



IFRS Alert

IASB amends IFRS 16 to provide relief for lessees accounting for rent concessions during the COVID-19 pandemic

1 June 2020

Executive summary

The International Accounting Standards Board (IASB) has published an amendment 'COVID-19-Related Rent Concessions (amendment to IFRS 16)' (the amendment). The amendment adds 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 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 they have been forced to temporarily close their premises as a direct result of the pandemic..

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 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 is permitted to account for the rent concession as if the change is not a lease modification.

The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. The relief is only for lessees that are granted these rent concessions. There are no changes 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 on or before 30 June 2021. So payments included are those required to be reduced on or before 30 June 2021, but subsequent rental increases of amounts deferred can go beyond 30 June 2021.
- There are no other substantive changes to the other terms and conditions of the lease.



Disclosure

If applying the practical expedient, the amendments require the entity to disclose:

- That it has applied the practical expedient to all its rent concessions, or if only some of them, a description of the nature of the contract it has applied the practical expedient to
- the amount in profit or loss for the reporting period that reflects the change in lease payments arising from rent concessions (as a result of applying the practical expedient).

Effective date

The amendment is 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 28 May 2020 (the date the amendment was issued).



Our thoughts

We welcome the relief for lessees in this situation and support the IASB's objective. We applaud the IASB for its timely response to this issue.

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