

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the 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.

Covid-19-Related Rent Concessions

Cover Note

Objective

- 1 The objective of this session is to:
 - (a) seek the views of EFRAG TEG on the analysis and recommendations for changes to the proposed final comment letter with regards to the comment letters received; and
 - (b) agree to recommend the proposed final comment letter to the EFRAG Board for approval.
- 2 The final comment has been updated based on the feedback from 11 comment letter responses as outlined in agenda paper 01-02 and feedback from outreach activities summarised in the Appendix. The comment letters can be found [here](#) under Exposure draft consultation.

Issues for discussion

- 3 As summarised in paper 01-01, EFRAG Secretariat has suggested the following updates of positions in the final comment letter:
 - (a) As part of a separate project, EFRAG suggests that the IASB consider extending the exemption from lease modification accounting requirements to lessors. Like lessees, they face challenges and complexity in the assessment of accounting implications of covid-19 related concessions.
 - (b) EFRAG recommends that, subject to practicability, the IASB should add a specific requirement to disclose the following in respect of the amendment: nature of rent concessions, the financial statement line items affected and the amount recognised in financial statements.
 - (c) EFRAG notes that there is need for further clarity in the language applied in respect of the applicability of amendment to interim financial statements. The same applies on the timing of profit or loss effects of concessions that are forgiveness of rental payments. This text should also be in the main standard and not only in the basis for conclusion.
 - (d) EFRAG notes that there is need to avoid the relief being selectively applied across entities' covid-19-related rent concessions. EFRAG suggests that the language in paragraph BC4 of the ED should be updated to be more clear on whether the amendment ought to be applied to all covid-19 related rent concessions or only to a portfolio of similar contracts.

Questions for EFRAG TEG

- 4 Does EFRAG TEG agree with EFRAG Secretariat's analysis and recommendations to update the comment letter?
- 5 Does EFRAG TEG agree to recommend the proposed final comment letter to the EFRAG Board for approval?

Accompanying Agenda Papers

- 6 In addition to this cover note, the following papers have been provided for this session:
 - (a) Agenda Paper 01-02: IFRS 16 amendment - Comment Letter Analysis;
 - (b) Agenda Paper 01-03: IFR16 Proposed final comment letter (marked-up version); and
 - (c) Agenda Paper 01-04: IFR16 Proposed final comment letter (clean copy)

APPENDIX - INPUTS TO EFRAG FINAL COMMENT LETTER

EFRAG CFSS Outreach event on Covid-19-Related Rent Concessions

1 On 7 May 2020, EFRAG held an outreach event that involved the participation of representatives from the following National Standard setters: France, Lithuania, Portugal, Sweden, Spain, United Kingdom. Other attendees also included: ESBG, Business Europe, EFFASS, European Public Real Estate Association (EPRA), the IASB and some EFRAG TEG members.

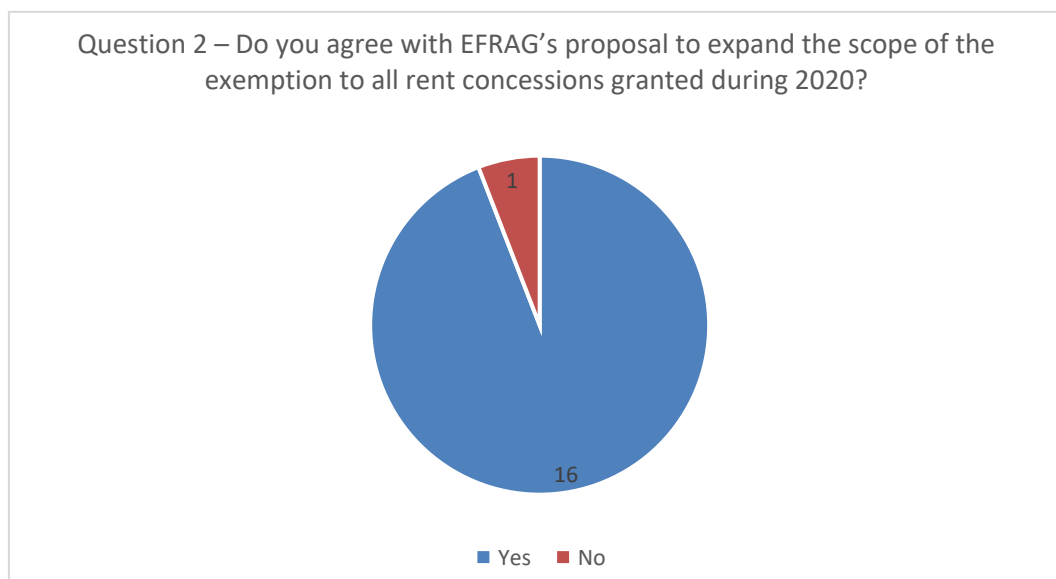
2 Participants' answers to the following questions were as follows:

Question 1 - Do you agree with EFRAG's support of the overall amendment?

3 All 17 participants answered yes to the question.

Question 2 – Do you agree with EFRAG's proposal to expand the scope of the exemption to all rent concessions granted during 2020?

4 Response to Question 2 is shown below:

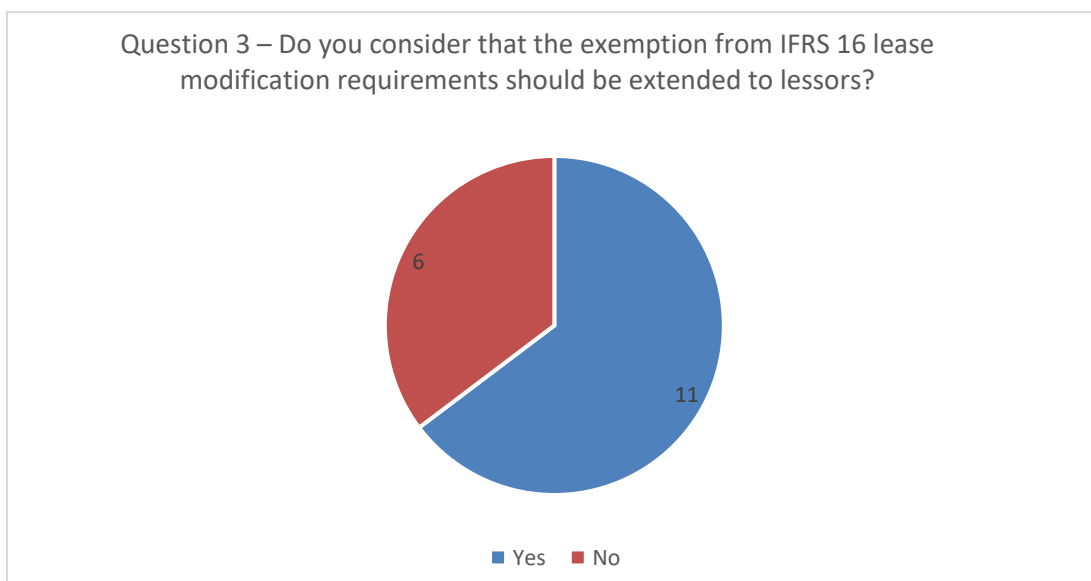


5 The participant that disagreed stated that it is because it is difficult to distinguish Covid-19-Related Rent Concessions from others and it could have unintended consequences due to its temporary nature and could jeopardise comparability.

Question 3 – Do you consider that the exemption from IFRS 16 lease modification requirements should be extended to lessors?

6 Response to Question 3 is shown below:

*ED/2020/2 Covid-19-Related Rent Concessions
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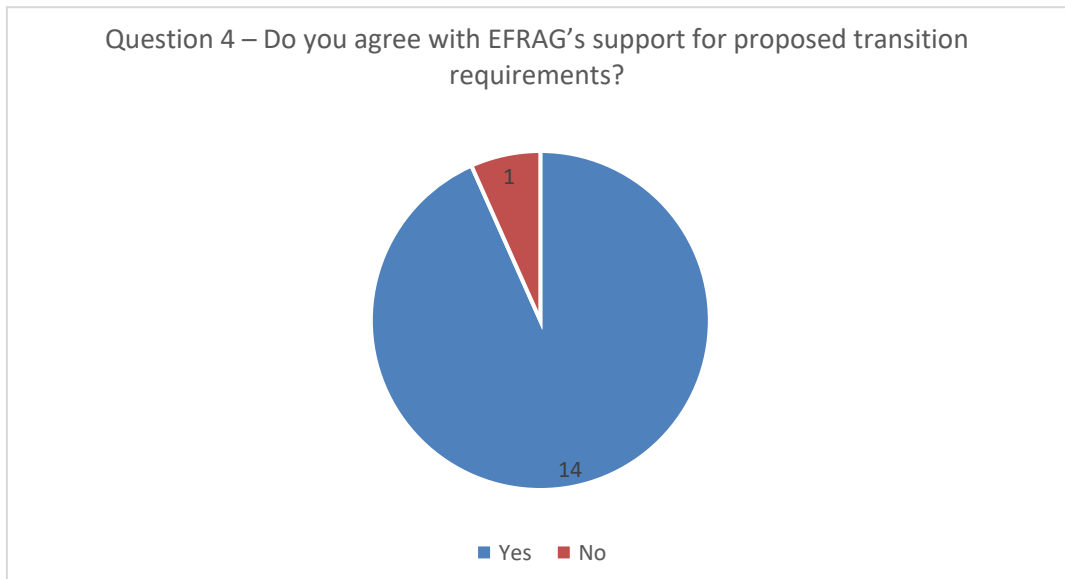


- 7 With reference to the lessors, participants indicated that the assessment of whether a rent concession is a modification could be complex specifically where rent concessions may be imposed by the government. They have noted that it becomes a legal question of whether it represents a change in the 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.
- 8 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 P&L when the lessor decides to provide the concession.
- 9 With reference to the lessee and the contents of the Amendments, one participant noted that for profit or loss recognition, there are some important points in the Basis for Conclusion that should rather be moved to the proposed amendment or Standard itself.

Question 4 – Do you agree with EFRAG’s support for proposed transition requirements?

- 10 Response to Question 4 is shown below

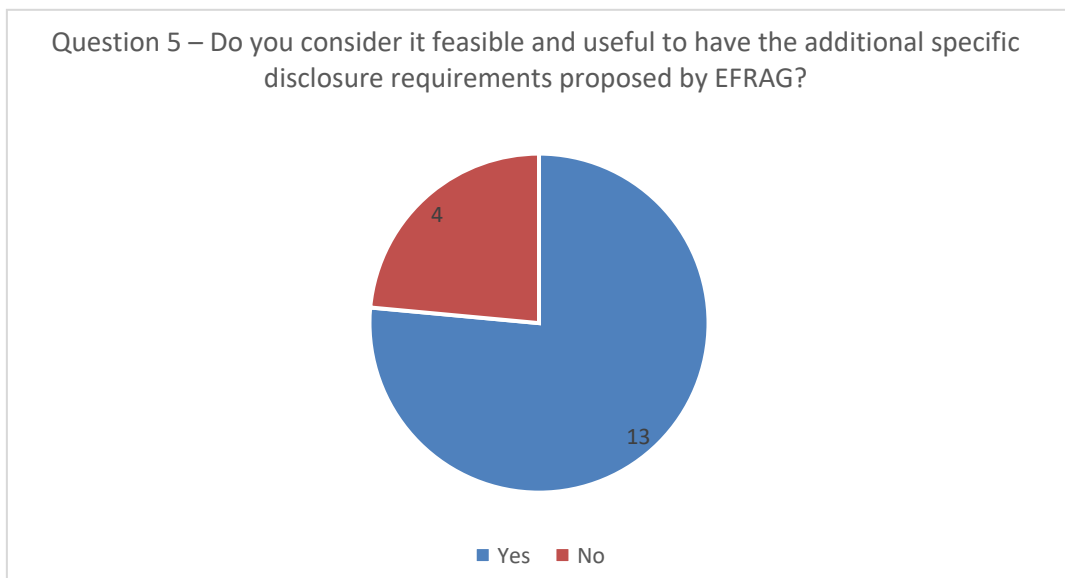
*ED/2020/2 Covid-19-Related Rent Concessions
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- 11 One participant disagreed with the proposed transition requirements as they have noted in their jurisdiction the non-deductible/non-taxable impact on taxation should they early adopt the amendment.

Question 5 – Do you consider it feasible and useful to have the additional specific disclosure requirements proposed by EFRAG?

- 12 Response to Question 5 is shown below



Feedback from limited outreach to users

- 13 EFRAG Secretariat participated in a limited outreach to users of financial statements. All users supported the amendment and mainly requested disclosures to help in discerning implications of applying the exemption for the Covid-19 related concessions. One user would have preferred if the application of the exemption was mandatory to lessen the comparability challenges` but others expressed the view that as it is a relief the exemption is likely to be adopted by most entities and they were comfortable with the exemption being optional. Some users sought clarity on the timing of effects of the concession on the profit or loss.