

**OUTREACH EVENT**  
**IFRS 16 COVID-19-RELATED RENT CONCESSIONS**  
**BRUSSELS**

**7 MAY 2020**



Photo by [Yeo Khee](#)

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group.

## Background

### *Covid-19- related lease modification accounting challenges*

The IASB has been informed that many lessors around the world have provided, or are expected to provide, rent concessions to lessees as a result of the covid-19 pandemic. Such rent concessions are particularly prevalent for leases of retail property and, in some cases, are encouraged or required by governments or jurisdictional authorities. Rent concessions include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods.

IFRS 16 contains requirements that specify the accounting for changes in lease payments, including rent concessions. However, the IASB has been informed that applying those requirements to a potentially large volume of covid-19-related rent concessions could be practically difficult, especially in the light of the many challenges stakeholders face during the pandemic. In particular, lessees have identified potential difficulties in the current environment in assessing whether covid-19-related rent concessions are lease modifications and, for those that are, applying the required accounting.

In addition, many lessees are currently preparing their first annual financial statements applying IFRS 16. Any complexity arising as a result of the covid-19 pandemic therefore adds to the work being undertaken in implementing the new lessee accounting model in IFRS 16.

### *IASB and EFRAG response*

On 24 April 2020, the IASB issued an exposure draft that proposed amendments to IFRS 16, *Covid-19-Related Rent Concessions* (the 'ED'). The ED proposed to amend 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.

On 30 April 2020, in response to the ED, EFRAG issued a draft comment letter open for comments until 7 May 2020 and a preparatory draft Endorsement Advice open for comments until 20 May 2020.

As part of its due process of obtaining stakeholder feedback, EFRAG hosted a public webcasted outreach event the 7 May 2020 to collect input from European constituents on the Draft Comment Letter and on the preparatory draft endorsement advice covering the ED.

## Profile of EFRAG Webinar Outreach Participants

Representatives of the following National Standard setters attended: France, Germany, Lithuania, Portugal, Sweden, Spain, United Kingdom.

Other attendees also included: ACCA, European Savings and Retail Banking Group (ESBG), Business Europe, European Federation of Financial Analysts Association (EFFAS), European Public Real Estate Association (EPRA), the IASB and some EFRAG TEG members.

## Summary of Feedback

The tentative positions of EFRAG in the Draft Comment Letter received broad support from the participants and the detailed comments received are substantially in line with the feedback obtained in the comment letters. The tentative position in the preparatory draft endorsement advice also received unanimous support from participants, subject to the issue of the final amendments.

Details of participants' feedback including poll results to specific elements of EFRAG draft comment letter and preparatory draft Endorsement Advice are outlined in the Appendix.

## Appendix: Details of Participant Feedback

Participants responded to the following polling questions and made the following remarks:

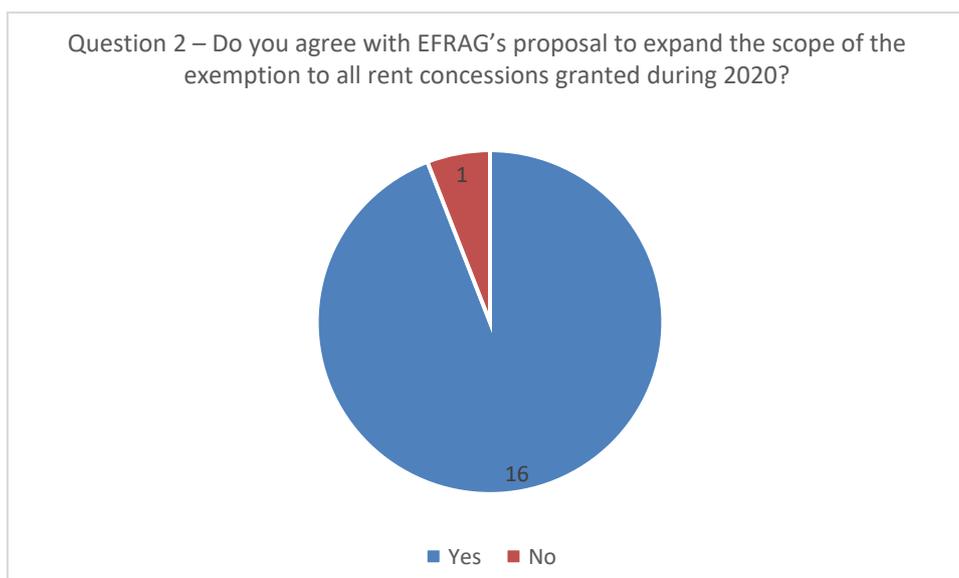
### *Polling question 1: Do you agree with EFRAG's support of the overall amendment?*

EFRAG agrees with the proposal of the IASB to provide lessees with an optional exemption from assessing whether a covid-19-related rent concession is a lease modification.

All seventeen poll participants supported the overall amendment and agreed with EFRAG's initial view in its Draft Comment Letter as they acknowledged the challenges faced by lessees in assessing whether covid-19-related rent concessions are lease modifications and applying the lease modification accounting requirements of IFRS 16 *Leases* to those rent concessions.

### *Polling question 2: Do you agree with EFRAG's proposal to expand the scope of the exemption to all rent concessions granted during 2020?*

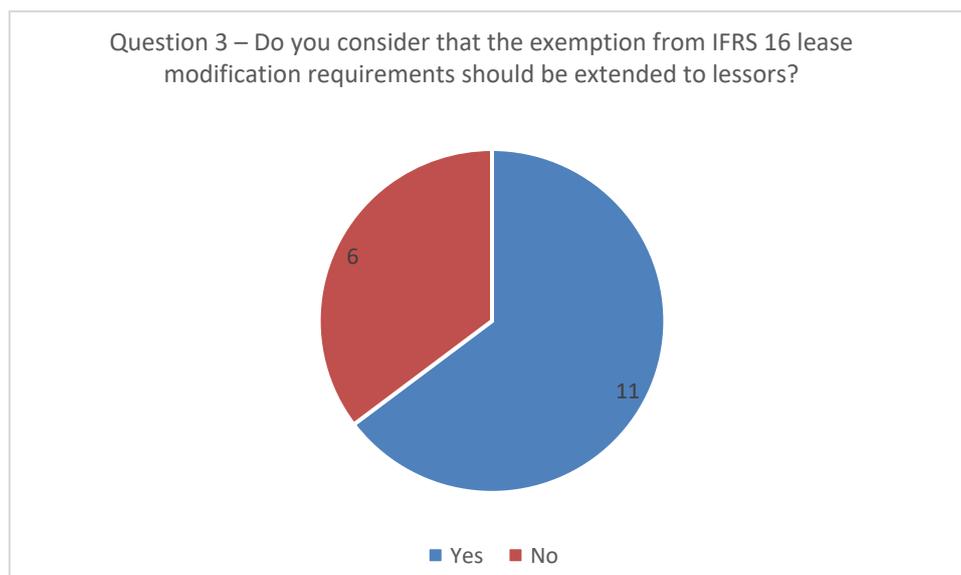
The ED proposes to limit the exemption to changes in lease payments arising as a direct result of the covid-19 pandemic and limited to payments due to occur in 2020. EFRAG would support expanding the scope of the amendment to include all rent concessions granted during 2020 and not just payments due in 2020. Participants responded in the following way to EFRAG's initial view:



Most participants agreed with the proposal to expand the scope of the exemption. However, the participant that disagreed stated that it is because it is difficult to distinguish covid-19-related rent concessions from others and it could have unintended consequences due to its temporary nature and could jeopardise comparability.

### *Polling question 3: Do you consider that the exemption from IFRS 16 lease modification requirements should be extended to lessors?*

The ED proposes to limit the scope of this amendment to lessees. EFRAG agreed with the IASB that there is a need to facilitate the accounting for the lessees as they have already the complexity of applying for the first time IFRS 16, while lessors do not have such complexity. Participants were asked whether they agree with EFRAG's initial view and their response were as follows:



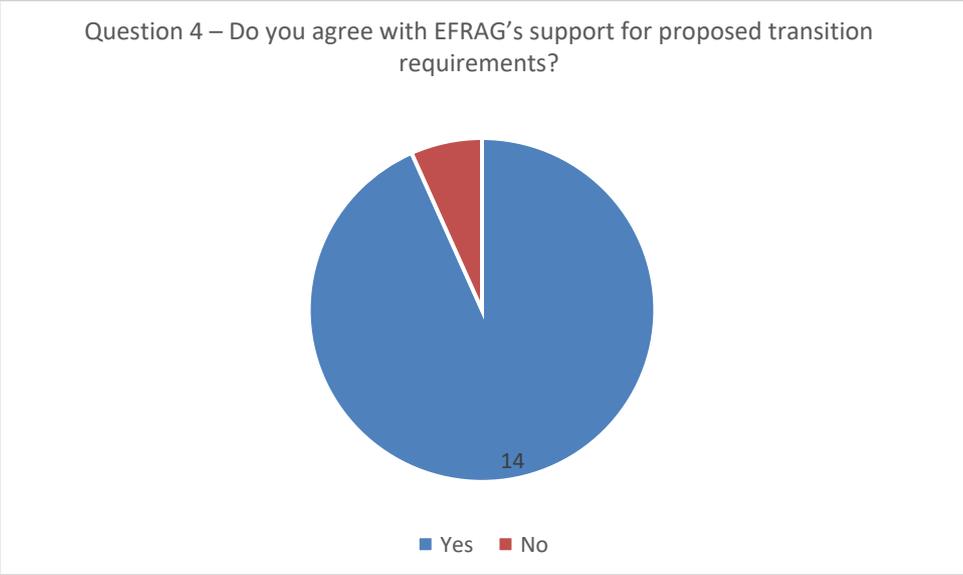
With reference to the lessors, participants indicated that the assessment of whether a rent concession is a modification could be complex specifically where rent concessions may be imposed by the government. They have noted that it becomes a legal question of whether it represents a change in the original contract terms and applicable law. Some noted that the practical expedient should be extended, especially to operating leases of lessors. Others also noted the prevalence in the retail sector.

However, one participant questioned the assumption that real estate lessors necessarily fall under the scope of IFRS 16 rather than IAS 40 *Investment Properties*.

In addition, for the lessor accounting, when the change result in modification, some noted that the economic reality is not aligned with the accounting treatment in terms of where the lessor had provided a modification but IFRS 16 requires to spread over the change over the lease term rather than when the concession/ modification was granted. Therefore, revenue recognition pattern might differ. A more appropriate depiction of the losses due to the covid-19 concessions would be to have an immediate hit in profit or loss when the lessor decides to provide the concession.

*Polling question 4: Do you agree with EFRAG's support for proposed transition requirements?*

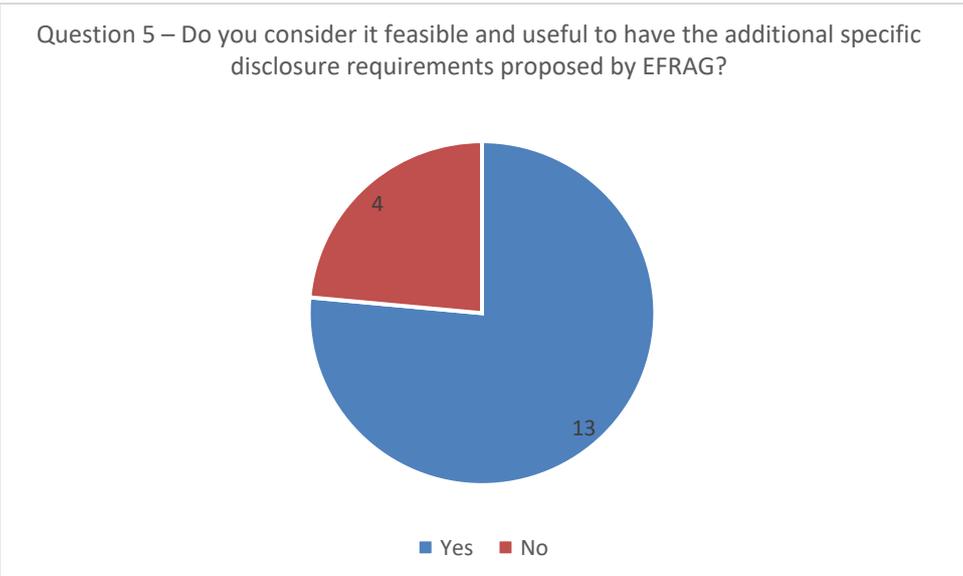
In its Draft Comment Letter, EFRAG agreed with the suggested proposal that entities should apply the exemption retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but are not be required to restate prior period figures. Participants were asked whether they agree with EFRAG's initial view and their response were as follows:



Although most participants were in agreement with the proposed transition requirements, one participant disagreed as they have noted in their jurisdiction the non-deductible/non-taxable impact on taxation should they early adopt the amendment.

*Polling question 5: Do you consider it feasible and useful to have the additional specific disclosure requirements proposed by EFRAG?*

In its Draft Comment Letter, EFRAG supported the IASB proposal to require entities applying the exemption to disclose that fact. In addition, EFRAG sought views on the usefulness and feasibility of additional specific disclosure requirements, such as: the nature of rent concessions granted; how the practical relief has been applied; the financial statement line items affected; and the amount recognised in the financial statements resulting from covid-19 related rent concessions. Participants responded in the following way:



*Polling question 6: Do you agree with EFRAG's assessment that the proposed amendment meets the technical criteria for endorsement and EFRAG's conclusion that the endorsement of the proposed amendment would be conducive to the European public good?*

All seventeen poll participants agreed with EFRAG's assessment that the Amendment meets the technical criteria for endorsement and EFRAG's conclusion that the endorsement of the Amendment would be conducive to the European public good.

### **Other remarks**

Two participants highlighted the ambiguity in the language on the basis of conclusion regarding the timing of the effects on P&L of forgiveness or reduction of rental payments. They suggested the need for clarifying language and for this to be included in the main Standard and not only in the Basis for Conclusion.