

# IFRS 16 AND COVID-19

CFSS OUTREACH

7 MAY 2020



European Financial Reporting Advisory Group

# DISCLAIMER

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# BACKGROUND

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- Covid-19 has resulted in rent concessions (waiver, postponement) that may or may not have been explicitly included in contractual clauses.
- Lessees face challenges assessing contracts to determine whether modifications to lease contracts have occurred and lease modification accounting is required.
- IFRS 16 *Leases* became effective in 1 January 2019, with more pronounced implementation challenges faced by lessees.

# THE AMENDMENT

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- The IASB is proposing optional practical relief for lessees during the covid-19 pandemic which allow them not to:
  - assess whether rent concessions are lease modifications; and
  - apply the required accounting for rent concessions that are lease modifications (e.g. revising the discount rate and remeasuring the lease liability to reflect the revised lease payments using that rate).
- Lessees can apply amendment only if all of the following conditions are met:
  - Change in lease payments results in revised consideration that is substantially the same as, or less than, the consideration for the lease immediately preceding;
  - Any reduction in lease payments affects only payments originally due in 2020; and
  - There is no substantive change to other terms and conditions of the lease.

# ACCOUNTING FOR CHANGES IN LEASE PAYMENTS

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The accounting for changes in lease payments often depends on whether the change represents a lease modification:

	Lease liability	RoU Asset	Effect on P&L
Lease modification	Remeasured to reflect <b>revised payments</b> and <b>new discount rate</b>	Adjust to reflect remeasurement of the lease liability	Generally recognised <b>over time</b>
Not a lease modification	Remeasured to reflect <b>revised payments</b>	May not be adjusted	Depending on the change, might be recognised immediately

# EFRAG RESPONSE TO THE AMENDMENT

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- EFRAG agrees with the proposal of the IASB to provide lessees with an optional exemption from assessing whether a covid-19-related rent concession is a lease modification.
- However, EFRAG would support expanding the scope of the amendment to include all rent concessions granted during 2020 and not just payments due in 2020.
- EFRAG notes and supports the limitation of the amendment to lessees (and not lessors). EFRAG notes the IASB has limited the scope to lessors for the following reasons:
  - For most lessors with a large volume of leases, leasing is part of their ordinary activities and they would have processes and systems in place for their leasing activities.
  - IFRS 16 substantially retained the lessor accounting model in IAS 17
  - The accounting required by IFRS 16 for lessor lease modifications would not be expected to be complicated.
- EFRAG seeks to further assess if there are any issues that would justify the exemption being extended to lessors.

# EFFECTIVE DATE AND TRANSITION

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- EFRAG agrees with the suggested proposal that entities should apply the exemption retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but are not be required to restate prior period figures.

# OTHER MATTERS

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- EFRAG supports the IASB proposal to require entities applying the exemption to disclose that fact. In addition, EFRAG seeks views on the usefulness and feasibility of additional specific disclosure requirements, such as:
  - the nature of rent concessions granted;
  - how the practical relief has been applied;
  - the financial statement line items affected; and
  - the amount recognised in the financial statements resulting from covid-19 related rent concessions.

*Slido – Questions 1-5*



# PREPARATORY DEA

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- EFRAG's initial assessment of the Amendment is that it meets the **technical criteria for endorsement**. In other words, the Amendment is not contrary to the principle of true and fair view and meets the criteria of understandability, relevance, reliability, comparability and lead to prudent accounting.
- In its assessment of the impact of the Amendment on the European public good, EFRAG's initial assessment is that the Amendment;
  - does **not compromise the overall quality of financial reporting**.
  - is **reducing the costs and complexity for preparers** and that it is **not likely to affect costs for users**.
- EFRAG's initial assessment is that **preparers are likely to benefit** from the Amendment without compromising **the quality of information and imposing additional costs for users**.
- EFRAG has initially concluded that endorsement of the Amendment would be **conducive to the European public good**.

*Slido – Question 6*



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