

Mr Jean-Paul Gauzès
President
European Financial Reporting
Advisory Group (EFRAG)
35 Square de Meeûs
1000 Brussels
Belgium

Ref: EFRAG's Draft Comment Letter on the IASB's Exposure Draft *COVID-19 Related Rent Concessions - proposed amendments to IFRS 16*

Dear Mr Gauzès,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to EFRAG's due process regarding the draft comment letter on the IASB's Exposure Draft ED/2020/2 *Covid-19 Related Rent Concessions*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRS.

Like EFRAG, ESMA very much welcomes the initiative of the IASB to introduce a practical expedient that may provide relief for lessees in accounting for rent concessions granted by lessors in the very specific circumstances of the COVID-19 pandemic. More specifically, we agree with the proposal that a lessee should be allowed to elect *not* to assess whether a COVID-19 related rent concession is a lease modification or not and therefore be allowed, generally, to account for the effects of such concessions of lease payments in profit or loss. We agree that in the current circumstances such proposal would provide a practical relief to entities whilst still ensuring that users of financial information continue to have useful information on preparers' leases.

ESMA acknowledges that there is a risk that the relief proposed by paragraph 46A would be applied too broadly and agrees therefore that the scope of the practical expedient should be limited so that it applies only to rent concessions that occur as a direct consequence of the COVID-19 crisis. However, similarly to EFRAG, we think that reducing the timeline of application only to lease payments originally due in 2020 might be overly restrictive. In fact, we are aware that in some EU jurisdictions entities can request the suspension of lease payments outstanding for up to 12 months. Therefore we would recommend that the Board further assesses the relevant applicable length of the practical expedient and we suggest for instance

that it might be relevant to extent applicability to all COVID-19-related rent concessions that have originated in 2020 provided that they occur by end of Q2 2021.

ESMA also recognises that the introduction of this practical expedient might have an impact on comparability and therefore welcomes that the IASB's proposal would require the disclosure of its application. However, ESMA 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.

Furthermore, we would strongly recommend that, in finalising the amendments, the IASB accompanies them with examples, leveraging for instance on those provided in Table 1 of Agenda paper 32B submitted to the April IASB meeting. This would be necessary to ensure a shared understanding and thus consistent application of the requirements. It would be important that examples cover a range of scenarios, for example rent payments deferred with and those deferred without an increase to the nominal amount. Furthermore, ESMA recommends that the IASB explicitly clarifies in the BC or through an example that a rent concession is a (negative) variable payment for which paragraph 38 of IFRS 16 is applicable and that, consequently, the amounts forgiven by a COVID-19-related rent concession are not included in the measurement of the lease liability.

Finally, ESMA encourages the IASB to further assess whether there is a need to provide relief for lessors in order to avoid accounting mismatches for intermediaries which are both lessees and lessors and to avoid the creation of an uneven level playing field between IFRS and US GAAP preparers. Notwithstanding this, any change in the scope of the relief should not delay the proposed amendments for lessees, which will be helpful only if provided in a timely manner.

In case you have any questions or comments please do not hesitate to contact me or Evert van Walsum, Head of the Investors and Issuers Department (Evert.vanWalsum@esma.europa.eu).

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S/M'.

Steven Maijor