

IFRS in Focus

IASB finalises amendment to IFRS 16 *Leases* regarding COVID-19-related rent concessions

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This *IFRS in Focus* addresses the amendment to IFRS 16 *Leases* published by the International Accounting Standards Board (IASB) in May 2020, titled *Covid-19-Related Rent Concessions*. This is an update of our [IFRS in Focus](#) on the Exposure Draft (ED) from April 2020.

- The IASB amends 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;
 - Require lessees that apply the practical expedient to account for COVID-19-related rent concessions as if they were not lease modifications;
 - Require lessees that apply the practical expedient to disclose whether the practical expedient has been applied to all eligible contracts, or, if not, information about the nature of the contracts to which the practical expedient has been applied; and
 - Require lessees to apply the practical expedient retrospectively, recognising the cumulative effect of applying the amendment as an adjustment to the opening retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.
- No changes are made with regard to lessor accounting.
- The amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. The amendment is also available for interim reports.

Background

COVID-19 has led many lessors to provide relief to lessees by deferring or relieving them of amounts that would otherwise be payable. In some cases this is through negotiation between the parties, but can also be as a consequence of a government encouraging or requiring that the relief be provided.

IFRS 16 requires lessees to assess whether changes to lease contracts are lease modifications as this term is defined in the Standard and, if so, the lessee must remeasure the lease liability using a revised discount rate. The IASB has been advised that lessees would face significant practical challenges in identifying which COVID-19-related lease concessions meet the definition of lease modifications and, for those that are, in applying the required accounting.

To provide practical relief to lessees in accounting for rent concessions arising as a result of COVID-19 the IASB proposed an amendment to IFRS 16 in ED/2020/2 *Covid-19-Related Rent Concessions* in April 2020, which has now been finalised.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Observation

The IASB considered the feedback received from lessors on the ED regarding the practical challenges they are facing in relation to large volumes of COVID-19-related rent concessions. However, the IASB decided not to amend the lessor accounting because there is not enough evidence to undertake standard-setting. In reaching this conclusion, the IASB considered that:

- IFRS 16 does not specify how a lessor accounts for a change in lease payments that is not a lease modification, hence, a similar expedient for lessors would require the introduction of new recognition and measurement principles, which may still not address all the practical challenges lessors are facing, and their development may not be feasible in the required timeframe (i.e. as a rapid response to the COVID-19 pandemic).
- There is an integral link between lease modification requirements for lessors under IFRS 16 and related requirements in IFRS 15 *Revenue from Contracts with Customers* (for operating leases) and IFRS 9 *Financial Instruments* (for finance leases), which would make it difficult to develop a practical expedient for lessors without creating inconsistencies between these IFRS Standards and impairing the quality of information provided to users of financial statements.
- Unlike lessees, lessors have not recently implemented a new accounting model for their leases.

The IASB is of the view that accounting for COVID-19-related rent concessions using the existing lessor accounting requirements provides useful information to users of financial statements.

The amendment

Practical expedient

The IASB amends IFRS 16 by adding the following practical expedient:

A lessee may elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient would apply only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- a) The change in lease payments results in a revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c) There is no substantive change to other terms and conditions of the lease.

Observation

In the ED, the IASB proposed that the practical expedient should only be available for lease payments originally due in 2020. However, many respondents to the ED have suggested to extend this period to June 2021 to also capture rent concessions granted now and lasting for 12 months. The IASB agreed with those respondents and revised the date.

Lessees that apply the exemption would be required to disclose that they have applied the practical expedient to all rent concessions that meet the conditions, or, if not applied to all such rent concessions, information about the nature of the contracts to which they have applied the practical expedient. Lessees would also have to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient.

Observation

The IASB was mindful of the risk of the practical expedient being applied too broadly, which could result in unintended consequences. Therefore, the IASB limited the scope of the practical expedient so that it applies only to rent concessions that occur as a direct consequence of COVID-19.

The practical expedient is a departure from the requirements in IFRS 16 and is provided only to give lessees a practical relief during COVID-19. The IASB decided that lessees should not be required to depart from the requirements in IFRS 16—some lessees (for example, those with systems to address changes in lease payments) may prefer to apply the existing requirements to all changes in lease contracts throughout COVID-19. The IASB therefore permits, but does not require, a lessee to apply the practical expedient.

If a lessee chooses to apply the practical expedient, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances.

Accounting for changes in lease payments applying the exemption

A lessee that applies the practical expedient would generally account for:

- The forgiveness or waiver of lease payments as a variable lease payment. The lessee would also derecognise that part of the lease liability that has been extinguished by the forgiveness of lease payments.
- A change in lease payments that reduces payments in one period but proportionally increases payments in another (such that there is no change to the overall consideration for the lease and only the timing of individual payments changes), by continuing to recognise interest on the liability and reduce that liability for payments made to the lessor.

If the lease payments are reduced in one period but increased by a lower amount in a later period (hence the total consideration is lower) the change in lease payments incorporates both a forgiveness of payments and deferred 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.

Transitional provisions and effective date

Lessees are required to apply the amendment retrospectively, recognising any difference arising on initial application of the amendment in the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.

In the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, i.e. the amount of the adjustment for each line item affected or its effect on earnings per share.

A lessee shall apply the amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020.

Observation

Despite the wording "annual reporting periods", the amendment is also available for interim financial reports.

Further information

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

IFRS in Focus

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- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards; and
- Model financial statements for entities reporting under IFRS Standards.

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Key contacts

Global IFRS Leader

Veronica Poole

ifrsglobalofficeuk@deloitte.co.uk

IFRS Centres of Excellence

Americas

Argentina	Fernando Lattuca	arifrscoe@deloitte.com
Canada	Karen Higgins	ifrsca@deloitte.ca
Mexico	Miguel Millan	mx_ifrs_coe@deloittemx.com
United States	Robert Uhl	iasplus-us@deloitte.com

Asia-Pacific

Australia	Anna Crawford	ifrs@deloitte.com.au
China	Gordon Lee	ifrs@deloitte.com.cn
Japan	Shinya Iwasaki	ifrs@tohmatsumoto.co.jp
Singapore	James Xu	ifrs-sg@deloitte.com

Europe-Africa

Belgium	Thomas Carlier	ifrs-belgium@deloitte.com
Denmark	Jan Peter Larsen	ifrs@deloitte.dk
France	Laurence Rivat	ifrs@deloitte.fr
Germany	Jens Berger	ifrs@deloitte.de
Italy	Massimiliano Semprini	ifrs-it@deloitte.it
Luxembourg	Martin Flaunet	ifrs@deloitte.lu
Netherlands	Ralph Ter Hoeven	ifrs@deloitte.nl
Russia	Maria Proshina	ifrs@deloitte.ru
South Africa	Nita Ranchod	ifrs@deloitte.co.za
Spain	Jose Luis Daroca	ifrs@deloitte.es
Switzerland	Nadine Kusche	ifrsdesk@deloitte.ch
United Kingdom	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk



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