

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

IASB Amendment to IFRS 16

Accounting for covid-19-related rent concessions

Background and Objective

- 1 The IASB is holding a supplementary IASB meeting to consider COVID-19-related matters on Friday 17 April 2020.
- 2 The objective of this paper is to inform EFRAG Board about this new project and ask for permission to adjust EFRAG due process for the forthcoming amendment to IFRS 16 that may result from this project.
- 3 This issue has been added to react to these developments but was not originally in the EFRAG Board Agenda for this meeting.

The issue and the IASB proposal

- 4 Changes in lease payments have occurred, or are expected to occur, as a result of the covid-19 pandemic. Applying IFRS 16 Leases to those changes could be complex in the light of challenges many entities face during the pandemic. T
- 5 The IASB issued educational material on 10 April to support preparers in dealing with this issue.
- 6 However, educational material can only help entities apply the existing requirements in IFRS Standards—such material cannot change, remove or add to those requirements. Consequently, in addition to the educational material described above, the IASB is considering to undertake standard-setting for covid-19-related rent concessions. Standard-setting could provide practical relief to entities during the covid-19 pandemic.
- 7 The IASB staff recommend that the IASB amend IFRS 16 to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. Entities applying the exemption would account for the changes as if they were not lease modifications. The exemption would have to be applied retrospectively but comparative figures would not be restated. 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. The exemption would be effective immediately, when the final amendment is issued.

Timeline of the IASB project

- 8 The IASB staff anticipates that it would be possible to finalise an amendment to IFRS 16 by the end of May 2020. The comment period on the exposure draft could be 14 days.
- 9 The IASB staff expects an exemption that is **effective in May 2020** to be of benefit to many affected entities with a 31 March 2020 year-end and all affected entities with later year-ends.
- 10 The IASB staff notes that because the exemption is optional, any lessee for whom it is not beneficial need not apply it.

EFRAG due process

- 11 The timeline to react to this new ED is particularly strict. EFRAG Secretariat will start preparing the forthcoming draft comment letter.
- 12 EFRAG Secretariat would suggest the possibility to adopt a written procedure for both TEG and Board, in order to allow for a shorter preparation period and to reach out EFRAG constituents despite the short comment period.
- 13 EFRAG Secretariat will liaise with the EC representatives in order to explore the most suitable approach for the endorsement process. A verbal update will be provided during the meeting.

Question to EFRAG Board

- 14 Does EFRAG Board agree to activate a project to react to the forthcoming ED?
- 15 Does EFRAG Board agree to delegate EFRAG Secretariat to adopt the most suitable due process approach, including the possibility to adopt written approval of the draft and final comment letter, draft and final endorsement advice, for both EFRAG TEG and EFRAG Board?
- 16 Do EFRAG Board members have any input or suggestions on how to adjust EFRAG due process to the peculiar circumstances?