

IFRS in Focus

IASB publishes amendment to IFRS 16 to extend the practical relief on COVID-19-related rent concessions

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This *IFRS in Focus* outlines the recent amendment to *IFRS 16 Leases* titled *Covid-19-Related Rent Concessions beyond 30 June 2021*, published by the International Accounting Standards Board (Board) in March 2021.

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- In May 2020, the Board amended IFRS 16 to provide lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification.
- Among other conditions, the 2020 amendment permits a lessee to apply the practical expedient only to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- Due to the ongoing nature of the pandemic, the Board has extended that date to permit a lessee to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022.
- The amendment is effective for annual reporting periods beginning on or after 1 April 2021. A lessee is permitted to apply the amendment early, including in financial statements not authorised for issue at 31 March 2021, the date the amendment was issued. The entity applies the amendment retrospectively.

Background

In May 2020, the Board amended IFRS 16 to provide lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification. Lessees that apply the practical expedient account for COVID-19-related rent concessions as if they were not lease modifications.

Please see our [IFRS in Focus](#) from May 2020 for the full detail of the amendment.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if certain conditions are met. In the May 2020 amendment, one of the conditions was that a reduction in lease payments affects only payments originally due on or before 30 June 2021.

Stakeholders have pointed out that the ongoing significant and protracted effects of the pandemic were not envisaged at the time the Board developed the practical expedient, as in many jurisdictions the ongoing effects of the pandemic are at least as significant now as they were in May 2020. Consequently, lessors are granting rent concessions to lessees that reduce lease payments beyond 30 June 2021. Many of those rent concessions are otherwise eligible for the practical expedient.

The Board acknowledged the stakeholders' concerns and decided to extend the relief.

The amendment

The Board amends IFRS 16 to extend the availability of the practical expedient described above so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. This is the only change made to the practical expedient

For more information please see the following websites:

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Observation

Two Board members voted against the publication of the amendment. In their view, an extension to the period during which the practical expedient is available will further impede comparability between lessees that apply the practical expedient and those that do not. They note that support from users of financial statements for the May 2020 amendment was predicated on limiting the practical expedient to a specific time frame that the amendment will extend by 12 months. They also note that one key reason the Board developed the May 2020 amendment was because, at that time, lessees were applying IFRS 16 for the first time and that this is no longer the case.

Effective date and transitional provisions

The amendment is effective for annual reporting periods beginning on or after 1 April 2021. A lessee is permitted to apply the amendment early, including in financial statements not authorised for issue at 31 March 2021, the date the final amendment was issued.

A lessee applies the amendment retrospectively. As such, it would recognise 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 amendment is first applied.

A lessee must apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the May 2020 amendment or the March 2021 amendment.

Observation

The Board notes in the Basis for Conclusions that the amendment changes only the date within the conditions required to be eligible to apply the practical expedient—it neither introduces a new practical expedient nor a new option to apply (or not apply) the practical expedient. Therefore, a lessee that has already applied the practical expedient must also apply the now extended scope of the practical expedient to eligible contracts with similar characteristics and in similar circumstances.

The amendment does not allow a lessee to elect to apply the practical expedient if the lessee has previously elected not to apply it to eligible rent concessions.

A lessee that has not established an accounting policy on applying (or not applying) the practical expedient to eligible rent concessions could still decide to apply the practical expedient. However, such a lessee would be required to do so retrospectively and consistently to eligible contracts with similar characteristics and in similar circumstances.

Further information

If you have any questions about this amendment to IFRS 16, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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