



# Accounting Alert

## IASB proposes relief for rent concessions during the COVID-19 pandemic

### Executive summary

Last Friday the International Accounting Standards Board (IASB) published an Exposure Draft 'COVID-19-Related Rent Concessions - Proposed amendment to IFRS 16' (the ED). The ED proposes to add a practical expedient to the Standard which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications. There are no proposed changes for lessors.

### Background

The COVID-19 pandemic is creating additional burden on entities all over the world. As a result lessors are providing lessees with rent concessions. These can be in the form of rent holidays or rent reductions for an agreed timeframe (possibly followed by increased rentals in future periods). In some jurisdictions, governments are making rent concessions a requirement, in others, they are merely encouraging them. However, they will have major impact for lessees, in particular, the retail and hospitality industries where in many cases have been forced to temporarily close their premises.

IFRS 16 contains specific requirements when accounting for changes to lease payments and rent concessions are in the scope of these requirements. Lessees are required to assess whether rent concessions are lease modifications, and if they are, there is specific accounting to be applied. However applying these requirements to potentially a significant number of leases could be difficult, particularly from a practical perspective. Entities already have significant pressures upon them as a result of this pandemic and what is set out in IFRS 16 will add to the burden.

### The practical expedient

The proposed practical expedient allows lessees to elect to not carry out an assessment to decide whether a COVID-19-related rent concession received is a lease modification. The lessee would then account for the rent concession as if the change was not a lease modification.

The proposed practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. The relief is only proposed for lessees that are granted these rent concessions. There are no expedients proposed for lessors. All of the following conditions in relation to the lessee expedient need to be met:

- The rent concession provides relief to payments that overall results in the consideration for the lease contract being substantially the same or less than the original consideration for the lease immediately before the concession was provided.
- The rent concession is for relief for payments that were originally due in 2020. So payments included are those required to be reduced in 2020, but subsequent rental increases can go beyond 2020.
- There are no other substantive changes to the other terms and conditions of the lease.



## Next Steps

The ED is open for comment until 8 May 2020. This two-week comment period reflects the urgency that changes need to be made by the IASB.

The IASB is planning to complete any amendment resulting from this ED by the end of May.

The ED proposes the amendment be applicable for reporting periods beginning on or after 1 June 2020. Earlier application will be permitted, including for financial statements not yet authorised for issue at the date the amendment is issued.



## Our intended response

We welcome the proposed relief for lessees in this situation and support the IASB's objective. We believe there is scope to provide lessors with a similar relief and will provide this comment to the IASB in our comment letter. We applaud the IASB for its timely response to this issue.

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