

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.

## **Summary and analysis of the comment letters received**

- 1 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final comment letter that is presented as agenda paper 01-03 and agenda paper 01-04.

### **Structure of the paper**

- 2 This comment letter analysis contains:
  - (a) Background;
  - (b) Outreach event 7 May 2020;
  - (c) Summary of respondents;
  - (d) Summary of respondents' views;
  - (e) Main positions in EFRAG's proposed final comment letter;
  - (f) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat's recommendations and questions to EFRAG TEG; and
  - (g) Appendix 2 – list of respondents.

### **Background**

- 3 On 24 April 2020 the IASB issued *ED/2020/2 Covid-19-Related Rent Concessions Proposed amendment to IFRS 16* ('the ED') with a comment period ending 8 May 2020. The ED proposes an amendment to IFRS 16 to permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications. Instead, lessees that apply the practical expedient would account for those rent concessions as if they were not lease modifications. The ED proposes no change for lessors.
- 4 EFRAG published a [draft comment letter](#) on the proposals on 30 April 2020 with a comment period ending 7 May 2020.
- 5 In the draft comment letter, EFRAG agreed with the proposals in the ED. EFRAG agreed with the need to provide relief for lessees given the challenges they face in assessing whether lease modifications have occurred under the circumstances of covid-19 and taking account of the initial overall challenges of implementing IFRS 16 *Leases* requirements. However, EFRAG would support expanding the scope of the amendment to include all rent concessions granted during 2020 and not just payments due in 2020.
- 6 EFRAG agreed with the requirement to disclose if the option provided in the Amendments are used. EFRAG also noted the requirements of IAS 1 *Presentation of Financial Statements* paragraph 31 and IFRS 16, which require entities to disclose any additional information needed to enable users to understand material

effects of, for instance, covid-19-related rent concessions on the primary financial statements.

#### **Outreach event 7 May 2020**

- 7 EFRAG hosted a public webcasted outreach event the 7 May 2020 to collect input from European constituents on the draft comment letter and on the preparatory draft endorsement advice.
- 8 Representatives from national standard setters of France, Lithuania, Portugal, Sweden, Spain and UK attended. Representatives of EFFAS, EPRA, Business Europe and ESBG attended.
- 9 A feedback statement will be prepared in preparation of the approval of the endorsement advice.
- 10 The tentative positions of EFRAG in the draft comment letter received broad support by the participants and the detailed comments received are substantially in line with the feedback obtained in the comment letters.

#### **Summary of respondents**

- 11 At the time of writing, 11 comment letters have been received and one respondent provided written support for the amendment without submitting a comment letter. A list of respondents can be found in Appendix 2.

#### **Summary of respondents' views**

- 12 Consistent with the view taken by EFRAG, respondents generally agreed with the views in EFRAG's draft comment letter. However, some respondents also noted the following:
  - (a) The scope of the exemption should be extended to lessors as a separate project;
  - (b) Suggested that paragraph BC4 of the ED clearly states that all covid-19 related rent concessions are treated consistently if this is the intention, in order to avoid the relief being applied for some types of covid-19-related rent concessions but not for others. Others suggested that there is need to clarify whether the amendment is applied on a lease-by-lease basis or for a portfolio of leases or for all leases that have covid-19 rent concessions.
  - (c) 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.
  - (d) 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.

#### **EFRAG Secretariat suggested positions in the final comment letter**

- 13 EFRAG agrees with the proposals in the ED. EFRAG agrees with the need to provide relief for lessees given the challenges they face in assessing whether lease modifications have occurred under the circumstances of covid-19 and taking account of the initial overall challenges of implementing IFRS 16 requirements.
- 14 However, EFRAG would support expanding the scope of the amendment to include all rent concessions granted during 2020 and not just payments due in 2020.
- 15 As part of a separate project, EFRAG suggests that the IASB consider extending the exemption from lease modification accounting requirements to lessors. Like

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lessees, they face challenges and complexity in the assessment of accounting implications of covid-19 related concessions.

- 16 EFRAG agrees with the requirement for entities to disclose the fact that the proposed amendment has been applied. To enable users to discern the impact of entities applying the amendment, 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.
- 17 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 be included in the main standard and not only in the basis for conclusion.
- 18 Finally, 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.

**Question to EFRAG TEG**

- 19 Does EFRAG TEG agree with EFRAG Secretariat's recommendations in *Appendix 1: Analysis and Summary of Comments* received?

## Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat recommendations and questions to EFRAG TEG

### Question 1 – Practical expedient

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

Paragraph 46 A 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 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.

### EFRAG's tentative position

EFRAG agrees with the proposal of the IASB to provide lessees with an optional exemption from assessing whether a covid-19-related rent concession is a lease modification. EFRAG agrees with the need to provide relief for lessees given the challenges they face in assessing whether lease modifications have occurred under the circumstances of covid-19 and taking account of the initial overall challenges of implementing IFRS 16 requirements. However, EFRAG would suggest to expand the scope of application in order to include rental concessions and renegotiations agreed in 2020, irrespective of when the payments were due.

#### Summary of constituents' comments

- 20 All comment letter respondents support the proposal of the ED. One respondent provided written support for the amendment without submitting a comment letter.
- 21 However, respondents made the following remarks:
  - The exemption
- 22 One respondent would have preferred a more principle-based approach and indicated that the renegotiations that may happen normally should be treated as lease modification. However, those that happen in extraordinary circumstances, such as the current case of Force Majeure officially recognised by the local authorities, should be treated as variable lease payments. This is because those are not a consequence of normal negotiations but a sort of inevitable behaviour in those specific dramatic circumstances. Articulating the amendment in this way could have been the merit to work also in the future for similar circumstances. The respondent questioned what would happen if, as consequence of an earthquake,

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lessors give concessions to lessees. The respondent believes that those should be treated similarly to what is proposed in the amendment. However, they recognise that the IASB proposal is a pragmatic solution in these current difficult circumstances, therefore they support the amendment, although it is a second-best solution.

- 23 One respondent indicated that 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 their jurisdiction, 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. Therefore, this respondent noted that the fulfilment of the conditions enumerated in paragraph 46B(a) and (c) is questionable in this case.

Scope: Applicability to lessors

- 24 Six respondents would appreciate if the IASB reconsidered a potential exemption for lessors, as they equally face challenges, especially as regards the difficult assessment of contracts to determine whether a rent concession is a lease modification.
- 25 Two respondents specifically indicated that it should form part of a separate project to not delay the proposed amendments and indicated that, in cases that there is a lease modification, the lessor still need to determine how to account for it as the current literature. One respondent specifically indicated that it is ambiguous in that regard.
- 26 However, one respondent did not believe there is sufficient evidence to support extending the relief.

Scope: Timeframe restrictions

- 27 Consistent with EFRAG's view, six respondents recommend that the relief should be extended from any reduction in lease payments affecting only payments originally due in 2020, to include rent concessions where any reduction in lease payments is agreed in 2020 and even if it affects payments beyond 2020. This would ensure, for example, that any covid-19 related rent concession periods which overlap 31 December 2020 are fully eligible.
- 28 Other respondents suggested almost similar solutions:
- (a) One respondent indicated that they are not completely convinced that the burden on an entity to assess contracts for modifications would really be that much lowered if the lockdown continued well into or even beyond the second half of the year (e.g., if it was reinstated should the numbers of people infected rise again). Therefore, they suggested an alternative that may therefore be to link the relief to a 12-months period starting from the effective date rather than the 2020 calendar year, or to phrase the exception in an "the earlier of" way, as this could reduce the possibility of having to extend the exception again later in the year.
  - (b) Another respondent suggested to extend the application of the practical expedient to payments originally due in 2020 and 2021 and over.
  - (c) One respondent indicated that all rent concessions that are negotiated as a direct consequence of covid-19 should be included.
  - (d) One respondent asked for additional guidance or take a broader approach of the proposed amendment.

*EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 29 Based on comment letters received and feedback from outreach, EFRAG Secretariat notes that there may be a need to assess the challenges of lessor accounting for covid-19 related concessions. The EFRAG Secretariat suggests that in order not to jeopardise the finalisation of this amendment, the IASB should consider the challenges of lessor accounting in a separate project.
- 30 For timeframe restrictions, EFRAG Secretariat suggests that the position in the draft comment letter is not changed.

*Question 2 – Effective date and transition*

**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) (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) (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.

*EFRAG's tentative position*

EFRAG agrees with the suggested proposal that entities should apply the exemption retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but are not be required to restate prior period figures.

*Summary of constituents' comments*

- 31 Seven respondents generally agreed with the proposed effective date of 1 June and the transitional requirements. Respondents also made the following remarks:
- (a) Two respondents did not explicitly express a view on the effective date.
- (b) One respondent did not support the effective date as for tax purposes the accounting treatment resulting from an early adoption of an amendment to an existing IFRS may not be considered. They have noted that many listed firms use IFRS in their separate financial statements, meaning that they assess their corporate income tax from IFRS financial statements. This means that for tax purposes the proposed amendment could not be relevant for 2020 annual reporting period, which may cause unnecessary tax litigation and therefore suggested that the amendment should be effective to all periods ending after 30 June 2020.
- (c) Five respondents highlighted the importance of the issuance of the amendment as soon as possible in consideration of time needed for EU to endorse the amendment.

*EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 32 Considering the comments received from respondents, the position in the draft comment letter has not been changed.

*Other matters*

*EFRAG's tentative position*

EFRAG acknowledges that by allowing entities with an option to apply the exemption, comparability could be reduced. Therefore, EFRAG supports the proposal in paragraph 60A of the ED to require entities applying the exemption to disclose that fact.

*Summary of constituents' comments*

Disclosures

- 33 One respondent proposed the following disclosure to be added:
- (a) the nature of rent concessions granted;
  - (b) how the practical relief has been applied; and
  - (c) the financial statement line items affected, and the amount recognised in the financial statements resulting from covid-19 related rent concessions.
- 34 A user respondent supported the disclosures elaborating the amounts.
- 35 Another respondent encourages the IASB to require that when applying the expedient, issuers should provide disclosures to ensure that users of financial statements can understand the nature and impact of the rent concessions obtained from lessors, such as a description of such concessions and their impact on the lease liability. This will be especially beneficial for cross-border investors, given the diversity of measures available to preparers across different jurisdictions.
- 36 One respondent noted that the information that is useful for assessing the impact of covid-19 on the financial performance is not limited to lease concessions. As such it would not be appropriate for this amendment to require additional specific disclosures related to this topic.

Applicability to interim financial statements

- 37 One respondent questioned 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'. This respondent noted that it may be more helpful to either delete the aforementioned supplement or to explicitly include interim financial statements in paragraph C1A in order to avoid such confusion. Another respondent asked whether the amendment should be mentioned in the interim financial statements.
- 38 One respondent noted that:
- (a) for simplification, as well as for convergence with US GAAP reasons, they would favour the most simple and converged solutions that would also contribute to preserve a level-playing field in these difficult economic times;
  - (b) while paragraph BC5(c) deals with modifications that are unrelated to the covid-19 pandemic, the example bracketed in the same paragraph relates to a modification eligible to the practical expedient and thus may be misleading; and

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- (c) a more consistent application could be achieved by providing detailed examples, as was the case in the IASB Agenda Paper 32B of April 2020. These examples have been greatly appreciated and could easily be included as an application guidance.

Timing of impact of concessions on financial statements

- 39 Two respondents considered it helpful if the proposed amendment would clarify how to account for the covid-19-related rent concession, i.e. immediate gain recognition or spreading the gain over the corresponding period.

Application by preparers

- 40 One respondent recommended that paragraph BC4 of the ED clearly states that all covid-19 related rent concessions are treated consistently if this is the intention, in order to avoid the relief being applied for some types of covid-19-related rent concessions but not for others. Two respondents also voiced a similar concern indicating that the IASB should clarify whether the assessment should be made on a lease-by-lease basis, by portfolio or for all the contracts.

*EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 41 The comment letters received on disclosures highlight mixed views on whether specific disclosures should be required. Taking account of the user comment letter response and outreach feedback to users of financial statements and feedback during the EFRAG outreach event, the EFRAG Secretariat proposes that, subject to practicability, the IASB should add a specific requirement to disclose the nature of rent concessions, the financial statement line items affected and the amount recognised in financial statements amount of payments for which the option has been applied.
- 42 Considering the comments received, the EFRAG Secretariat proposes to amend the final comment letter to include additional text to suggest the explicit inclusion of interim financial statements in paragraph C1A of the ED or the deletion of the following wording: "*including in financial statements not yet authorised for issue at the date the amendment is issued*" in order to avoid confusion.
- 43 The EFRAG Secretariat proposes to amend the comment letter to suggest that the language in paragraphs BC7 (a) and BC9 further clarify the timing of profit or loss effects due to concessions that are forgiveness of rentals. This text should also be included in the main standard and not only in the basis of conclusion.
- 44 The EFRAG Secretariat proposes to amend the comment letter to add additional text in the proposed final comment letter to suggest 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.
- 45 The EFRAG Secretariat proposes not to include the point raised on US GAAP convergence the final comment letter for two reasons:
- (a) The FASB only issued educational material on this topic rather than updating US GAAP requirements.
  - (b) The effective point being made is that lessors ought to be within the scope of the amendment and this point is already included in the EFRAG comment letter.



## **Appendix 2 – List of respondents**

- 1 Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter were as follows:

<b>Name of constituent</b>	<b>Country</b>	<b>Type/Category</b>
Accounting Standards Committee of Germany (ASCG)	Germany	Standard Setter
OIC	Italy	Standard Setter
Business Europe	Europe	Business Association
UK Financial Reporting Council (FRC)	United Kingdom	Accounting Association
CNC Portuguese Accounting Standard Setter	Portugal	Standard Setter
Federation Bancaire Francaise (FBF)	France	Business Association
Accountancy Europe	Europe	Accounting Association
ANC	France	Standard Setter
EFFAS	Europe	Business Association
ESMA	Europe	Regulator
Polish Accounting Standards Committee (PASC)	Poland	Standard Setter