

Comment Letter

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

25 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 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 Amendments. EFRAG has also identified matters for further clarification on the transition requirements.

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

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

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.

- 1 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.
- 2 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.
- 3 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. As noted in paragraph 1, a time restriction is necessary as the IFRS 16 requirements including the lease modification accounting requirements provide relevant information to users of financial statements. 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.
- 4 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 2020 Amendments. In other words, even while supporting a time restriction, EFRAG expressed a concern about excluding potentially eligible contracts from the scope of the 2020 Amendments.

- 5 EFRAG also supports the 12-month extension as that will likely 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.

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:

- (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 Amendments are 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). EFRAG highlights various areas that need clarification including on whether the modified retrospective approach is required or can be a choice; and on the entities that are eligible to apply the practical expedient.

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.

- 6 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.
- 7 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 balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period that includes the date of initial application. EFRAG supports the presentation of prior period effects in the opening balance of the statement of equity.

- 8 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.
- 9 EFRAG notes that a lessee could have already issued financial statements that reflect lease modification accounting for rent concessions, which were not eligible for the practical expedient due to the 30 June 2021 time limit but become eligible as a result of the Amendments. EFRAG agrees with the conclusion in paragraph BC10 that as a result of the modified retrospective transition requirements, such a lessee should reverse the lease modification and 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 Amendments. EFRAG considers that under this scenario, the reversal of lease modification accounting for rent concessions that are eligible for the Amendments will enable comparable reporting across similar contracts.
- 10 EFRAG acknowledges the IASB's proposal (Paragraph C20BB) that entities are not required to disclose the information required in paragraph 28(f) of IAS 8 and that this will not differ from the information provided under current requirements (i.e., the 2020 Amendments also did not require such disclosure). In the response to the 2020 Amendments, EFRAG had also suggested that to enable users to assess the impact of the applying the practical expedient; subject to practicability and if material to the line item, entities should disclose the nature and extent of rent concessions for which the practical expedient is applied, the financial statements' line items affected, and the amount recognised in financial statements.

Matters for clarification related to transition and effective date

Clarification on the modified retrospective approach

- 11 If there is a voluntary change in the accounting policy applying IAS 8, a restatement of the comparative period(s) would be mandatory. Hence, EFRAG recommends that the IASB should further clarify in the Basis for Conclusions on the Amendments, the consistency between the transition requirements specified in the Amendments and IAS 8 transition requirements.

Clarification on eligible lessee entities

- 12 Paragraph BC8 states that “a lessee that has already applied the practical expedient in paragraph 46A must also apply the extended scope of the practical expedient proposed in this Exposure Draft (see paragraph BC9). Similarly, the proposal in this Exposure Draft does not allow a lessee to elect to apply the practical expedient if the lessee has previously elected not to apply it to eligible rent concessions.” EFRAG supports this clarifying language as it will enhance the comparability in the reporting of similar covid-19-related rent concessions.
- 13 However, EFRAG recommends that the clarifying language in paragraphs BC8 and BC9 should be included in the main standard and not only in the Basis for Conclusions. Furthermore, EFRAG recommends that the clarifying language in paragraph BC8 should explicitly reference IAS 8 from which it is derived. This will show consistency between the IAS 8 requirements and the Amendments.

- 14 Paragraph BC8 also states that “*some lessees may not yet have established an accounting policy on applying (or not applying) the practical expedient to eligible rent concessions. If such lessees decide to apply the practical expedient, the lessee would be required to do so retrospectively and to apply it consistently to contracts with similar characteristics and in similar circumstances.*”
- 15 Some stakeholders have indicated the portion of paragraph BC8 stated in paragraph 14 above is not clear. For example, they were not sure whether the clarifying language was referring to lessee entities that did not have material rent concessions that qualified under the existing practical expedient (in line with IAS 8.16) and how the retrospective treatment would apply. EFRAG recommends that the IASB further clarifies the type of entities could be eligible to apply the Amendments due to not have established an accounting policy on the practical expedient (e.g., those that did not have material rent concessions, first time adopters of IFRS) and how retrospective requirements would apply.

Eligibility of entities due to change in accounting policy

- 16 As noted in paragraph 12 above, lessee entities that applied the practical expedient in the 2020 Amendments must also apply the extended scope of the Amendments. Correspondingly, lessee entities that as an accounting policy choice did not apply the practical expedient cannot change that decision. EFRAG notes that according to IAS 8.14 (b), entities are allowed to change their accounting policy if it results in more relevant information. As pointed out earlier in paragraphs 1 and 3, EFRAG considers that the Amendments are an exception to IFRS 16 requirements including lease modification requirements, which provide relevant information to users of financial statements. Hence, EFRAG considers that it may be unlikely for entities to have a justification to apply IAS 8. 14(b).
- 17 Nevertheless, some stakeholders have questioned whether, as a result of IAS 8 .14(b), lessee entities that did not apply the practical expedient ought to be allowed to change their accounting policy to allow the application of the practical expedient on the grounds that it provides relevant information during the pandemic. Therefore, EFRAG recommends that the IASB includes clarifying language in the Amendments on whether lessee entities that elected not to apply the 2020 Amendments can use IAS 8.14(b) to allow application of the practical expedient.

Applicability of effective date to interim financial statements

- 18 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.

Other matters

Lessors

- 19 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.
- 20 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.

- 21 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.
- 22 At the same time, EFRAG understands that, for lessors, it is difficult to assess the extent of possible relief as there are no specific IFRS 16 requirements for accounting for concessions that are not lease modifications. As a result, there would be a 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*.
- 23 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.