

IFRS Developments

IASB amends IFRS 16 *Leases* for covid-19 related rent concessions

What you need to know

- ▶ The IASB amended IFRS 16 to provide relief to lessees from applying lease modification accounting to covid-19 related rent concessions
- ▶ The relief applies to lessees only. Lessors are required to apply the existing requirements of IFRS 16
- ▶ The amendment applies to annual reporting periods beginning on or after 1 June 2020 and can be applied early.

Highlights

On 28 May 2020, the International Accounting Standards Board (the IASB or Board) issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases* (the amendment). The Board amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic.

Many lessors have provided rent concessions to lessees as a result of the covid-19 pandemic. Rent concessions include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Applying the requirements in IFRS 16 for changes to lease payments, particularly assessing whether the rent concessions are lease modifications, and applying the required accounting, could be practically difficult in the current environment. The objective of the amendment is to provide lessees that have been granted covid-19 related rent concessions with practical relief, while still providing useful information about leases to users of the financial statements.

The amendment applies to 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.

Amendment to IFRS 16

Lease modifications

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

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:

- ▶ 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.
- ▶ Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021).
- ▶ There is no substantive change to other terms and conditions of the lease.

Disclosure

A lessee that applies the practical expedient discloses that it has applied the practical expedient to all rent concessions that meet the conditions for the practical expedient or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient. In addition, a lessee discloses the amount recognised in profit or loss to reflect changes in lease payments that arise from such rent concessions to which the lessee has applied the practical expedient. The amendment's Basis for Conclusions also notes that disclosure of the cash flow effects of rent concessions would be relevant regardless of whether a lessee applies the practical expedient.

Transition and effective date

Lessees will apply the practical expedient 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. In the reporting period in which a lessee first applies the amendment, the lessee is not required to disclose the information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

A lessee will 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.

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EYG No. 003577-20GbI

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How we see it

The amendment to IFRS 16 will provide relief to lessees for accounting for rent concessions from lessors specifically arising from the covid-19 pandemic. While lessees that elect to apply the practical expedient do not need to assess whether a concession constitutes a modification, lessees still need to evaluate the appropriate accounting for each concession as the terms of the concession granted may vary.