

EFRAG – European Financial Reporting Advisory Group
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**EFRAG Draft Comment Letter on the IASB’s Exposure Draft ED/2020/2,
Covid-19-Related Rent Concessions. Proposed amendments to IFRS 16**

The Danish Accounting Standards Committee (‘DASC’) set up by FSR – danske revisorer is pleased to respond to EFRAG’s Draft Comment Letter on the IASB exposure draft “Covid-19-Related Rent Concessions”. Our comments to the specific questions in the draft comment letter are presented in Appendix A.

We welcome the responsiveness of the IASB in issuing this ED to address issues identified by lessees following changes to their leasing arrangements as a consequence of Covid-19 and encourage IASB to finalize the proposals providing relief to lessees as soon as possible and also the EU to prepare for fast track endorsement procedure.

DASC is generally supportive of the proposals in the ED and the proposed comments from EFRAG. We agree with the comments in EFRAG’s draft comment letter and the need to provide relief for lessees due to the circumstances brought about of the Covid-19 pandemic.

In particular, we agree with EFRAG’s suggestion to expand the scope of application in order to include all Covid-19-related rental concessions and renegotiations agreed in 2020, irrespective of when the payments are due.

DASC has a concern regarding not having the same relief for lessors, primarily to leases classified as operating leases by the lessors. The requirements in IFRS 16 about lease modification on operating leases could lead to the result that it does not faithfully represent the economics of many concessions. If a lessor provides significant reductions in rent to lessees, the effect of that relief will be reflected in future periods, and in some cases, many years after the effects of covid-19 have ceased.

That said DASC agrees that time is of essence here and accepts the urgency of finalizing the practical expedient for lessees first before considering lessor-related amendments.

If you have any questions and comments, please do not hesitate to contact us.

Kind regards

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Appendix A

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

DASC agrees with EFRAG that the proposed practical expedient would provide lessees with practical relief. DASC agrees that the proposed relief should only apply to Covid-19-related concessions but notes that it can be difficult in practice assessing whether a concession is 'directly' related to Covid-19 [in 46B]. It may be considered to leave out the word 'direct' [in 46B].

DASC also agrees that negotiations relating to Covid-19 concessions and the subsequent reductions in payments will, in many cases, extend beyond the end of 2020. Therefore, DASC also supports EFRAG's comment on expansion of the scope of the amendment.

Question to Constituents [22]

DASC agrees with EFRAG that in the interest of time, the scope of the proposed amendment must be limited to lessees.

In the Danish environment, discussions have taken place about when and how a lessor should account for concessions. Therefore, DASC recommends EFRAG should consider encouraging the IASB to consider separately, without delaying the finalization of the proposed amendments for lessees, the impact of Covid-19-related concessions on lessors as we understand there may be jurisdictions where such clarification is urgent.

Question 2 - Effective date and transition (paragraphs C1A and C20A of the Draft amendment to IFRS 16)

DASC agrees with EFRAG.

Question to Constituents [36]

DASC agrees that focus needs to be on the main purpose of the amendment (i.e. to reduce the accounting burden to the preparers resulting from the concessions). Therefore, in DASC's view it would be counterproductive to the main purpose to add too many specific disclosure requirements. DASC agrees with EFRAG on the IASB proposal to require entities applying the exemption to disclose that fact and how the relief has been applied.