

## Draft Comment Letter

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**Comments should be submitted by 22 February 2021.**

International Accounting Standards Board  
7 Westferry Circus, Canary Wharf  
London E14 4HD  
United Kingdom

11 February 2021

Dear Mr Hoogervorst,

### **Re: Covid-19-Related Rent Concessions beyond 30 June 2021**

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the exposure draft (ED) proposing an extended scope of the Amendments to IFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*, issued by the IASB on 11 February 2021 (the Amendments). This extension relates to the 28 May 2020 IASB amendment to IFRS 16 that, as a practical expedient, provided lessees with covid-19-related rent concessions, the option for an exemption from applying lease modification accounting requirements (2020 Amendments).

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

Consistent with its support for the 2020 Amendments, EFRAG supports the proposal to extend the scope of the Amendments by increasing the eligibility period for the application of these Amendments by 12 months from 30 June 2021 to 30 June 2022. EFRAG acknowledges the uncertainty associated with the length and severity of the ongoing pandemic and the consequential adverse impacts on the economic environment that have arisen and resulted in an extended period of covid-19-related rent concessions.

EFRAG agrees that there remains a need to provide relief for lessees given the ongoing challenges that lessees face in assessing whether lease modifications have occurred under the circumstances of covid-19. EFRAG supports a continued time restriction to ensure only the Amendments only apply to covid-19-related concessions and to limit the effect of reduced comparability due to the Amendments.

EFRAG supports the proposed transition requirements including that it should be applied on a modified retrospective basis, and that early adoption be allowed at the date of the IASB's issuance of the extension of the amendment.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

*IASB ED Extended Scope of Covid-19-Related Rent Concessions  
Amendment to IFRS 16*

If you would like to discuss our comments further, please do not hesitate to contact Joachim Jacobs or Vincent Papa or myself.

Yours sincerely,

Jean-Paul Gauzès  
**President of the EFRAG Board**

## Appendix - EFRAG's responses to the questions raised in the ED

### Notes to constituents – Summary of proposals in the ED

#### 2020 Amendments

- 1 *Amendment to IFRS 16- Paragraph 46A permits lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications and, instead, account for those rent concessions as if they were not lease modifications if certain conditions are met.*
- 2 *Amendment to IFRS 16-Paragraph 46B limits the scope of the practical expedient so that it applies only to rent concessions that occur as a direct consequence of the covid-19 pandemic and:*
  - (a) *result in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change. The IASB is of the view that a change that results in more than an insubstantial increase in total payments for the lease could not result solely from a covid-19-related rent concession, except to the extent the increase reflects the time value of money.*
  - (b) *reduce only lease payments originally due on or before 30 June 2021. A related increase in lease payments that extends beyond 30 June 2021 would not prevent a rent concession from meeting this condition. In contrast, if reductions in lease payments extend beyond 30 June 2021, the rent concession would not be within the scope of the practical expedient. In developing this condition, the IASB observed that the economic effects of the covid-19 pandemic could continue for some time. If the practical expedient is not limited to a particular timeframe, a lessee could conclude that many future changes to lease payments are a result of the covid-19 pandemic. Limiting the practical expedient to reductions in lease payments originally due on or before 30 June 2021 provides relief to lessees when they are expected to need it most, while avoiding lessees applying the exemption beyond when it is needed.*
  - (c) *there is no substantive change to other terms and conditions of the lease. This condition reflects the IASB's view that lessees should not apply the practical expedient to lease modifications that are unrelated to the covid-19 pandemic but are negotiated at the same time as a covid-19-related rent concession.*

#### Extended Scope of the 2020 Amendments

- 3 *The IASB ED proposes to amend paragraph 46 B(b) of IFRS 16 so that the practical expedient in paragraph 46A can be applied to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions in paragraph 46B are met.*

#### **Question 1 – Extended scope of the Practical Expedient Paragraph 46 B-b**

The Board proposes to amend paragraph 46 B(b) of IFRS 16 so that the practical expedient in paragraph 46A can be applied to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions in paragraph 46B are met. Do you agree with this proposal? Why or why not?

*EFRAG's response*

**EFRAG supports the proposal by the IASB to amend Paragraph 46B(b) and extend the eligibility period by 12 months from 30 June 2021 to 30 June 2022. In its support, EFRAG acknowledges the uncertainty associated with the length and severity of the ongoing pandemic and the consequential adverse impacts on the economic environment that have arisen and resulted in an extended period of covid-19 related rent concessions.**

**EFRAG supports the continued restriction on the eligibility time period to ensure that the relief granted to lessees is only applied to concessions directly related to covid-19. A time restriction limits the effects of reduced comparability due to the Amendments.**

- 4 In its 2020 comment letter, EFRAG supported the 2020 Amendments including the restriction on the eligibility time period to ensure that the relief granted to lessees is only applied to concessions directly related to covid-19 in Paragraph 46B(b). EFRAG supported the time restriction noting that the amendments were an exception to IFRS 16 lease modification requirements that were adjudged to provide relevant information to users of financial statements. EFRAG noted the need for safeguards against extended application of the practical expedient beyond where needed.
- 5 EFRAG supports the proposal by the IASB to amend paragraph 46B(b) and extend the eligibility period by 12 months from 30 June 2021 to 30 June 2022. EFRAG acknowledges the uncertainty associated with the length and severity of the ongoing pandemic and the consequential adverse impacts on the economic environment that have arisen and resulted in an extended period of covid-19-related rent concessions.
- 6 EFRAG supports the continued restriction on the eligibility time period to ensure that the relief granted to lessees is only applied to concessions directly related to covid-19. A time restriction also limits the effect of reduced comparability of lessee accounting across entities and across portfolio of contracts that may result from the Amendments.
- 7 EFRAG notes that a 12-month extension of the period for which lease concessions are eligible ought to be sufficient to ensure the relief covers potentially eligible lessee contracts. The 2020 EFRAG comment letter highlighted that the time restriction that had been originally proposed in the 2020 ED (i.e., 31 December 2020) was too limiting as it would have resulted in the exclusion of some agreements with covid-19-related concessions that fell outside the scope of the amendment. In other words, even while supporting a time restriction, EFRAG expressed a concern about excluding potentially eligible contracts from the scope of the amendment.
- 8 EFRAG also supports the 12-month extension if that will minimise the need for another fast-tracked standard-setting amendment in the future. It is important to specify an eligibility restriction period that minimises the likelihood of a need for urgent standard setting in the future.

**Notes to constituents – Summary of proposals in the ED**

- 9 *The ED Paragraph C1C proposes that the extended scope of the Amendments is effective for annual periods beginning on or after 1 April 2021 therefore enabling, rather than requiring, immediate application.*
- 10 *The ED Paragraph C20B proposes to require lessees to apply the extended scope of the Amendments retrospectively. The ED proposes to require lessees to recognise 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 (i.e., modified retrospective transition requirements).*
- 11 *Retrospective application would ensure all lessees that apply the practical expedient apply it to all eligible rent concessions that meet the extended scope conditions.*
- 12 *Paragraph BC8 highlights that the ED neither introduces a new practical expedient nor a new option to apply (or not apply) the practical expedient. This means that a lessee that applied the practical expedient in the 2020 amendments must apply it for eligible leases during the time limit extension. Similarly, the proposal in the ED does not allow a lessee to apply the practical expedient if the lessee has previously elected not to apply it to eligible rent concessions.*
- 13 *Some lessees may not yet have established an accounting policy on applying or not applying the practical expedient to eligible rent concessions. If such a lessee decides to apply the practical expedient, the lessee would be required to do so retrospectively and to apply to contracts with similar characteristics and in similar circumstances.*
- 14 *A corollary of: a) extending the scope of the Amendments; and b) the IFRS 16 requirement (Paragraph 2) that contracts of similar characteristics and in similar circumstances have the same accounting treatment—is that there could be the reversal of lease modification accounting already applied to potentially eligible concessions that fell outside the scope of the 2020 Amendments.*
- 15 *An example<sup>1</sup> of reversal of lease modification would arise if Company X receives covid-19-related concessions in November 2020 and it: a) reduces lease payments from November 2020 to October 2021 and falls outside the scope of the 2020 Amendment; and b) publishes its financial statements in February 2021. Company X would apply lease modification accounting for these covid-19-related concessions. After the extension of the amendment, Company X will have to apply the practical expedient to these concessions if it had done so for similar contracts that fell within the scope of the 2020 Amendment. This would result in a reversal of the lease modification accounting applied.*

**Question 2- Effective date and transition**

Paragraphs C1C, C20BA and C20BB of the draft amendment to IFRS 16 propose that a lessee would apply the amendment:

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<sup>1</sup> <https://cdn.ifrs.org/-/media/feature/meetings/2021/february/supplementary-iasb/ap32-feb-2021-supplementary-meeting.pdf>

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- (a) For annual reporting periods beginning on or after 1 April 2021. 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.
- (c) Would not be required to disclose the information required by paragraph 28(f) of IAS 8 in the reporting period in which the lessee first apply the amendment.

Do you agree with this proposal? Why or why not?

*EFRAG's response*

**EFRAG supports the IASB's proposal that the Amendments should be applied to annual reporting periods beginning on or after 1 April 2021 with early application permitted, including in financial statements not yet authorised for issue at the date the amendment is issued.**

**EFRAG also agrees with the proposal that entities should apply the exemption retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but are not required to restate prior period figures (i.e., modified retrospective).**

**Lastly, EFRAG acknowledges the IASB's proposal not to require the disclosures in paragraph 28(f) of IAS 8 in the reporting period in which the lessee first apply the amendment as it is in line with information provided under current requirements.**

- 16 EFRAG agrees with the proposal (Paragraph C20BA) that entities should apply the exemption retrospectively in accordance with IAS 8, but are not required to restate prior period figures. EFRAG agrees with the retrospective approach as it will ensure all lessees that apply the practical expedient apply it to all eligible rent concessions that meet the extended scope conditions.
- 17 EFRAG agrees with the appropriateness of the modified retrospective approach where a lessee would recognise any difference arising on initial application of the amendment in opening retained earnings (or other component of equity, as appropriate) in the annual reporting period that includes the date of initial application. EFRAG assesses that a restatement of comparative prior-period (s) information would provide limited benefit and would be potentially costly for lessees and supports the presentation of prior period effects in the opening balance of the statement of equity.
- 18 EFRAG supports the proposal for the extension to the scope not being optional such that entities that applied the practical expedient in the 2020 Amendments must apply it for eligible leases during the time limit extension. Correspondingly, entities that did not apply the practical expedient allowed by the 2020 amendment cannot change that decision because of the time limit extension. This proposal will enhance the comparability in the reporting of contracts of a similar nature and under similar circumstances within an entity.
- 19 EFRAG also supports the proposal (Paragraph C1C) of the IASB to make the Amendments effective for annual periods beginning on or after 1 April 2021 with early application permitted including in financial statements not yet authorised for issue at the date the amendment is issued.

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- 20 EFRAG notes that unlike for the 2020 Amendments, due to the Amendments not being optional, there may be need for reversal of lease modification accounting by lessees that have published their financial statements. This would arise if such lessees have eligible lease contracts that were not eligible for the 2020 Amendments due to the 30 June 2021 time limit.
- 21 EFRAG acknowledges the IASB's proposal (Paragraph C20BB) for not disclosing the information required in paragraph 28(f) of IAS 8 does not differ from the information provided under current requirements (i.e., the 2020 amendment also did not require such disclosure).

**Other matters**

*Applicability of effective date to interim financial statements*

- 22 EFRAG notes that stakeholders may be unclear on whether interim financial statements are covered by the wording '*including in financial statements not yet authorised for issue at the date the amendment is issued*' when linking words like '*annual reporting period*' with '*authorised for issue*'. Therefore, EFRAG recommends the explicit inclusion of interim financial statements in the Standard to avoid such confusion.

*Lessors*

- 23 Stakeholder feedback obtained in 2020 during EFRAG's targeted outreach on the 2020 Amendments indicated that lessors can have large volumes of quite diverse contracts in their portfolios spread across multiple jurisdictions. Stakeholders' feedback was that lessors also face significant challenges in assessing whether contract modifications have occurred, especially as the concessions are often government imposed in several jurisdictions.
- 24 EFRAG reiterates a suggestion made in its comment letter to the 2020 Amendments that, as a separate project, the IASB should also consider accounting challenges faced by lessors. In particular, those faced by intermediate lessors and operating lease lessors.
- 25 EFRAG is also aware that during the covid-19 crisis, lessors with financial leases are faced with challenges of choosing between the application of IFRS 9 *Financial Instruments* and IFRS 16 requirements and this challenge will extend beyond the pandemic.
- 26 At the same time, EFRAG understands<sup>2</sup> that for lessors, there are no specific IFRS 16 requirements for accounting for concessions that are not lease modifications and there would be need for the IASB to develop accounting requirements for lessors with concessions that are exempted from lease modification requirements. Furthermore, there will be a need to consider the interaction of IFRS 16 requirements with other standards including IFRS 9 and IFRS 15 *Revenue from Contracts with Customers*.

While it may be difficult for the IASB to initially gauge the extent to which there can be relief for lessors from lease modification accounting requirements, EFRAG would support a separate project by the IASB that further assesses and where needed addresses the accounting challenges faced by lessors.

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<sup>2</sup> <https://cdn.ifrs.org/-/media/feature/meetings/2020/may/supplementary-iasb/ap32c-ifrs-16-and-covid-19.pdf>

See IASB staff analysis paragraphs 45 to 47