

8 May 2020

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4H

Dear Mr Hoogervorst,

Dear Hans,

Exposure Draft ED/2020/2 Covid-19-Related Rent Concessions

On behalf of the Polish Accounting Standards Committee (PASC), I am writing to comment on the Exposure Draft ED/2020/2 Covid-19-Related Rent Concessions (Proposed amendments to IFRS 16). PASC welcomes the opportunity to present its views on the Exposure Draft above and please find our comments to the questions raised in the ED.

General comments

We generally support the Board's proposed amendment to IFRS 16 *Leases* (the ED) to permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications.

We do, however, share lessees' concerns that not all clearly covid-19-related rent concessions are covered by the amendment. Such situation might result in lack of comparability between reported financial performance depending on whether specific covid-19-related rent concessions meet the rule type requirements of the amendment or not. As elaborated in details in response to question 1 further, we would recommend to amend paragraph 46B to include all clearly and directly covid-19-related rent concessions to allow comparability of financial data between preparers.

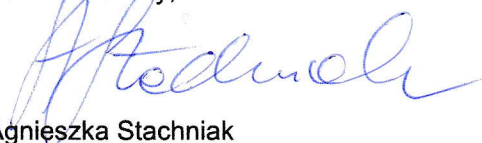
We also share lessors' concerns that they are not included in the Board's proposal for relief, as many report similar practical difficulties as faced by lessees in evaluating a large volume of covid-19 related rent concessions simultaneously to assess which concessions constitute a lease modification by reference to the contract as well as the applicable law and regulations. The amendment may also present financial reporting mismatches when an intermediate lessor applies the practical expedient to the head lease and applies modification accounting to its sublease(s) related to the same underlying asset.

We also observe that certain important provisions are included solely in the Basis for Conclusions which is not a part of the EU law and thus it would hinder the application of the relief in the EU. -

We would be grateful if you could incorporate our comments in the final amendment. From the point of view of our constituency it is especially important that all COVID-19 related concessions are covered by the practical expedient.

If you have any questions concerning our comments, please contact Ms Anna Sirocka (anna.sirocka@pl.ey.com) or Ms Malgorzata Szewc (malgorzata.szewc@mf.gov.pl).

Yours sincerely,



Agnieszka Stachniak

Vice-Chairman of the PASC

c/c EFRAG

Responses to specific questions

Question 1 — Practical expedient (paragraphs 46A and 46B of the [Draft] amendment to IFRS 16)

Paragraph 46A of the draft amendment to IFRS 16 proposes, as a practical expedient, that a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election would 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 IFRS 16 if the change were not a lease modification.

Paragraph 46B of the draft amendment to IFRS 16 proposes that the practical expedient 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; and
- (c) there is no substantive change to other terms and conditions of the lease.

Do you agree that this practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements? Why or why not? If you disagree with the proposal, please explain what you propose and why.

We generally agree that the proposed practical expedient will provide lessees with practical relief and agree with the Board's proposal.

Nevertheless, we are of the opinion that some additional issues should be taken into account when finalising the amendment.

Issues related to covid-19 rent concessions granted by regulations:

The scope of the exemption should be widened by including the situations in which lessees, by means of law, are granted rent concession and simultaneously are required to prolong the lease term not only by the period of the rent concession but also an additional period of e.g. 6 months. In Poland, legal regulations granted lessees operating in shopping malls the rent holiday for the period of the lockdown and simultaneously extended the lease term by period equivalent to lockdown plus additional 6 months, i.e. the lessees' lease payments increase by 6-month rent in comparison to the original lease term. The fulfilment of the conditions enumerated in par.46B letter a) and letter c) may be questioned in this case.

Impact on the condition in par. 46B letter a) - It is worth noting that the increase in total payments would not be considered insubstantial, however it stems solely from the covid-19-related rent concessions as it is the result of the government, countrywide action, not bilateral negotiations between lessee and lessor. With the current drafting of 46B and BC5(a), the entities subject to the regulation described above would not be covered with the exemption proposed as it is presumed that the higher-than-insubstantial increase is not the result of actions related exclusively to covid-19. Such presumption is not factual when it comes to country-wide, public actions.

Impact on the condition in par. 46B letter c) – In this case there will be a change to other terms and conditions of the lease and although IASB in BC5 letter c) states that “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” – it is not clear whether the additional six-month extension of the lease term stemming directly from the country-wide legal regulation would also not prevent such a rent concession from being within the scope of the practical expedient.

Therefore, we look forward to the Board amending paragraph 46B to cover other types of indisputably covid-19-related rent concessions, and thus allowing comparability between entities benefiting from clearly covid-19-related rent concessions. In our opinion there could be two alternatives to reach this goal (option A or option B). Both alternatives would require Basis for Conclusions to be amended accordingly.

Option A: In our view this option would allow to apply the practical expedient by those lessees which fulfil all the three conditions but also by those lessees who are not able to fulfil all those conditions due to the country-specific rent concessions which are directly covid-19 related and stem from the legal regulation.

The amended paragraph 46B could read as follows (additions in bold and in *italics*):

“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, ***unless they result from the country-wide legal regulation:***

- (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.”

Option B: In our view this option would allow to apply the practical expedient by those lessees which fulfil all the three conditions whereas the amended conditions take into account the country-specific legal regulations.

The amended paragraph 46B could read as follows (additions in bold and in *italics*):

“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, ***unless it results from the country-wide legal regulation;***
- (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, ***unless it results from the country-wide legal regulation .***”

Timing of the concessions

Also whilst we expect that rent concessions granted as a result of covid-19 will mostly affect payments originally due in 2020, we are concerned that the condition of paragraph 46B(b) may be too restrictive. We believe that it is not the Board intention to differentiate the scope of the amendments based on the timing of existing scheduled or revised lease payments

We therefore propose that paragraph 46B(b) be amended to apply to rent concessions granted by lessors to lessees in 2020 irrespective of when the payments were due instead only to “payments originally due in 2020”. Given the practical expedient will only apply to rent concessions occurring as a direct consequence of the covid-19 pandemic, we do not believe this suggestion to focus on when the concession is granted would allow entities to apply the practical expedient beyond the covid-19 related timeframe. .

Additional Disclosures

As the accounting for covid-19 related rent concessions will depend on the nature of the concession under the specific facts and circumstances, we believe that the disclosure requirements in the ED may not provide users of financial statements with sufficient information to understand the impacts of accounting for covid-19 related rent concessions, and therefore propose that paragraph 60A of the ED be amended to require lessees applying the practical expedient to also disclose:

- (i) the nature of rent concessions granted;
- (ii) how the practical relief has been applied; and

- (iii) the financial statement line items affected and the amount recognised in the financial statements resulting from covid-19 related rent concessions.

Question 2 — Effective date and transition (paragraphs C1A and C20A of the [Draft] amendment to IFRS 16)

Paragraphs C1A and C20A of the draft amendment to IFRS 16 propose that a lessee would apply the amendment:

- (a) 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; and
- (b) retrospectively, recognising the cumulative effect of initially applying the 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.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose and why.

We agree with the Board's proposal for the amendment to be applied retrospectively to annual reporting periods beginning on or after 1 June 2020, with earlier adoption permitted for financial statements not yet authorised for issue at the date the amendment is issued.