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May 8, 2020

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London, UK E14 4HD

Re: COVID-19 Related Rent Concessions

Dear Mr. Hoogervorst:

CFA Institute appreciates the opportunity to comment on the International Accounting Standards Board's (IASB's or the Board's) Exposure Draft, *COVID-19 Related Rent Concessions* (the Exposure Draft or ED). CFA Institute[1] is providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally and in consultation with the Corporate Disclosure Policy Council ("CDPC").[2]

Overarching Consideration for Investors:
The Impact of Rent Concessions on the Amount and Timing of Cash Flows

Through our comments below, we respond to the questions articulated in the Exposure Draft. For investors the challenge in responding to the consultation is that we must move from the pragmatic desire to provide relief to preparers amidst the pandemic – which we have empathy for – and the theory of providing such relief by way the words in the Exposure Draft to the analytical consequences of such a change. This requires understanding the actual implications of such relief on the financial statements as only then can the analytical impacts and what will be visible to investors, be fully understood. As we describe below, the nuances, and impacts on the financial

1 CFA Institute is a global, not-for-profit professional association of nearly 171,400 investment analysts, advisers, portfolio managers, and other investment professionals in 165 countries, of whom more than 164,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 154-member societies in 77 countries and territories.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

statements are many. Too many to fully, robustly consider and evaluate in the two-week exposure period. That said, we endeavor to contribute and provide investor views as we respect the Board's decision to respond pragmatically to the unique global circumstance. We would take this moment and the opportunity it presents to recognize the importance of global standard-setting as we endeavor as investors to stitch together the impacts of the IASB's relief actions under this Exposure Draft revising IFRS 16, *Leases,* to those being provided in US GAAP by the Financial Accounting Standards Board (FASB) in the Q&A interpreting Accounting Standards Codification (ASC) Topic 840 and 842, *Leases*. Considering the implications of the relief under IFRS and US GAAP and the resulting analytic impacts is challenging, made even more challenging by different approaches to lessee accounting in the US and globally and the different relief, especially the relief period, being provided under US GAAP and IFRS.

With all of that said, in the end, the central question of interest to investors is: How much less cash will the company pay because of rent concessions and when will this occur? Said differently, investors are concerned most about the economic impact rent concessions will have on the amount and timing of cash flows. Given the options available in the accounting for rent waivers, deferrals or term extensions, disclosures – that allow investors to set aside all the differing financial statement effects and focus on the cash effects – will be essential. ***For that reason, and as we articulate below, we believe the IASB should in the basis of conclusions to the final standard emphasize with greater specificity the type of disclosures that will enable investors to understand the nature of the rent concessions received, their impact on the amount and timing of cash flows, and the policy choice a company has taken in preparing the financial statements. Further, the impacts of the rent concessions must be appropriately contextualized with disclosures that sufficiently explain their impacts on the financial statements. It is insufficient, in our view, to simply refer to IFRS 16 and IAS 1, Presentation of Financial Statements, and say existing disclosure principles are sufficient. This expedient was necessary because such an event was not contemplated; correspondingly, neither were the necessary disclosures. In our view the disclosure reminder in Paragraph 60A and BC 10 are insufficient as these standards did not contemplate this level of relief and the potential financial statement consequences.***

Support Relief:

Generally, Don't Support Suspension of Accounting Standards in Periods of Economic Stress

As a matter of principle, we generally do not support changes to accounting standards during stressful moments of the economic cycle. We believe accounting standards are developed with the most useful information to investors as the objective and this does not change during periods of economic stress. On the contrary, it generally becomes even more important. We believe suspensions generally undermine trust and robustness of high-quality accounting standards. Having said that, we understand IFRS 16 became effective just last year and the unexpected COVID-19 pandemic has increased complexities in accounting for rent concessions for lessees. The standard is new, the physical and logistical barriers are unique, and the number of rent concessions unprecedented. Therefore, we support the ED's proposed relief guidance to address the issues at hand, provided the scope is narrow and sufficient disclosures are required and provided to inform users about the nature, amount and timing of such rent concessions impact on cash flows. And, so that investors will be able to isolate and understand the comparability issues that will result both this year and in subsequent years.

Comparability: A Significant Casualty of the Exposure Draft

As a result of the items described below, ***comparability will be a significant casualty of the Exposure Draft***. As such, ***investors need disclosures to isolate the cash flow impacts and facilitate adjustments to normalize for these comparability issues***.

Policy Choice: Practical Expedient "or" Modification is Not Preferred

The ED proposes a policy choice enabling preparers to decide whether to account for the COVID-19 related rent concession as a lease modification or as if there is no lease modification (i.e. the practical expedient). This choice will create a lack of comparability between companies. Ideally, we would have preferred a mandatory requirement to ensure consistent global application. The financial statements prepared applying the COVID-19 practical expedient could be significantly different from those prepared applying the original IFRS 16 modification accounting. For that reason, we believe the IASB should require companies to disclose the policy choice they took and why it was selected.

Policy Choice: Must be Consistent Across Company and Time

Further, if the practical expedient is elected by a company, we believe it is essential that it should be applied uniformly to all of the company's leases that are impacted by rent concessions. Policy relief applied differently at the individual lease contract level – or even differently across different types of leases within the company – will add more complexity and opacity for users in understanding the overall impact of rent concessions. Additionally, we believe the relief should be applied consistently by companies over the rent concession period. A company should not account for concessions in the first half of 2020 differently from those later in the year. Once the policy choice is made, it should be applied consistently across lessee contracts and across time during 2020. Said differently, the practical expedient must be applied consistently throughout the interim and annual reporting period.

Rent Concession Interpretations & Application of Accounting Mechanics Impact Comparability

As we note below, definitional considerations with respect to what constitutes a rent concession – if interpreted differently – will also impact comparability. For that reason, we believe there should be a very explicit, well-articulated and narrow definition of rent concessions.

Further, as we note below in our consideration of financial statement implications, there are mechanical differences or choices in the treatment of the accounting for rent concessions that are deferrals. ***In our view, the Board needs to include a discussion of the financial statement effects of rent concessions that are deferrals in Paragraphs BC7-BC10, a section which is meant to describe effects on information provided to users of financial statements. The financial statement effects of deferrals, the more likely rent concession, are not described in the Exposure Draft. This is a significant omission. Investors need to have a clear line-of-site into obligations which have been deferred and their impacts on the financial statements. Simply retaining the liability without indicating it would otherwise have been past due is not sufficient communication. This is an example of a situation where existing disclosures are insufficient in this unique circumstance and need to be refined and emphasized as part of the Exposure Draft***.

The Limited Relief Period Creates Comparability Issues
We would also note that the limited relief period (i.e. only rent concessions in calendar year 2020 are subject to the practical expedient) creates interpretive and comparability issues. While certainly creating comparability issues with US GAAP which has no limit on its relief period, there will be comparability issues within and between companies applying IFRS with different year-ends. For example, a company with a 31 March year-end and with concessions extending beyond calendar year 2020 may not be able to apply the same accounting in the first three quarters (those in calendar year 2020) of their fiscal 2021 financials as in the last quarter of their fiscal 2021 financials.

The Effects & Nuances Will Be Many: Comparability Issues Will Persist in to Future Periods
As we work through implications of the practical expedient, the application of the relief will be driven by: the nature of the concession (e.g. wavier vs. deferral); a company's reporting period (e.g. 31 March in India, 30 June in Australia and 31 December in many regions); its reporting frequency (e.g. quarterly vs. half-yearly) and related due dates; and how such time periods and deadlines have intersected with the spread of the virus and public safety measures undertaken to reduce the spread that also limit access to books and records. The result will be comparability issues that arise between jurisdictions, between companies, and within companies. This will challenge investors. Further, these comparability impacts will linger for several years until 2020 results are no longer reported as comparable periods.

Rent Concessions: Definition & Relief Period Considerations
The ED states that the practical expedient be available 'as a direct consequence of the COVID-19 pandemic' and that the relief applies only to reductions in payments originally due in 2020. We believe the IASB may need to be more explicit in its definition of rent concessions and the relief period over which they are allowing the practical expedient.

1) *Non-Payment vs. Concession* – Rent concessions are not the same as the non-payment of rent. We believe the Exposure Draft basis of conclusions should make clear that the rent concessions referred to in the Exposure Draft must have been agreed to by the lessors – not simply those in the process of being negotiated with the lessor. Only these represent true concessions. Non-payment of rent, even during a negotiation period, should not be considered a rent concession.

2) *'As a Direct Consequence of COVID-19'and 'Only Payments Originally Due in 2020'* – We think there needs to be a clearer description of the rent concessions subject to the Exposure Draft as set forth in Paragraph 46B.
    a. First, ***the Exposure Draft should lead with the applicability of the practical expedient being only to payments originally due in 2020. Currently, the paragraph leads with, or emphasizes, the connection of the rent concessions to the COVID-19 pandemic and then limits the relief period to rent payments originally due in 2020. Leading with 'as a direct consequence of COVID-19' may be interpreted to imply a much broader reason for the relief than the mechanical practicalities of applying the standard***.

    Our understanding is that the relief is a practical expedient meant to accommodate a company's inability to compute modifications during the pandemic because of logistical and volume issues. The relief, as we understand it, is not being provided because of the economic consequences resulting from COVID-19, but because of the practical realities of processing so many rent concessions and applying the modification accounting under IFRS 16 in such a short period of time. It is our understanding that it is not an accommodation meant to provide companies with a window to renegotiate the amount or timing of lease payments to adjust for the economic effects of COVID-19.

We believe beginning Paragraph 46B with the time-period of the relief and following it with 'as a direct consequence of the COVID-19 pandemic', makes it more apparent that the reason for the relief is the practicalities of applying lease modification accounting rather than accounting for the economic effects of COVID-19.We believe the paragraph should be restated to indicate that during this period in 2020 the rent concessions – as a direct result of COVID-19 – are subject to such relief, but not after that period even if related to COVID-19.

Further, it may be necessary to more explicitly state in the basis for conclusions that the practical expedient relates to payments waived and deferred in 2020 and not those negotiated during 2020 for periods beyond 2020.

b. Second, ***we also believe Paragraph 46B needs to be more explicit in stating it applies to rent deferrals and lease term extensions, not simply waivers of rent. This more common/familiar language is not explicitly used in Paragraph 46B***. Rather, it must be inferred[3] by the description in the parenthesis (i.e. reduced lease payments in 2020 and increased lease payments that extend beyond 2020) of Paragraph 46B(b). The language in Paragraph BC5(b) is not much clearer. Further, the failure to explain the financial statement impacts of the accounting for a deferral in Paragraph BC7(b) as clearly as is done for a waiver in Paragraph BC7(a)makes the interpretation of the applicability to rent deferrals even more challenging. The need to infer the ED's application to deferrals – and to read the entirety of the standard and the basis of conclusions and discuss with members of the IASB staff to understand – is an indication the wording is not sufficiently clear. The standard should not require this degree of analysis and synthesis to determine the applicability to deferrals (i.e. the most likely rent concessions).

[3] ***If one searches the Exposure Draft for the term "defer" or "deferral" it is not used, similarly the term "extension" (as in lease extension) is never used. The term "waiver" is used. A reader of the Exposure Draft must infer the inclusion of both deferrals and lease term extensions from the language 'reduced lease payments in 2020 and increased lease payments that extend beyond 2020' in Paragraph 46B(b) – which is confusing given the limitation of the relief period to payments in 2020 in the same paragraph, as actually the relief is extended beyond 2020 with a deferral or term extension.*** The language in Paragraph BC5(b) which is meant to explain Paragraph 46B(b) is not much clearer. Further, the failure to explain the impacts of the accounting for a deferral in Paragraph BC7(b) as clearly as is done for a waiver in Paragraph BC7(a) makes this more confusing. The standard should not require reading of the entirety of the standard, the basis of conclusion and the use of inference to reach this conclusion. Especially, when deferrals are the most probable rent concession.

3) *Limited Relief Period: May Result in Subsequent Request for Relief* – Based on a recent, soon to be published CFA Institute survey, *COVID-19 and The Impact on The Investment Management Industry (April 2020)*, only 10% of respondents expect a V-shaped recovery. While we initially were concerned that the window of relief was not sufficient (i.e. the pandemic impacts may go beyond 2020) and might need to be extended, we now understand the IASB's objective is to provide a practical expedient for companies to choose during a business continuity interruption.

   As we describe above, our understanding is that the relief is a practical expedient meant to accommodate a company's inability to compute modifications during the pandemic because of logistical and volume issues. It is not an accommodation meant to provide companies with a window to alter leasing arrangements and the accounting over the entirety of the period companies may experience business and economic consequences as a result of COVID-19.

   We believe it is important for the IASB to make clear that rent concessions after 2020 – possibly on the same leases they took the practical expedient – will be accounted for as modifications in 2021

   We also believe it is important to add such clarification because such a time-period limitation on relief is not occurring under US GAAP. We believe some are misinterpreting the Exposure Draft as relief resulting from the economic impacts of COVID-19 and the time-period over which they may occur rather than being relief based upon the practicalities of applying lease modification accounting in the months immediately following a global shutdown. The lack of a time limitation on US GAAP creates a different connotation as to the reason for the relief. We can foresee companies coming back to the IASB seeking relief beyond 2020. For that reason, we believe it is important the IASB explain the consequences (i.e. that they are modifications) of rent concessions occurring after the end of the relief period – 31 December 2020. This will make it clear as to the basis for the relief.

   As we note above, we believe this relief period will likely result in comparability issues that extend from 2019 (normal application of leasing standard), to 2020 (practical expedient where modification is not accounted for) and 2021 (where a lease modification is computed).

We highlight the definition and relief period issues because review of the Exposure Draft and comparison to the effects under US GAAP raise interpretive questions.

Financial Statement & Analytical Impacts:
Important to Understanding the Consequences of the Practical Expedient
Before being able to understand the analytical impacts of the Exposure Draft, investors must understand the impact of the rent concession practical expedient on the financial statements. ***The guidance in Paragraphs BC7- BC10, in particular BC7, regarding the financial statement impacts is useful in understanding the impact of the policy choice, but it is incomplete. The guidance deals with the impact of a waiver of rent in Paragraph BC7(a), but not the financial statement impact of a deferral of rent (i.e. the more likely rent concession) or a term extension in Paragraph BC7(b). The Exposure Draft, in Paragraph BC8, appears to place its focuses on the measurement of the liability. While that is important, it does not address the measurement of the asset and the related amortization expense or impairment and how they should be handled, for example, during a deferral or term extension. Investors are left to infer amongst a plethora of choices what the income statement will look like given a deferral or term extension. As the assets represent the greatest portion of the expense recognized in the income statement under a financing lease, investors need from the IASB a better articulation of their expectations on the financial statement impact of rent deferrals***.

We note that accounting firms in the US have developed extensive communications regarding the impacts of the US GAAP rent concession relief and the practical difficulties associated with the application of rent concessions, specifically those associated with deferrals and extensions given the accounting choices available. While we recognize US GAAP has its own nuances and challenges because of the operating lease classification (i.e. where rent is recognized on a level basis and the right-of-use asset is the plug), IFRS too will have complexities regarding the accounting for deferrals. We consider the financial statement presentation and analytical challenges below.

Practical Expedient: Waiver – For companies with waivers or abatements of rent, the income statement will likely show the recognition of a gain – a result indicated in Paragraph BC7(a). ***If rent is waived for multiple months or periods, the Exposure Draft does not answer the question of timing of gain recognition. Said differently, will the gain be recognized all at once when the concession is agreed or in each period as the rent would have become, but is no longer, due***. This has very real analytical consequences as generally unusual gains are not highlighted as such and excluded to the same degree as unusual losses. We are curious as to whether such gains will be presented as operating activities and described appropriately as an unusual item.

The gain from a rent waiver will likely be deducted at arriving at operating cash flows in the statement of cash flows. As such, the benefit from a rent waiver will only be apparent to users when comparing financing cash flows period-over-period. The gain is non-cash in the sense that the journal entry to recognize the gain does not affect cash (i.e. debit liability, credit gain). There is, however, a real cash benefit to the organization. A benefit that can only be discerned by investors comparing financing cash flows period-over-period. For this reason, we believe investors need the cash rent waiver described in the notes such that it is obvious what the cash benefit to the organization will be. ***The Exposure Draft does not make the implications on the statement of cash flows obvious for users of the financial statements***.

Unlike in a modification, the right-of-use asset is not decreased by the gain from a waiver of rent. ***The amortization, we presume, will occur as previously scheduled with the asset subject to impairment analysis. This, however, is not set forth in the Exposure Draft***.

<u>*Practical Expedient: Deferral or Extension of Lease Term*</u> – For companies receiving a deferral of rent – the more likely rent concession – the accounting and resulting financial statement implications are not clear from Paragraph BC7(b). This paragraph simply indicates the lessee would continue to reduce the lease liability for payments made to the lessor in applying Paragraph 36(b) of IFRS 16. This provides no insight into the accounting mechanics:

- Is a user to assume the liability will remain unchanged until a payment is due after the deferral period? For a rent deferral or extension of lease term, the impact on the lease liability needs further clarification.
- Does the liability grow based upon accrued interest on the larger than originally expected unpaid portion of the lease liability?
- Is interest expense recognized in the income statement based upon the original lease liability schedule or is additional interest accrued during the deferral period?
- Is a separate liability created to reflect the deferred portion of the lease liability to highlight the deferral?
- Does a deferral mean the right-of-use asset continues to be amortized based upon the original amortization schedule?
- Is amortization of the right-of-use asset ceased to eliminate the recognition of usage of the asset?
- Is the right-of-use asset amortization schedule adjusted for the deferral based upon the choices regarding treatment?
- How then is the right-of-use asset amortization adjusted going forward?
- Is the right-of-use asset impaired?

As noted, in the US GAAP publication above, there are choices in treatment of the deferral, or lease term extension, that have real analytical consequences – more than simply insuring the lease liability is properly reflected as articulated in Paragraph BC8. Specifically, ***the Exposure Draft does not make it clear what the income statement will reflect during the deferral period.*** Traditionally, with a financing lease the income statement includes interest expense on the liability and amortization on the right-of-use asset. Will the income statement cease reflecting such expenses – reflecting the deferral of rent? Or, will they continue? If there is a deferral of rent, investors need to understand the income statement impact to determine the impact on the operating section of the statement of cash flows.

Even with a deferral, there will be no cash outflow in the financing section. For this reason, we believe investors need the cash deferral described in the notes such that it is obvious what the cash benefit to the organization will be. ***The Exposure Draft does not make the implications on the income statement, statement of cash flows and the asset portion of the balance sheet obvious for those preparing or using the financial statements.***

Modification – Further, investors need to understand that those entities not taking the practical expedient will have remeasured both the liability and the asset. Any gain from a waiver is netted against the right-of-use asset. The interest expense and amortization of the right-of-use asset is being spread over the lease term – even in periods where there may be no payment of rent. This will be a more significant change for a waiver than deferral of rent. With modification accounting, as with the practical expedient, investors need to understand the cash flow impacts of the rent concessions.

Disclosure: An Essential Element of the Relief

We highlight the financial statement presentation effects above because they have analytical consequences that investors need to understand through improved disclosures as described below. ***It is insufficient, in our view, to simply refer to IFRS 16 and IAS 1, Presentation of Financial Statements, and say existing disclosure principles are sufficient. This expedient was necessary because such an event was not contemplated; correspondingly, neither were the necessary disclosures. In our view the disclosure reminder in Paragraph 60A and BC 10 are insufficient as these standards did not contemplate this level of relief and the potential financial statement consequences.*** The basis for conclusions should have more explicit disclosure requirements to explain this one-time short-term relief. Specifically, we believe the following are necessary:

1. *Nature of Concession* – Investors need a clear description of the nature of the concession provided. For example, whether rent concessions are waivers, deferrals or extensions of lease terms to compensate for the current rent-free period. We are also aware of instances where lessees are negotiating to make lease rents variable linked to store sales. It would be helpful if different types of rent concessions are clearly disclosed including a quantitative table that provides the information below.
2. *Changes in the Amount & Timing of Cash Flows* – Investors need to understand the overall cash benefit of the waivers or deferrals. Investors need to understand the amount of the rent waived and the period over which it has been waived or deferred. Essentially, investors need the revised rental obligations table and the change in the rental obligations table – not simply a new table. Further, they need to know which fixed cash flows became variable.
3. *Policy Choice & Judgements Applied* – Investors need to know the policy choice taken in the context of the nature of the concession and why. If companies exercise a high degree of judgement in the application of the practical expedient, such judgement should be disclosed.
4. *Financial Statement Impacts Contextualized with Disclosures* – The financial statement presentation effects resulting from the rent concessions and the accounting policy choices need to be contextualized with disclosures that sufficiently describe the effects. Explaining the effects with the numerical impacts is what we mean by contextualization.
5. *Prior Periods* – A description of differences in accounting, if any, during a period of the same fiscal year that has already been reported.
6. *Strategy* – If the rent concessions are a part of a broader strategic change in leasing relationships, this disclosure under IFRS 16 must be updated.

US GAAP vs. IFRS

The precise reasoning as to why an Exposure Draft is necessary for IFRS but not US GAAP (decided based upon a FASB Q&A) is an interesting due process question, but not central to understanding the effects of the Exposure Draft – the most important consideration for investors. The differences in US GAAP (i.e. level expense for operating leases) and IFRS (i.e. all financing leases) in the context of the accounting for rent concessions will only create further comparability challenges for investors. The limitation on the relief period for IFRS will also – as we describe above – result in further comparability differences, as well as interpretative issues. We see significant comparability issues arising for investors from the differing reliefs offered by US GAAP and IFRS

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If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org or Kazim Razvi at kazim.razvi@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Senior Head, Global Financial Reporting Policy Advocacy
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cc: Russ Golden, Financial Accounting Standards Board
Saskia Slomp, European Financial Reporting Advisory Group