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## **Covid-19-Related Rent Concessions**

### **Cover Note**

#### **Objective**

- 1 The objective of this session is to:
  - (a) seek the views of EFRAG TEG and EFRAG Board on the drafting of the Final Endorsement Advice on *Covid-19-Related Rent Concessions – Amendment to IFRS 16* (the Amendment) (**Paper 08-02**); and
  - (b) agree and approve a Final Endorsement Advice of the Amendment subject to the issuance of the final Amendment by the IASB on 28 May 2020. Following a joint discussion by members and observers of the two groups attending the joint meeting, the EFRAG Secretariat will first seek the approval of EFRAG TEG and thereafter, in the same joint session, the approval of the EFRAG Board will be sought.

#### **Background**

- 2 On 30 April 2020, EFRAG issued a preparatory Draft Endorsement Advice in anticipation of:
  - (a) no significant difference between the content of the exposure draft that proposed amendments to IFRS 16, *Covid-19-Related Rent Concessions* (the 'ED') and the Amendment to IFRS 16;
  - (b) the Amendment to IFRS 16 by the IASB expected to be issued on 28 May 2020; and
  - (c) a letter from European Commission requesting an endorsement advice in respect of the Amendment to IFRS 16.
- 3 EFRAG Secretariat has prepared a draft Final Endorsement Advice (**Paper 08-02**) informed by the IASB's decisions made on 15 May 2020 following the feedback to the ED received from constituents.
- 4 On 15 May 2020, **the IASB tentatively decided** to finalise the proposal in the ED with the following changes:
  - (a) extend the condition proposed in paragraph 46B(b) to capture covid-19-related rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021;
  - (b) require a lessee applying the practical expedient to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from covid-19-related rent concessions; and
  - (c) specify that in the reporting period in which a lessee first applies the amendment, the lessee is not required to disclose the information required by

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paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

- 5 The change to the ED (Point a) of paragraph 4 above) on the scope of the amendment, reflects IASB's response to the request made in EFRAG's Draft Comment Letter (DCL) and raised by several other stakeholders. EFRAG draft comment letter had requested for the scope of the amendment to be extended to all rent concessions negotiated in 2020. However, the IASB decided to limit the extension of the scope in a manner that is consistent with the minority view expressed during the EFRAG TEG discussion.
- 6 The change to the ED (Point b) of paragraph 4 above) on required disclosures fulfils the request for specific disclosures made in EFRAG's draft comment letter and from several other stakeholders.
- 7 The IASB decided to take no further action in response to feedback on the need to consider extending the practical expedient to lessors including as a separate project as suggested in the EFRAG DCL. The IASB staff paper analysis<sup>1</sup> noted that unlike for lessees, IFRS 16 does not have specific requirements for accounting for concessions that are not deemed to be lease modifications and therefore lessors are unlikely to obtain relief from a practical expedient. The IASB staff further noted that the issuance of such an expedient would trigger the need for additional standard setting and will likely result in unintended consequences.
- 8 The IASB's decisions on 15 May 2020 confirmed the assumption made whilst issuing the preparatory Draft Endorsement Advice that there was not going to be a significant difference between the content of the ED and the Amendment to IFRS 16.
- 9 The drafting of the Final Endorsement Advice also considered:
  - (a) responses to the preparatory Draft Endorsement Advice that closed on 20 May 2020; and
  - (b) feedback obtained from participants in an EFRAG-CFSS webinar outreach event held on 7 May 2020.

### **Information for EFRAG TEG and EFRAG Board**

#### *Responses to the preparatory Draft Endorsement Advice*

- 10 Five comment letters have been received at the time of writing this cover note and these can be found [here](#) under "Endorsement Consultation". The profile of the comment letter respondents is included in Appendix 1 of this cover note.
- 11 Subject to the final amendment by the IASB, all respondents agreed with the preparatory draft Endorsement Advice. Without providing any additional clarifying comments, three respondents also answered affirmatively to the five questions posed related to EFRAG's initial assessment of the Amendment with respect to meeting the technical criteria for endorsement and its impact on European public good. Another expressed support and emphasised the importance for users of the changes that had been proposed in their comment letter.
- 12 One respondent also responded affirmatively to the five questions but reiterated a concern related to tax consequences that they had also raised in their comment letter response. The respondent indicated that in their jurisdiction, listed firms use IFRS for separate financial statements and for tax assessment. Therefore, they did

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<sup>1</sup> <https://cdn.ifrs.org/-/media/feature/meetings/2020/may/supplementary-iasb/ap32c-ifrs-16-and-covid-19.pdf>

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not support the proposed effective date of the Amendment due to tax implications for 2020 annual reports.

- 13 In addition, one constituent indicated via email that they will not formally respond with a comment letter but communicated their support for EFRAG's analysis in the preparatory draft Endorsement Advice to be included in the Final Endorsement Advice.

*EFRAG public webinar outreach event held on 7 May 2020*

- 14 On 7 May 2020, EFRAG held a public outreach event with EFRAG CFSS members and other organisations on Covid-19-Related Rent Concessions.
- 15 Representatives of the following National Standard setters attended: France, Germany, Lithuania, Portugal, Sweden, Spain, United Kingdom.
- 16 Other attendees also included: ACCA, European Savings and Retail Banking Group (ESBG), Business Europe, European Federation of Financial Analysts Association (EFFAS), European Public Real Estate Association (EPRA), the IASB and some EFRAG TEG members.
- 17 During the outreach event, a poll was conducted on whether participants agreed with the preparatory draft of the Endorsement Advice and all (17) poll participants responded affirmatively.

**Questions for EFRAG Board-TEG**

- 18 Does EFRAG Board-TEG agree with the drafting of the Final Endorsement Advice?
- 19 Does EFRAG Board-TEG approve the Final Endorsement Advice in anticipation of the Amendment?
- 20 Does EFRAG Board-TEG have any comments on the Feedback Statement of EFRAG's outreach event?

**Agenda Papers**

- 21 In addition to this cover note, the following papers have been provided for this session:
- (a) Agenda Paper 08-02: IFRS 16 amendment – FEA (clean);
  - (b) Agenda Paper 08-03: IFRS 16 amendment – FEA (marked up); and
  - (c) Agenda Paper 08-04: IFRS 16 amendment – Feedback Statement of EFRAG's outreach event;
  - (d) Agenda Paper 08-05: IASB ED/2020/2 Covid-19-Related Rent Concessions (Proposed amendment to IFRS 16) (for background only).

## **Appendix 1 – List of respondents**

- 1 The list of respondents whose comment letters have been received at the time of writing this cover note is as follows:

| <b><u>Respondent</u></b> | <b><u>Country</u></b> | <b><u>Type/Category</u></b> |
|--------------------------|-----------------------|-----------------------------|
| Athanasios Deiktakis     | Greece                | Preparer                    |
| Accountancy Europe       | Europe                | Business Organisation       |
| FRC                      | United Kingdom        | National Standard Setter    |
| CNC                      | Portugal              | National Standard Setter    |
| EFFAS                    | Europe                | Business organisation-Users |