient. This was in addition to the feedback from investors described in paragraph 16.

Effective date and transition

30. Most respondents agreed with the effective date and transition requirements proposed in the Exposure Draft. The few respondents that did not support the proposal generally thought lessees should be able to apply the amendment immediately without having to apply it early.

Approach to project redeliberations

31. The lessor accounting feedback described in paragraphs 22-23 was one of the most prevalent themes across the comment letters. We think the Board needs to consider this feedback in detail (see Agenda paper 32C). We note that if the Board were to decide to provide relief for lessors, developing such relief would take time and would need to be exposed for comment before it could be finalised.
32. We think it is clear from the feedback that stakeholders do not want the Board to delay finalising the proposals in the Exposure Draft. Consequently, we propose that the Board take the following approach:
 - (a) redeliberate the practical expedient for lessees that was proposed in the Exposure Draft, and decide whether to finalise that proposal (remainder of this paper); and, separately

- (b) consider the feedback on lessor accounting and decide whether to develop a practical expedient for lessors as a separate project (Agenda Paper 32C).

Staff analysis

- 33. In the light of the almost universal support for the project from respondents (see paragraphs 18-20), we recommend that the Board take steps to finalise the proposal in the Exposure Draft.
- 34. The sections that follow:
 - (a) provide a more detailed summary of the feedback on each area described in the comment letter overview in paragraphs 18-30. This also incorporates the feedback from investors described in paragraphs 13-17; and
 - (b) present staff analysis and recommendations about whether the Board should make any changes to the proposed amendment.
- 35. Our staff analysis is structured as follows:
 - (a) Payments originally due in 2020 (paragraphs 36-44);
 - (b) Other feedback on paragraph 46B (paragraphs 45-46);
 - (c) Detailed accounting guidance (paragraphs 47-53);
 - (d) Application of the practical expedient to similar contracts (paragraphs 54-58);
 - (e) Mandatory application (paragraphs 59-64);
 - (f) Disclosure (paragraphs 65-75);
 - (g) Effective date (paragraphs 76-86).

Payments originally due in 2020*Exposure Draft proposal*

36. Paragraph 46B(b) of the Exposure Draft proposed that a lessee apply the practical expedient only to covid-19-related rent concessions for which:

‘any reduction in lease payments affects only payments originally due in 2020 (for example, a rent concession would meet this condition if it results in reduced lease payments in 2020 and increased lease payments that extend beyond 2020)’.

Feedback

37. Many respondents asked the Board to reconsider this proposal for the following reasons:
- (a) it is uncertain how long the covid-19 pandemic will last. Many think it is likely that rent concessions that are wholly and directly attributable to the pandemic will result in reduced lease payments beyond 2020.
 - (b) some respondents reported that lessors are already granting rent concessions that reduce lease payments into 2021 (for example, 12 months of reduced payments from March or April 2020).
 - (c) respondents were concerned that, applying the proposal in the Exposure Draft, lessees would account for similar rent concessions differently only because of the timing of cash payments (or forgiven payments).
 - (d) respondents were also concerned about lengthy and complex rent concession negotiations, and about multiple covid-19-related rent concessions granted for the same contract over the course of the pandemic. These respondents said they may not know at, for example, 30 June 2020 whether covid-19-related rent concessions will reduce payments only in 2020. They questioned how they would account for such contracts consistently in, for example, 30 June 2020 financial statements and subsequent reporting periods.

- (e) a few respondents said it is unclear from the proposal:
 - (i) how to account for a covid-19-related rent concession that reduces lease payments in both 2020 and 2021. These respondents questioned whether they could apply the practical expedient to the 2020 portion of such a rent concession; and
 - (ii) whether an increase in lease payments during 2021 is a prerequisite for applying the practical expedient. In other words, these respondents questioned whether they could apply the practical expedient to rent concessions that reduce lease payments in 2020, without a corresponding increase in 2021.

38. Respondents suggested many different ways that the Board could amend this condition. The most prevalent suggestions were:

- (a) permit lessees to apply the practical expedient to any covid-19-related rent concession *granted* in 2020. This approach would allow similar rent concessions to be accounted for similarly, irrespective of the timing of cash payments.
- (b) delete paragraph 46B(b). Respondents recommending this approach observed that the proposed practical expedient can be applied only to rent concessions that are a direct consequence of the covid-19 pandemic and that this condition alone would ensure that the practical expedient is not applied too broadly.
- (c) extend the condition in paragraph 46B(b) so that it also captures reductions in lease payments originally due during 2021, or so that it applies for a specified period—such as 12 months—from the date of issuing the final amendment. Respondents supporting this approach thought such an extension would be sufficient to capture all covid-19-related rent concessions currently being negotiated or contemplated.

39. A few respondents, including a few investors, explicitly supported the condition in paragraph 46B(b) of the Exposure Draft because they:
- (a) were concerned about the practical expedient being applied too broadly, and about unintended consequences;
 - (b) thought future changes in lease payments could be open to interpretation about whether they are a consequence of covid-19. Limiting the practical expedient to payments due in 2020 would help to take pressure off this assessment; and
 - (c) understood the purpose of the practical expedient to be ‘providing immediate and temporary relief in the current exceptional circumstances’. These respondents thought limiting use of the practical expedient to payments due in 2020 supported this objective and would provide the relief ‘when it is most needed’.

Staff analysis

40. We agree with those respondents who think it is critical that the Board limits application of the practical expedient to ensure that it is not applied too broadly and to limit the potential unintended consequences. In our view, deleting the proposed requirement in paragraph 46B(b), or amending it so that the practical expedient can be applied to all covid-19-related rent concessions *granted* during 2020, would fail to achieve this. Applying either of these approaches, we think the proposed practical expedient could be applied to a broader range of rent concessions than anticipated in the project objectives.
41. We are also mindful that investors view the practical expedient as a ‘reasonable compromise’. Any substantial broadening of its application would bring this conclusion into doubt.
42. We also note that assessing this time condition is objective and straight-forward, and thus is expected to be easy for lessees to apply—removing the fixed date would place additional pressure on, for example, ‘direct consequence’, which would require a more subjective assessment than this condition would. One respondent said ‘a strict cut-off by date is the most practical—perhaps the only

practical—way of ensuring that the scope of the relief is determined in an objective and consistent manner’.

43. Nonetheless, we note the feedback in paragraph 37 above. In particular, some respondents reported that lessors are already providing covid-19-related rent concessions that will reduce lease payments into 2021. This feedback provides new information that the Board did not have when it developed the proposal in the Exposure Draft, and we agree that—without any change to what was proposed—lessees may be prevented from applying the practical expedient consistently to similar covid-19-related rent concessions. For example, a rent concession that reduced lease payments between June and December 2020 would be in the scope of the practical expedient, whereas a rent concession that reduced lease payments between July 2020 and January 2021 would not.
44. On balance, we recommend that the Board extend the condition proposed in paragraph 46B(b) to capture covid-19-related rent concessions for which any reduction in lease payments affects only payments originally due *on or before 30 June 2021*. This would provide just over one full year of possible reduction in lease payments from the expected date of issuing the final amendment. In our view, this slight broadening of scope does not represent a fundamental change to the proposals and finds a reasonable balance in responding to the different feedback received.

Other feedback on paragraph 46B

45. Some respondents made a variety of additional suggestions and comments about how the Board could improve paragraph 46B. These suggestions, along with our staff analysis, are summarised in Table 1 on the following pages.
46. In considering this feedback, we note that the feedback on limiting the practical expedient to rent concessions that reduce only payments originally due in 2020 (see paragraph 37) was by far the most prevalent feedback on the proposed practical expedient. By comparison, the feedback set out in Table 1 describes a mixture of different views and not a set of prevalent themes across the comment letters.

Table 1: Other feedback on paragraph 46B

| Suggestion | Staff analysis | Conclusion |
|---|---|---|
| <p>Paragraph 46B: The practical expedient in paragraph 46A applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:</p> | | |
| <p>Provide guidance on what constitutes a ‘direct consequence’ of the covid-19 pandemic; or define this term. Respondents said this would help stakeholders to determine which rent concessions are captured by the practical expedient.</p> <p>Some respondents suggested that ‘direct consequence’ could be open to interpretation or difficult to assess, and suggested, for example, removing ‘direct’—and thus relying more on the three other conditions listed in paragraph 46B.</p> | <p>We think it could do more harm than good to tightly define this term. The Board could never provide examples of every rent concession that would be captured, and we think being overly prescriptive could raise more questions than answers.</p> <p>We also think that, whilst the covid-19 pandemic is at its peak, it will be relatively straightforward for lessees to determine whether a rent concession is granted as a direct consequence of the pandemic. This determination is likely to become increasingly subjective as time moves on, but in our view the time constraint discussed in paragraphs 36-44 above is helpful in this regard and takes pressure off determining whether a rent concession is a ‘direct consequence’ of the pandemic.</p> <p>We note that some stakeholders suggested that the Board place more reliance on ‘direct consequence’, and thereby remove some of the other conditions in paragraph 46B (see, for example, the feedback in paragraph 38(b) above). For those stakeholders, the term ‘direct consequence’ is operational.</p> <p>Finally, we note that the proposed amendment uses identical language to that in the recent <i>Interest Rate Benchmark Reform—Phase 2 Exposure Draft</i>, which refers to modifications that are a ‘direct consequence of interest rate benchmark reform’. It is helpful for the Board to use consistent language when it means the same thing, wherever possible.</p> | <p>We recommend no change to this paragraph.</p> |
| <p>Paragraph 46B(a): The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the immediately preceding the change</p> | | |
| <p>Delete, or explain, the words ‘substantially the same as’. Respondents said if revised consideration after a rent concession is substantially the same as before, then there is no lease modification and, consequently, no need for the practical expedient.</p> | <p>We agree that the accounting for a rent concession that does not change the consideration for a lease (nor the scope of a lease) would be the same, irrespective of whether the practical expedient is applied. This is because such a rent concession would not be a lease modification applying IFRS 16. However, the practical expedient would still provide practical relief to lessees because it would enable them to go straight to that accounting without having to first assess whether the rent concession is a lease modification.</p> | <p>We recommend no change to the proposal in the Exposure Draft.</p> <p>However, if the Board decides to finalise the</p> |

| Suggestion | Staff analysis | Conclusion |
|---|--|--|
| <p>Explicitly state whether the assessment in paragraph 46B(a) should use nominal cash flows or discounted cash flows.</p> <p>Clarify whether the condition is referring to ‘total consideration for the lease’ or ‘remaining consideration for the lease’.</p> | <p>The Board included the words ‘substantially the same as’ to ensure that time value of money effects in a rent deferral scenario do not prevent a lessee from applying the practical expedient. The Board concluded that increases in the nominal amount of deferred lease payments that reflect only the time value of money should not prevent a lessee from applying the practical expedient. The Board also explained in paragraph BC5(a) of the Exposure Draft that the wording of this paragraph was intended to ensure that an increase in payments reflecting only the time value of money would not preclude a lessee from applying the practical expedient. Consequently, we think further clarification regarding nominal or discounted cash flows is not needed.</p> <p>Overall, we think it is a reasonable expectation that a lessee would be able to assess whether the consideration for the lease is substantially unchanged³. Consistent with the Board’s overall approach to the project, we think it would be unhelpful to be overly detailed and prescriptive in paragraph 46B(a).</p> | <p>amendment, we propose retaining the content of paragraph BC5(a) in the final Basis for Conclusions.</p> |
| <p>Paragraph 46B(c): There is no substantive change to other terms and conditions of the lease</p> <p>Paragraph BC5(c):although, for example, a three-month rent holiday in 2020 followed by three additional months of substantially equivalent payments at the end of the lease would not prevent a rent concession from being within the scope of the practical expedient</p> | | |
| <p>Explain, or delete, the term ‘substantive’ in paragraph 46B(c). These respondents said that what constitutes a ‘substantive’ change to other terms and conditions of the lease is open to judgement.</p> | <p>We think the term ‘substantive’ is generally well understood and is helpful in highlighting that the Board would not expect inconsequential changes, or changes that make no difference to accounting outcomes, to prevent a lessee from applying the practical expedient. We understand that there are cases in which this term will be subject to judgement but think that a lessee can reasonably be expected to make that judgement based on its understanding of the changes to a contract. Furthermore, the Basis for Conclusions contains an example of such a case that we think is helpful in explaining the Board’s intent (see below).</p> | <p>We recommend no change to the proposal in the Exposure Draft.</p> |

³ We note that the FASB staff Q&A on rent concessions, published on 10 April 2020, also refers to concessions for which the payments are ‘substantially the same as or less than’ payments in the original contract.

| Suggestion | Staff analysis | Conclusion |
|--|--|--|
| <p>Respondents questioned the relationship between paragraph 46B(c) and the example in paragraph BC5(c). They had the following comments and suggestions:</p> | <p>The feedback provided on the example in paragraph BC5(c) demonstrates the risks inherent in providing specific examples or detailed accounting scenarios.</p> | <p>We recommend no change to the proposal in the Exposure Draft.</p> |
| <p>Some think the example is inconsistent with the requirement in paragraph 46B(c) because, in their view, it would change the term of the lease and therefore constitute a ‘substantive change’.</p> | <p>In our view, it would be unhelpful for the Board to detail the accounting for this, or any other, example. That accounting will depend on the facts and circumstances of the rent concession. The Board intended to capture within the scope of the practical expedient a simple concession that essentially replaces the period of the rent concession with an equivalent period at the end of the lease and with substantially equivalent payments. The Board explained that such a case can be considered not to be a substantive change to the lease but, instead, simply a payment concession. However, if additional changes were made, this would not be the case.</p> | <p>However, if the Board decides to finalise the amendment, we propose retaining the content of paragraph BC5(c) in the final Basis for Conclusions.</p> |
| <p>Some suggest that the example in paragraph BC5(c) of the Exposure Draft be included in the Standard itself.</p> | <p>Nonetheless, we continue to think the example provided in BC5(c) is helpful in explaining the Board’s intent in developing the condition in paragraph 46B(c)—the example provides an illustration of a covid-19-related rent concession that does not incorporate other substantive contract changes. The Board could consider developing a simpler example (such as a rent forgiveness with no other changes to the contract), or excluding the example from the final Basis for Conclusions. However, we think neither of these approaches would provide meaningful insight into the Board’s intent.</p> | |
| <p>Some would like the Board to provide further explanation on this example, including:</p> <ul style="list-style-type: none"> (i) whether it is considered to be an extension of the lease term; (ii) whether the accounting requirements in paragraph 40(a) of IFRS 16 apply; (iii) whether any other lease extensions would be captured by the paragraph; and (iv) how to account for the right-of-use asset. | <p>Accounting for the right-of-use asset</p> <p>In our view it would be unhelpful for the Board to address the accounting for items that are not part of the proposed amendment, or to interpret existing requirements. The proposed amendment adds new paragraphs, but neither changes any existing recognition and measurement requirements nor creates new recognition and measurement requirements. The amendment does not change the accounting for right-of-use assets.</p> <p>In addition, providing additional guidance on the accounting for the right-of-use asset would, in effect, constitute interpretation of existing requirements in the Standard. Such guidance was not included in the Exposure Draft and stakeholders have not had opportunity to comment on it. As such this approach would risk disrupting practice or having other unintended consequences.</p> <p>Consequently, we propose that the amendment not provide application guidance on the accounting for the right-of-use asset in this, or any other, scenario.</p> | |

Detailed accounting guidance

Exposure Draft proposal

47. Paragraph 46A of the Exposure Draft proposed that a lessee applying the practical expedient account for any change in lease payments resulting from a covid-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.
48. Paragraph BC7 of the Exposure Draft explained the accounting outcomes considered by the Board when developing the practical expedient. The accounting outcomes described all relate to existing paragraphs of IFRS 16.

Feedback

49. Some respondents asked the Board to provide detailed accounting guidance for lessees applying the practical expedient. Respondents suggested that the Board:
- (a) develop Illustrative Examples to demonstrate the accounting. Many of these respondents suggested those examples should be similar to the double entry accounting examples included in April 2020 Agenda Paper 32B, which explained the double entry for a lessee applying the practical expedient to a forgiveness of lease payments, a deferral of lease payments and a rent concession that is a mixture of the two.
 - (b) include the explanatory material in paragraph BC7 of the Exposure Draft within the amendment itself. A few respondents asked questions about paragraph BC7 and said they would like to see more detailed accounting guidance in the final amendment.
 - (c) explicitly state in the amendment whether a lessee recognises the profit or loss effects of a covid-19-related rent concession (i) immediately when the rent concession is granted, or (ii) over the period of any rent holiday.
 - (d) develop examples, or other application guidance, to illustrate the accounting for the right-of-use asset in different rent concession scenarios.

50. A few respondents had an opposing view. These respondents observed that different accounting approaches would be appropriate depending on the particular terms and conditions of a rent concession. They said it would not be possible for the Board to cover every situation, and that any examples create a risk of (a) being interpreted as the appropriate accounting treatment in every case, or (b) having other unintended consequences.

Staff analysis

51. We agree with the respondents in paragraph 50, and conclude that it would be unhelpful for the Board to attempt to specify the detailed accounting for a lessee applying the practical expedient. The amendment proposed in the Exposure Draft was intentionally limited to specifying *when* to apply lease modification accounting. It did not provide any guidance on that accounting.
52. Furthermore, that accounting is not new—it is already required by IFRS 16 and thus is already being applied by lessees. The purpose of the practical expedient is to relieve lessees from assessing whether covid-19-related rent concessions are lease modifications, and from lease modification accounting. The purpose of the practical expedient is *not* to interpret or change the accounting for changes in lease payments that are not accounted for as lease modifications. Developing requirements or examples in this area would expand the scope of the project and delay finalisation. It would also create a significant risk of unintended consequences because any examples would interpret requirements in IFRS 16 that are applicable in many situations beyond those arising during the covid-19 pandemic.
53. In our view, the information in paragraph BC7 of the Exposure Draft is helpful in explaining what the Board had in mind when developing the practical expedient and is clearly introduced as ‘types of rent concession that the Board considered’. This material could, and should, not be interpreted as an exhaustive explanation of appropriate accounting treatments. We also note that many of the respondents referred to in paragraph 49 above found paragraph BC7 helpful. Consequently, we propose that if the Board decides to finalise the proposal in the Exposure Draft, the content of paragraph BC7 should be retained in the final Basis for

Conclusions. We nonetheless recommend that the Board not take any other steps to address the feedback described in paragraph 49.

Application of the practical expedient to similar contracts

Exposure Draft proposal

54. Paragraph BC4 of the Exposure Draft stated that ‘Lessees would apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances, as already specified by paragraph 2 of IFRS 16’. The proposed amendment to IFRS 16 itself did not make any reference to this requirement.

Feedback

55. Some respondents asked the Board to specify whether a lessee should apply the practical expedient on a lease-by-lease basis, to groups of similar contracts or to all covid-19-related rent concessions. A few investors suggested that, if a lessee elects to apply the practical expedient, it should apply it to *all* covid-19-related rent concessions. Other stakeholders that commented had mixed views, with a few preferring the practical expedient to be available as a lease-by-lease choice.

Staff analysis

56. We note the mixed views on this topic, and think the feedback is insufficiently prevalent to justify changing the proposal that a lessee apply the practical expedient consistently to similar contracts.
57. Further, we note that the requirement in paragraph 2 is an overarching requirement that applies to all aspects of IFRS 16. Consequently, we think it is unnecessary to either repeat it or specifically refer to it in the amendment. Doing so could cause harm—if paragraph 2 is specifically referenced within the requirements about covid-19-related rent concessions, stakeholders could question whether paragraph 2 is applicable to other aspects of IFRS 16 that do not contain a similar specific reference.
58. Consequently, we recommend no change to the proposal in the Exposure Draft in response to the feedback described in paragraph 55.

Mandatory Application

Exposure Draft proposal

59. The Exposure Draft proposed to permit, but not require, a lessee to apply the practical expedient.

Feedback

60. A few respondents thought the practical expedient should be mandatory, rather than optional. In addition, many investors stated a preference for mandatory application of the practical expedient. In particular, investors were concerned about profit or loss comparability between lessees that apply the practical expedient and those that do not.

Staff analysis

61. In our view, it is important that application of the practical expedient is optional rather than mandatory. The practical expedient represents a departure from the requirements in IFRS 16, provided to lessees only to be responsive to particular practical concerns during the covid-19 pandemic. Lessees should not be *required* to depart from the requirements in IFRS 16—some lessees (for example, those who have established systems to address changes in lease payments) may already have accounted for covid-19-related rent concessions as lease modifications, or may prefer the more consistent approach of applying the existing requirements to all changes to lease contracts throughout the pandemic.
62. Further, in response to the urgency of the project, the Board has purposefully developed the practical expedient to be as simple as possible and avoided developing detailed examples of different possible scenarios and accounting outcomes. The Board has also worked to an accelerated timetable, and asked stakeholders to do so too by setting a 14-day comment period for the proposals. While we have had a high level of stakeholder engagement and heard a range of different views, we nonetheless note that the accelerated timetable means the project carries a higher than usual risk of unintended consequences. Permitting, but not requiring, a lessee to apply the practical expedient somewhat mitigates that

risk. If for any reason the practical expedient is not helpful to a lessee, they do not need to apply it.

63. Finally, the investors providing feedback on this topic also said that they understood the reasons for making the practical expedient optional. Investors said they could support this approach, provided a lessee adequately discloses the effects of the practical expedient.
64. Consequently, we recommend no change to the proposed amendment in response to the feedback described in paragraph 60.

Disclosure

Exposure Draft proposal and existing requirements

65. Paragraph 60A of the Exposure Draft proposed that a lessee applying the practical expedient in paragraph 46A would disclose that fact.
66. Paragraph 53 of IFRS 16 requires a lessee to disclose amounts recognised in profit or loss that were not included in the measurement of lease liabilities—this includes the expense relating to variable lease payments.
67. Paragraph 59 of IFRS 16 requires a lessee to disclose any additional qualitative and quantitative information about its leasing activities necessary to provide a basis for investors to assess the effect that leases have on the lessee's financial position, financial performance and cash flows.

Feedback

68. A few respondents asked the Board to consider including additional specific disclosure requirements for a lessee applying the practical expedient. The most prevalent suggestions were:
 - (a) the amount recognised in profit or loss resulting from application of the practical expedient; and
 - (b) information about the nature and terms of the rent concessions granted.

69. In addition, almost all investors noted the importance of clear disclosure of the effects of the practical expedient on the financial statements. In particular, investors want to understand:

- (a) the quantitative profit or loss effect of applying the practical expedient. This information would help to address investor concerns about comparability. Specifically, it would enable investors to understand any difference in lessees' profit or loss arising from application of the practical expedient.
- (b) the amount and timing of any cash flow effects of applying the practical expedient.

Staff analysis

70. In our view, application of the disclosure requirements in paragraph 53 and 59 of IFRS 16 should result in a lessee disclosing the information identified by stakeholders, if material. However, we acknowledge the risk that a lessee could aggregate the amount recognised in profit or loss relating to covid-19-related rent concessions with other variable lease payment amounts. In this case the profit or loss effect of applying the practical expedient would not be visible to investors.

71. The proposed amendment represents a departure from IFRS 16 and introduces optionality in accounting treatment. Neither of these outcomes are ideal for investors, however they have nonetheless supported the proposals as a pragmatic way of providing practical relief to lessees at a difficult time. We therefore view it as important that the Board is responsive to user feedback about disclosure by ensuring a lessee applying the exemption would always disclose the information identified as critical by investors (subject as always to materiality).

72. Feedback from investors indicated that their main concern is about comparability between lessees that apply the practical expedient and those that do not. Any comparability issues would affect amounts recognised in the statement of profit or loss. Consequently, we recommend that the Board require a lessee applying the practical expedient to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from covid-19-related rent concessions.

73. We think any cash flow effects of covid-19-related rent concessions would be visible to users. For example, if lease payments are forgiven, the reduction in the lease liability would appear as a non-cash movement in the reconciliation of financing liabilities that a lessee provides applying IAS 7 *Statement of Cash Flows*.
74. We also considered whether a lessee applying the practical expedient should be required to disclose information about the nature of rent concessions. We think this disclosure is captured by paragraph 59 of IFRS 16, which requires a lessee to disclose any necessary additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in the Standard.
75. In addition, we note that disclosures about cash flows and the nature of rent concessions are relevant for all lessees that receive rent concessions and not only those that apply the practical expedient.

Effective date

Exposure Draft proposal

76. Paragraph C1A of the Exposure Draft proposed that a lessee apply the amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued.
77. Paragraph C20A of the Exposure Draft requires a lessee to 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.

Feedback

78. Most respondents agreed with the effective date and transition requirements proposed in the Exposure Draft.
79. Respondents that did not support the proposals generally thought lessees should be able to apply the amendment immediately without having to apply it early.

These respondents would prefer an earlier effective date, or an effective date for accounting periods *ending* after issue of the final amendment. Some of these respondents noted that, in some jurisdictions, early application is not permitted.

80. Some respondents also asked the Board to clarify that the amendment is available for 2020 interim reporting periods. Some of these respondents suggested that the Board could do this by removing the word ‘annual’ from paragraph C1A.
81. A few respondents asked the Board to clarify that the requirement in paragraph 28(f) of IAS 8 *Changes in Accounting Policies, Estimates and Errors* does not apply. This paragraph requires an entity to disclose the amount of the adjustment resulting from initial application of an IFRS Standard on each financial statement line item, for each financial reporting period presented.

Staff analysis

82. We acknowledge the feedback that some jurisdictions do not permit early application of amendments to IFRS Standards, and agree that the practical expedient would not be of benefit to lessees in those jurisdictions for any annual reporting period beginning before 1 June 2020.
83. However, there would also be negative consequences of an earlier effective date. For example, if the practical expedient is immediately effective on issue of the final amendment, this may limit its usefulness for lessees that are due to issue financial statements very shortly after that date. Such lessees would need to either apply the practical expedient in a very short timeframe, or be precluded from applying it retrospectively in future because they chose not to apply it when first available. In short, a lessee who wants to apply the practical expedient could be prevented from doing so if they were unable to apply it sufficiently quickly.
84. We note that few respondents reported the matter described in paragraph 79. However, there are many lessees with early 2020 reporting period ends that may be affected by the concern described in paragraph 83. In addition, in enabling, rather than requiring, immediate application, the effective date in the Exposure Draft ensures lessees have the opportunity to obtain the information needed if they wish to apply the practical expedient. On balance, therefore, we recommend that the Board not change the effective date proposed in the Exposure Draft.

85. We see no need to remove the word ‘annual’ from paragraph C1A of the proposed amendment. This wording is used in transition requirements across IFRS Standards and does not prevent an entity from early applying a new or amended IFRS Standard to interim reporting periods. We also note that the sentence in paragraph C1A specifying earlier application refers to ‘financial statements not yet authorised for issue at [date the amendment is issued]’—this means that it is applicable to *any* financial statements not yet authorised for issue, whether interim or annual.
86. In developing the proposals in the Exposure Draft, the Board did not envisage a lessee applying the disclosure requirement in paragraph 28(f) of IAS 8. Indeed, we think the information required by this paragraph would be of little benefit given that there were unlikely to be many covid-19-related rent concessions before 2020. Consequently, we agree with respondents that it would be helpful to clarify in the amendment that the disclosure requirement in paragraph 28(f) of IAS 8 does not apply on initial application, and recommend the Board does this.

Staff recommendations and questions for the Board

Questions for the Board

1. Does the Board agree with the staff recommendation to finalise the proposal in the Exposure Draft with the following changes:
 - (a) extend the condition proposed in paragraph 46B(b) to capture covid-19-related rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021 (paragraph 44);
 - (b) require a lessee applying the practical expedient to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from covid-19-related rent concessions (paragraph 72);
 - (c) specify that in the reporting period in which a lessee first applies the amendment, it is not required to disclose the quantitative information required by paragraph 28(f) of IAS 8 (paragraph 86)?

Appendix A—new IFRS 16 paragraphs proposed in the Exposure Draft

Lease modifications

- 46A As a practical expedient, a lessee may elect not to assess whether a covid-19-related rent concession (see paragraph 46B) is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the covid-19-related rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.
- 46B The practical expedient in paragraph 46A applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:
- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
 - (b) any reduction in lease payments affects only payments originally due in 2020 (for example, a rent concession would meet this condition if it results in reduced lease payments in 2020 and increased lease payments that extend beyond 2020); and
 - (c) there is no substantive change to other terms and conditions of the lease.

Disclosure

- 60A A lessee that applies the practical expedient in paragraph 46A shall disclose that fact.

Effective Date

- C1A [Draft] *Covid-19-Related Rent Concessions*, issued in [Month] 2020, added paragraphs 46A, 46B and 60A. A lessee shall apply that amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at [date the amendment is issued].

Transition

- C20A A lessee shall apply [Draft] *Covid-19-Related Rent Concessions* (see paragraph C1A) 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.