

International Accounting Standards Board  
IFRS Foundation  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
E14 4HD

7 May 2020

Dear IASB members,

**Invitation to comment - Exposure Draft ED/2020/2 - Covid-19 Related Rent Concessions - Proposed amendment to IFRS 16**

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on Exposure Draft ED/2020/2 - *Covid-19 Related Rent Concessions - Proposed amendment to IFRS 16* (the Exposure Draft or ED) from the International Accounting Standards Board (IASB or Board).

We generally support the Board's proposed amendment to IFRS 16 *Leases* to permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications. We welcome the Board's expediency in issuing this Exposure Draft and highlight that, in order to be most useful to financial statement preparers, the amendment to IFRS 16 will need to be issued by the end of May 2020, as planned.

Our more specific recommendations are set out in the following responses to the specific questions contained in the ED.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully,

*Ernst + Young Global Limited*

## **Appendix - Response to specific questions raised in the Exposure Draft Covid-19 Related Rent Concessions**

### **Question 1 – Practical expedient (paragraphs 46A and 46B of the [Draft] amendment to IFRS 16)**

Paragraph 46A of the draft amendment to IFRS 16 proposes, as a practical expedient, that a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election would 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.

Paragraph 46B of the draft amendment to IFRS 16 proposes that the practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

- (a) the change in lease payments results in 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 in 2020; and
- (c) there is no substantive change to other terms and conditions of the lease.

Do you agree that this practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements? Why or why not? If you disagree with the proposal, please explain what you propose and why.

We generally agree that the proposed practical expedient will provide lessees with practical relief and we also agree with the Board's proposal.

#### *Lease payments due in 2020 and beyond*

Whilst we expect that rent concessions granted as a result of covid-19 will mostly affect payments originally due in 2020, we are concerned that the condition of paragraph 46B(b) may be too restrictive. We note that given the high degree of uncertainty as to how long the covid-19 pandemic, its economic consequences and the resulting social distancing requirements will last, it may be possible that rent concessions continue to be granted to some lessees resulting in a reduction in lease payments beyond 2020. At this stage, the possibility of a second wave of infection and future lockdowns, and with it, a repeat of the practical difficulties in accounting for a large volume of rent concessions, cannot be ruled out.

Therefore, we propose that paragraph 46B(b) be amended to apply instead to rent concessions granted by lessors to lessees in 2020 (rather than to "payments originally due in 2020"). Given the practical expedient will only apply to rent concessions occurring as

a direct consequence of the covid-19 pandemic, we do not believe this suggestion to focus on when the concession is granted would allow entities to apply the practical expedient beyond the period intended by the Board.

#### *Consistent application to contracts with similar characteristics and in similar circumstances*

We observe that paragraph BC4 in the Basis for Conclusions states, “lessees would apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances, as already specified by paragraph 2 of IFRS 16.” We ask the Board to explicitly add this statement to the amendment of IFRS 16 itself, as there are questions about how to apply the amendment across a portfolio of leases. Clear reference in the amendment would help clarify the application of the relief.

#### *Accounting for different types of rent concession*

We observe that paragraphs BC7 and BC9 in the Basis for Conclusions of the ED provide guidance, or indicate a particular accounting treatment, for certain types of rent concessions. For example, paragraph BC7(a) states, “[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.”

We note that the above approach as described in paragraph BC7(a) is one example of how a lessee may account for a rent concession, but other approaches may also be appropriate. Therefore, we recommend that the ED does not prescribe a particular approach or appear to favour one method over another and the Basis for Conclusions be amended by replacing “would generally” with “may” in paragraphs BC7(a) and BC9 and “would” with “may” in paragraph BC7(b).

#### *Disclosure*

As the accounting for covid-19 related rent concessions will depend on the nature of the concession under the specific facts and circumstances, we believe that the disclosure requirements in the ED may not provide users of financial statements with sufficient information to understand the impacts of accounting for covid-19 related rent concessions. Therefore, we propose that paragraph 60A of the ED be amended to require entities applying the practical expedient to also disclose:

- The nature of rent concessions granted
- How the practical relief has been applied
- The financial statement line items affected and the amounts recognised in the financial statements resulting from covid-19 related rent concessions

#### *Relief for lessors*

Whilst we agree that lessees require practical relief most urgently, we do, however, share lessors’ concerns that they are not included in the Board’s proposal for relief, as many

lessors report similar practical difficulties to those faced by lessees in evaluating a large volume of covid-19 related rent concessions simultaneously to assess which concessions constitute a lease modification by reference to the contract as well as the applicable law and regulations. Discussion with tenants will be on a case-by-case for each lease contract, with differences in the nature and structure of the modification. The amendment may also present financial reporting mismatches when an intermediate lessor applies the practical expedient to a head lease and applies modification accounting to its sublease(s) related to the same underlying asset.

**Question 2 – Effective date and transition (paragraphs C1A and C20A of the [Draft] amendment to IFRS 16)**

Paragraphs C1A and C20A of the draft amendment to IFRS 16 propose that a lessee would apply the amendment:

- (a) 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 the date the amendment is issued; and
- (b) retrospectively, recognising 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 lessee first applies the amendment.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose and why.

We agree with the Board's proposal for the amendment to be applied retrospectively to annual reporting periods beginning on or after 1 June 2020, with earlier adoption permitted for financial statements not yet authorised for issue at the date the amendment is issued.