

Mr. Hans Hoogervorst
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Submitted via the website

Brussels, 7 May 2020

Subject: Proposed amendment to IFRS 16 – Covid-19-Related Rent Concessions

Dear Mr. Hoogervorst, Mr. Gauzès,

We are pleased to respond to the IASB's Exposure Draft (ED) concerning a proposed amendment to IFRS 16 related to covid-19-related rent concessions and EFRAG's Draft Comment Letter (DCL) thereon.

Accountancy Europe strongly supports the ED proposal to provide lessees with practical relief during the covid-19 pandemic while enabling them to continue providing useful information about their leases to users of the financial statements.

We however would like to highlight the below topics.

2020 scope of the practical expedient

In general terms, we agree with the scope limitations of the practical expedient as reflected in paragraph 46B of the draft amendment to IFRS 16 so that it only applies to rent concessions that occur as a direct consequence of the covid-19 pandemic.

Rent concessions beyond 2020 would however not be within the scope of the practical expedient. We believe that the proposed scope (i.e. rent concessions affecting only payments originally due in 2020) might need to be extended to include not only lease payments due in 2020 but also those agreed in 2020 which will provide a cash relief in 2021 or in subsequent periods.

Lessor accounting

The ED proposal only provides lessees with a practical expedient in accounting for particular covid-19-related rent concessions. The proposal does not address lessor accounting.

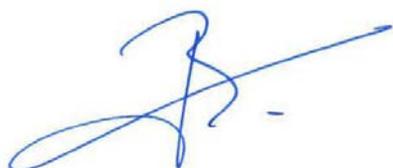
Accountancy Europe believes that lessor accounting for covid-19-related rent concessions should be addressed by the IASB as well because lessors are also expected to face important challenges in accounting for covid-19-related rent concessions.

If the aforementioned requested scope increase (i.e. including lessor accounting) would however result in a delayed solution for lessees, we propose setting-up a separate project to deal with lessor accounting.

We kindly refer to the annexes to this letter for our detailed responses to the questions.

Please do not hesitate to contact Ben Renier (Ben@accountancyeurope.eu) in case of any additional questions or remarks.

Sincerely,



Olivier Boutellis-Taft
Chief Executive

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Accountancy Europe unites 51 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1: IASB EXPOSURE DRAFT – QUESTIONS FOR RESPONDENTS

- (1) We are pleased to provide below our detailed responses to the questions.

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.

- (2) Accountancy Europe concurs with the practical expedient as reflected in paragraph 46A of the draft amendment to IFRS 16, which permits lessees not to assess whether particular covid-19-related rent concessions are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.
- (3) In general terms, we agree with the scope limitations of the practical expedient as reflected in paragraph 46B of the draft amendment to IFRS 16 so that it only applies to rent concessions that occur as a direct consequence of the covid-19 pandemic.
- (4) Rent concessions beyond 2020 would however not be within the scope of the practical expedient. We believe that the proposed scope (i.e. rent concessions affecting only payments originally due in 2020) might need to be extended to include not only lease payments due in 2020 but also those agreed in 2020 which will provide a cash relief in 2021 or in subsequent periods.
- (5) It would also be helpful if the proposed amendment would clarify how to account for the covid-19-related rent concession, i.e. immediate gain recognition or spreading the gain over the corresponding period.

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.

- (6) Accountancy Europe agrees with the proposed effective date and transitional arrangements.

ANNEX 2: EFRAG DRAFT COMMENT LETTER – QUESTIONS FOR RESPONDENTS

- (7) We are pleased to provide below our detailed responses to the questions.

Question A – Lessor accounting

EFRAG supports the IASB proposal to limit the scope of this amendment to lessees noting that the overall operational challenge of implementing IFRS 16 requirements is more pronounced for lessees than it is for lessors. Up until now, EFRAG have not heard of specific issues for the lessors. However, EFRAG would be interested in understanding if there are specific issues from the lessor perspective that the IASB should consider. Please provide inputs.

- (8) Accountancy Europe believes that lessor accounting for covid-19-related rent concessions should be addressed by the IASB as well for several reasons:
- Even for lessors, the accounting for lease concessions would depend on whether it concerns a lease modification or not.
 - The operational challenges for lessors are likely to be similar to those for lessees considering the large volume of contracts, with non-standardized contractual provisions, which certain lessors hold in their portfolio.
 - The analysis to be performed by lessors would also include whether a finance lease would still be classified as a finance lease after the rent concession, or whether it would become an operating lease in accordance with IFRS 16 requirements.
 - In case of a sublease, applying the proposed amendment on the lessee side might create a mismatch with the accounting on the lessor side.
- (9) If the aforementioned requested scope increase (i.e. including lessor accounting) would however result in a delayed solution for lessees, we propose setting-up a separate project to deal with lessor accounting.

Question B – Additional specific disclosure

EFRAG supports the IASB proposal to require entities applying the exemption to disclose that fact. EFRAG notes the overarching disclosure requirements in paragraph 31 of IAS 1 and IFRS 16 would necessitate entities to disclose any additional information needed to enable users to understand material effects of, for instance, covid-19-related rent concessions on the primary financial statements. Acknowledging that the main purpose of this amendment is to reduce the accounting burden to the preparers resulting from the concessions, EFRAG seeks views on the feasibility of requiring additional specific disclosure, such as:

- (a) the nature of rent concessions granted;*
- (b) how the practical relief has been applied;*
- (c) the financial statement line items affected; and*
- (d) the amount recognised in the financial statements resulting from covid-19 related rent concessions.*

Please explain your views.

- (10) The effects of covid-19 are pervasive and will therefore affect many P&L line items.
- (11) Accountancy Europe believes that the information, which will be useful for assessing the impact of covid-19 on the financial performance, is not restricted to lease concessions. As

such we think it would not be appropriate to take advantage of this amendment to require additional specific disclosures limited to this topic.

- (12) Instead, Accountancy Europe believes that the overarching principles of IAS 1 are sufficient and could be reminded by the regulators in these specific circumstances.