

May 8, 2020

Submitted electronically via www.ifrs.org

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sirs,

Re: COVID-19-Related Rent Concessions – Proposed amendment to IFRS 16 (ED/2020/2)

This letter is the response of the [Canadian Accounting Standards Board](http://www.frascanada.ca) (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Covid-19-Related Rent Concessions (Proposed amendment to IFRS 16)" issued in April 2020.

Our view

The views expressed in this letter reflect the judgments and conclusions of the AcSB.

We commend the IASB for being responsive to the issues lessees are experiencing as a result of the COVID-19 pandemic and for acknowledging the urgency of this situation. We continue to strongly support the IASB in its efforts to identify and address standards implementation issues.

Overall, we agree with the proposed amendment because applying the current requirements in IFRS 16 to many COVID-19-related rent concessions could be difficult, especially considering the challenges lessees may be facing in the current environment. However, we are concerned that similar relief is not being proposed for lessors. In our jurisdiction, we have lessors of varying sizes and types, as well as those with various types of lease agreements. Some of these lessors, particularly the smaller ones, may experience the same practical challenges as lessees in accounting for COVID-19-related rent concessions. Therefore, although we agree with the urgency in providing relief for lessees, we suggest that the IASB, in a similar timeframe, provide the same relief from applying the lease modification guidance to lessors.

We agree with limiting the scope of the proposal to only apply to rent concessions that occur as a direct consequence of COVID-19. However, due to the uncertainty of this pandemic globally, we suggest that the relief relate to all rent concessions that occur as a direct consequence of COVID-19, rather than limiting the proposal to lease payments due in 2020. Also, with the risk of a second wave of the pandemic, not limiting the proposal

to a specific timeframe would make relief available in the future if needed. For example, in our jurisdiction we are aware of rent concessions that may be granted for 10 months, therefore extending into 2021. There is also the potential for governments in various jurisdictions to take action in response to this pandemic, which may extend relief beyond 2020.

Our responses to your questions

[The Appendix](#) to this letter responds to the questions posed in the Exposure Draft and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact myself, Kelly Khalilieh, Director, Accounting Standards (+1 416 204 3453 or email kkhalilieh@acsbcanada.ca) or Grace Flis, Principal, Accounting Standards (+1 416-204-3478 or email gflis@acsbcanada.ca).

Yours truly,



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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

APPENDIX

Question 1

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.

1. We agree with the proposal to provide lessees with a practical expedient permitting them not to assess whether certain COVID-19-related rent concessions are lease modifications and account for them as if they were not lease modifications. We think this amendment is necessary because applying the current requirements in IFRS 16 to these rent concessions at this time could be difficult, especially with the many challenges that lessees are already facing during this pandemic.
2. We are concerned that the proposed amendment does not address lessor accounting. We understand that some lessors, such as those with leasing as their core business, may not face the same practical challenges as lessees in accounting for COVID-19-related rent concessions. However, in our jurisdiction, we have lessors that are also lessees, as well as lessors that are franchisors or in other lines of business. We also have lessors of varying sizes with various types of lease agreements that differ across the lessor's portfolio. For some of these types of lessors, particularly the smaller ones and for those with varying types of lease agreements, the complexity of applying the lease modification guidance in IFRS 16 would be equally challenging and costly. Therefore, we suggest that the IASB also provide equivalent relief to lessors in a similar timeframe as that proposed for lessees.
3. We agree with limiting the scope of the proposal to only apply to rent concessions that occur as a direct consequence of COVID-19. However, due to the uncertainty of this pandemic globally, we suggest that the relief should relate to all rent concessions that occur as a direct consequence of COVID-19, rather than limiting the proposal to lease payments due in 2020. Also, with the risk of a second wave of the pandemic, not limiting the proposal to a specific timeframe would make relief available in the future if needed. For example, in our jurisdiction we are aware of rent concessions that may be granted for 10 months, therefore extending into 2021. There is also the potential for governments in various jurisdictions to take action in response to this pandemic, which may extend relief beyond 2020.

4. Paragraphs 46B(a) and BC5(a) limits the scope of the practical expedient to rent concessions that result in consideration that is “substantially the same as, or less than the consideration for the lease immediately preceding the change.” This seems to imply that it relates to consideration that is calculated on an undiscounted basis. However, since this is unclear, we suggest that paragraphs 46B(a) and BC5(a) be amended to state that the consideration is calculated on an undiscounted basis.
5. Paragraph BC5(c) provides an example of a rent concession that could be within the scope of the practical expedient, which is a three-month rent holiday in 2020 resulting in three additional months at the end of the lease term. It is unclear whether this example means that all rent concessions that extend a lease term would be within the scope of the practical expedient. We suggest that paragraph BC5(c) be amended to clarify if other scenarios involving lease term extensions could be within the scope of the practical expedient.
6. We note a possible inconsistency between paragraphs BC7(a) and BC8. Paragraph BC7(a) seems to imply that a lessee would not have to do a present value calculation to determine the lease liability adjustment, whereas paragraph BC8 seems to indicate that a present value calculation is required. Paragraph BC7(a) states that a lessee applying the practical expedient would account for a forgiveness or waiver of lease payments as a variable lease payment in accordance with paragraph 38 in IFRS 16. It also states that the lessee would make a corresponding adjustment to the lease liability. This implies that a lessee would not have to calculate the present value of future lease payments in determining the adjustment to the lease liability. Conversely, paragraph BC8 states that the lease liability recognized by a lessee that applied the practical expedient would represent the present value of future lease payments. We suggest that paragraphs BC7(a) and BC8 be amended for consistency and to clarify that when lessees use the practical expedient, they do not have to calculate the present value of future lease payments to determine the lease liability adjustment. This could be done by amending paragraph BC8 to state that the practical expedient would “be similar to” rather than saying that it would “represent” the present value of future lease payments owing to the lessor.
7. We also think that if the three types of lease payment changes identified in paragraph BC7 are meant to be exhaustive, this guidance should be included in the Standard, rather than in the Basis. However, if there could be other types of lease payment changes that the proposed practical expedient could apply to, we suggest that paragraph BC7 be amended to clarify that there may be others.

Question 2

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 authorized for issue at the date the amendment is issued; and

(b) retrospectively, recognizing 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.

8. We agree with the proposed effective date of June 1, 2020 and think earlier application is necessary to address the challenges in accounting for COVID-19-related rent concessions. Paragraph C1A in the Exposure Draft states that earlier application includes financial statements not yet authorized for issue at the date the amendment is issued. Considering those jurisdictions with interim reporting requirements, we suggest that paragraph C1A be amended to clarify whether early application includes both annual and interim financial statements. In our jurisdiction, in response to this pandemic, filing reporting deadlines have been extended by 45 days, which is after the proposed June 1 effective date. Since the Exposure Draft includes financial statements not yet authorized for issue, this extension allows more stakeholders to apply this practical relief.
9. We also agree with retrospective application of the amendment and with recognizing the cumulative effect as an adjustment to opening retained earnings. Retrospective application allows lessees that have not yet issued their annual or interim financial statements, but have received COVID-19-related rent concessions, to apply the practical expedient to those rent concessions. We also think that the cost of restating comparative information would exceed the benefits.