

Mr Hans Hoogervorst

**IASB Chair**

Columbus Building,  
7 Westferry Circus, Canary Wharf

London E14 4HD  
United Kingdom

Paris, 8 May 2020

**ED/2020/2 – Covid-19-Related Rent Concessions – Proposed amendment to IFRS 16**

Dear Hans,

Mazars welcomes the Board's proposal to amend IFRS 16 in order to provide relief to preparers in accounting for Covid-19-related rent concessions.

Some preparers are parties to a huge number of lease contracts, and Covid-19-related rent concessions might be numerous for them. Accounting for these concessions in the next interim financial statements in accordance with the educational material published on 10 April 2020, making a distinction between concessions that are contract modifications and those that are not, would not be possible for those preparers without incurring undue costs and efforts. Furthermore, we question the relevance of the accounting outcome of a contract modification, which would lead to spreading the benefit of the concession over the remaining lease term, while those concessions aim at compensating costs specifically incurred during the Covid-19 crisis.

Therefore, we welcome the efforts of the Board to propose this pragmatic and applicable solution, and to shake up the usual due process so that it is available, from an IFRS point of view, for the next interim financial statements. By doing this, the Board not only provides issuers with the practical expedient which they need, but it also makes it possible to maintain convergence between IFRS and US GAAP whilst maintaining a level-playing field.

While we fully support the objectives of the Board and the practical solution proposed in the draft amendment, we have some concern that we think are worth sharing:

1. *Scope of the amendment:*

The Board has decided to provide relief to lessees only.

We agree with the Board that the main difficulty in accounting for those rent concessions relies in the assessment of whether the concession is a contract modification or not. It is the main rationale for the amendment exposed by the Board in BC2.

We strongly believe that this assessment would be difficult for lessors as well if they manage a large number of contracts in various jurisdictions. While we agree with BC3 that lessors have not suffered significant changes in the accounting for leases applying IFRS 16, and would not have to make any change to recognized assets and liabilities when an operating lease is modified, we note that the accounting by lessors for those concessions will depend primarily, as it does for lessees, upon the contract modification assessment. We believe that this assessment might require undue costs and efforts for lessors as well, together with a significant level of judgement.

In addition, intermediate lessors in a sub-lease agreement would benefit from the relief in their position as lessee, and would not in their position as lessor, which would create an accounting mismatch.

We therefore recommend the Board to extend the option in par. 46A to lessors as well. Nevertheless, if the Board were to follow this recommendation, it should not delay the publication of the amendment applicable to lessees.

2. *Definition of a Covid-19-related rent concession:*

Paragraph 46B(b) proposes to limit Covid-19-related rent concessions to reductions in lease payments that were originally due in 2020. While we understand the Board's concern expressed in BC5 that the practical expedient is not applied too broadly, we question the relevance of such a cleaver and would have preferred an area for judgement as to whether the rent concession is fully, or partially, related to the Covid-19 pandemic. Indeed, one cannot know when the crisis will be over and for how long some lessees would need rent concessions. We fear that 2020 might not be enough and that the boundary set by the Board would exclude from the scope of the practical expedient some rent concessions that are obviously related to Covid-19. It would happen if in late 2020 some new containment measures are implemented by governments in order to avoid a resumption of the epidemic.

In addition, a lessor might grant a reduction in lease payments starting April 2020 for one entire year. We believe it would not be appropriate to account for the concession as

variable lease payments for the 9-months in 2020 and account for a lease modification for Q1 2021.

Besides, when BC5(b) states that *“In contrast, if reductions in lease payments extend beyond 2020, the rent concession would not be within the scope of the practical expedient.”*, it is not clear whether the entire rent concession (including payments originally due in 2020) is excluded from the scope of the practical expedient, or only the 2021 part of the concession.

We therefore recommend that the Board limit the practical expedient to rent concessions granted in 2020, irrespective of whether the related payments were originally due beyond 2020. If the reduction in lease payments is granted for a long period of time, the entity would need to apply judgement in assessing which part (if any) of the rent concession relates to the Covid-19 pandemic.

### 3. *Accounting consequences of applying the practical expedient:*

We agree with the Board’s objective to have a one-size-fits-all amendment in the Standard, and that it would probably be difficult to address all situations through a precise wording. Considering the different natures of rent concessions that might exist (total or partial forgiveness, deferral of lease payments, or mixed...), it would have been difficult to deal with the accounting for each situation in the core Standard.

Therefore, the accounting consequence of applying the practical expedient (i.e. *“the same way it would account for the change applying this Standard if the change were not a lease modification”* – §46A) is not straight forward without the help from guidance in the Basis for Conclusions (BC7 and BC8) or in the aforementioned educational material.

We have the following comments regarding that guidance:

- It is not clear whether an entity that applies the practical expedient is prevented from adjusting the right of use asset. BC7(a) states that *“A lessee applying the practical expedient would **generally** account for a forgiveness or waiver of lease payments as a variable lease payment applying paragraph 38 of IFRS 16.”* and the educational material says *“(…) that change would **generally** be accounted for as a variable lease payment. In this case, a lessee applies paragraph 38 of IFRS 16 and **generally** recognises the effect of the rent concession in profit or loss.”* We are wondering what the other accounting possibilities are when an entity does not account for the transaction as “generally”. If adjusting the ROU asset is not an option, it should be clearly stated, preferably in the core Standard.

- We believe that BC7 and BC8 do not provide sufficient guidance to properly account for the different types of rent concessions that might exist, and we would have expected some illustrative examples, on the basis of those provided in the staff paper AP32B for the supplementary Board meeting on 17 April 2020.
- In addition, we understand from BC8 that, applying the practical expedient, when a rent concession is granted for several months, the lease liability is remeasured at the present value of the new lease payments (“(...) *the lease liability recognised by a lessee applying the practical expedient would represent the present value of future lease payments owing to the lessor.*”). We then understand that any decrease in the lease liability would be accounted for as a variable lease payment. This raises the following concerns:
  - It would imply a one-off recognition of the concession, whereas the concession relates to a period of several months. This appears to be inconsistent with the notion of variable lease payments in IFRS 16, that applies to a period rather than to a one-time event.
  - It seems to be inconsistent with the example in staff paper AP32B (Forgiveness of lease payments): in this example, the lease liability is decreased by the nominal value of forgiven lease payments, without any recalculation of present value of the new lease payments. Interest expense is measured and accounted for as if no concession were granted (and it is the same in the example of deferral of the lease payments) and the P&L impact corresponds to the nominal value of the forgiveness.
  - Remeasuring the present value of the lease payments after rent concession would add complexity to an accounting model that aims at providing relief to preparers. They would need to update future lease payments for numerous contracts in their lease-management system, which is probably not set up to handle rent concessions according to the examples.
  - We strongly believe that the most practical way to account for these rent concessions would be, in the simple case of forgiven lease payments, deferred lease payments, or partially deferred, partially forgiven lease payments, not to change anything in the lease-management system and to account for the lease liability and the interest expense as if the lease payments were made according to the original terms of the contract. The remaining accounting entry relates to how to account for the fact that the lease payments are not made: against P&L in case of forgiveness, and against liability in case of deferral (or both if the rent concession is mixed).

4. *Disclosures:*

The ED does not propose any disclosure requirement. We believe that information should be provided on:

- the fact that the entity has applied the practical expedient to the Covid-19-related rent concessions it has been granted,
- the amount of rent concessions recognised through P&L during the period.

Should you have any questions regarding our comments on the tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 6 62 98 55 37) or Edouard Fossat (+33 6 62 99 57 81).

Yours faithfully

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**Michel Barbet-Massin**

*Financial Reporting Advisory*

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**Edouard Fossat**