IFRS

STAFF PAPER

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IASB® Meeting

Project	**IFRS 16 and covid-19**		
Paper topic	Accounting for covid-19-related rent concessions		
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Objective and structure

1. We have been informed of changes in lease payments that have occurred, or are expected to occur, as a result of the covid-19 pandemic. Applying IFRS 16 *Leases* to those changes could be complex in the light of challenges many entities face during the pandemic. The objective of this paper is to summarise the feedback received and ask the Board whether it would like to undertake standard-setting in response to that feedback.

2. This paper is structured as follows:

   (a) Applicable requirements in IFRS 16 (paragraphs 3-7);

   (b) The issue arising from covid-19 (paragraphs 8-14);

   (c) FASB response (paragraphs 15-19);

   (d) Board response—actions to date and possible standard-setting (paragraphs 20-22);

   (e) Staff analysis (paragraphs 23-53);

   (f) Staff recommendations and questions for the Board;

   (g) Appendix A—Educational material published on 10 April 2020;

   (h) Appendix B—Due process steps taken in developing a possible amendment to IFRS 16.

Applicable requirements in IFRS 16

3. IFRS 16 sets out the accounting for changes in lease payments during the contract term. The Standard specifies requirements for changes in the lease term and the assessment of an option to purchase the underlying asset. The Standard also specifies requirements for changes in lease payments arising from a change in amounts expected to be payable under residual value guarantees or in an index or rate used to determine lease payments. Otherwise, the accounting required by IFRS 16 for a change in lease payments depends on whether that change meets the definition of a lease modification.

4. IFRS 16 defines a lease modification as 'a *change in the scope of a lease, or the consideration for a lease*, that was *not part of the original terms and conditions* of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term)' (emphasis added).

Changes in lease payments that are lease modifications

Lessee accounting

5. If a change in lease payments results from a lease modification, a lessee is required to:
   (a) account for the lease modification as a separate lease if the criteria in paragraph 44 of IFRS 16 are met[1];
   (b) for all other lease modifications, remeasure the lease liability by discounting the revised lease payments using a revised discount rate. In this case, a lessee also:
      (i) decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for modifications that decrease the scope of the lease, and recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.

[1] This paper does not discuss further lease modifications accounted for as a separate lease because we expect covid-19-related rent concessions not to meet the criteria in paragraphs 44 and 79 of IFRS 16.

(ii) makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

Lessor accounting

6. Lessor accounting for a change in lease payments that results from a lease modification depends on whether the lessor classifies the lease as a finance lease or an operating lease. A lessor accounts for:

(a) a modification to a finance lease as a separate lease if the criteria in paragraph 79 of IFRS 16 are met[1].

(b) other modifications to a finance lease by considering whether the lease would have been classified as an operating lease had the modification been in effect at the inception date. If this is the case, a lessor accounts for the lease modification as a new lease. Otherwise, a lessor applies the requirements of IFRS 9 *Financial Instruments*.

(c) a modification to an operating lease as a new lease.

Changes in lease payments that are not lease modifications

7. If a change in lease payments does not result from a lease modification, the change in lease payments would generally be accounted for as a variable lease payment. In this case:

(a) a lessee applies paragraph 38 of IFRS 16 and generally recognises the change in payments in profit or loss in the period in which the event or condition that triggers those payments occurs.

(b) for an operating lease, a lessor recognises the change in payments in income from leases.

The issue arising from covid-19

8. We have been informed that many lessors have provided, or are expected to provide, rent concessions to lessees as a result of the covid-19 pandemic. This is particularly prevalent in the retail industry and, in some cases, is encouraged or required by government. Rent concessions provided include rent holidays or rent

reductions for a period of time, possibly followed by increased rent payments in future periods. We understand this is occurring, or is expected to occur, in a number of IFRS jurisdictions, including Australia, France, Germany, Italy, Poland, Singapore, Spain, South Africa and the UK.

9. IFRS 16 already contains requirements that address the accounting for such rent concessions. However, stakeholders have informed us that applying those requirements to a potentially large volume of covid-19-related rent concessions could be complex—particularly in the light of the many other challenges stakeholders face during the pandemic. Complexity in applying the requirements arises in two main ways:

   (a) assessing whether rent concessions are lease modifications (paragraphs 11-13);

   (b) applying the required accounting for rent concessions that are lease modifications (paragraph 14).

10. In addition, many entities are currently preparing their first annual financial statements applying IFRS 16[2]. The Board had expected the first year of application of the new requirements to be challenging and costly for lessees with large volumes of leases—and feedback received during the implementation period indicates that this is the case. The challenges arising as a result of the covid-19 pandemic therefore arise on top of an already challenging period for lessee accounting.

Assessing whether rent concessions are lease modifications

11. To account for a rent concession applying IFRS 16, an entity assesses whether the rent concession is a lease modification. This includes determining whether there has been a change in the consideration for the lease as defined in IFRS 16. A change in payments does not necessarily give rise to a change in consideration. For example, payments may be reduced and then increased proportionally in later periods in a way that means the overall consideration for the lease is unchanged.

[2] IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019

12. Entities also assess whether any change in consideration arising from the concession was part of the original terms and conditions of the lease. If the change was part of the original terms and conditions of the lease, the change is not a lease modification.

13. The prevalence of rent concessions during the covid-19 pandemic makes this assessment difficult in two ways:

    (a) entities may need to assess a large volume of contracts to determine whether each rent concession is a lease modification; and

    (b) the assessment itself might be difficult. For example, a lease contract or applicable law or regulation may contain clauses, such as force majeure, which were developed without contemplating the covid-19 pandemic. It may be difficult to determine whether rent concessions offered—or mandated by government—are captured by the operation of such clauses.

Applying the required accounting for rent concessions that are lease modifications

14. If a rent concession results from a lease modification, a lessee determines a new discount rate, and remeasures the lease liability to reflect the revised lease payments using that revised discount rate. This accounting is not unduly onerous for an individual lease modification. However, the volume of rent concessions arising from the covid-19 pandemic may mean this accounting would occupy resources at a time when lessees are likely to have other, more significant, concerns to deal with arising from the pandemic.

FASB response

15. The Financial Accounting Standards Board (FASB) staff also received feedback from stakeholders applying Topic 842, *Leases*, about the accounting for covid-19-related rent concessions. The requirements of IFRS 16 and Topic 842 with respect to rent concessions are substantially aligned.

16. The FASB staff were informed that it may be exceedingly challenging for entities to determine whether rent concessions are lease modifications. In anticipation of the large volumes of leases for which covid-19-related rent concessions will be granted, the FASB staff understood that applying the requirements in Topic 842 to each contract affected could be costly and complex for entities.

17. Consequently, on 10 April 2020, the FASB staff published a staff Q&A for lessees and lessors that includes interpretive guidance on the application of Topic 842 to covid-19-related rent concessions. That staff Q&A states the following:

> "the FASB staff believes that it would be acceptable for entities to make an election to account for lease concessions related to the effects of the COVID-19 pandemic consistent with how those concessions would be accounted for under Topic 842 and Topic 840 as though enforceable rights and obligations for those concessions existed (regardless of whether those enforceable rights and obligations for the concessions explicitly exist in the contract). Consequently, for concessions related to the effects of the COVID-19 pandemic, an entity will not have to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and can elect to apply or not apply the lease modification guidance in Topic 842 and Topic 840 to those contracts.
>
> This election is available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. For example, this election is available for concessions that result in the total payments required by the modified contract being substantially the same or less than total payments required by the original contract. The FASB staff expects that reasonable judgment will be exercised in making those determinations."

18. The FASB staff Q&A also discusses concessions that provide a deferral of payments with no substantive changes to the consideration in the original contract.

19. The requirements of IFRS 16 do not allow for an election such as that described in paragraph 17. Therefore, to provide similar practical relief to entities applying IFRS 16, the Board would need to undertake standard-setting.

Board response—actions to date and possible standard-setting

Response to date

20. On 10 April 2020, we published educational material intended to help entities apply the requirements of IFRS 16 and other IFRS Standards to rent concessions granted as a result of the covid-19 pandemic. The educational material highlights:

    (a) how entities apply the requirements of IFRS 16 to determine whether a rent concession is a lease modification. Specifically, it sets out considerations when determining whether:

        (i) there has been a change in the scope of the lease;

        (ii) there has been a change in the consideration for the lease; and

        (iii) a change in scope or consideration was part of the original terms and conditions of the lease.

    (b) the applicable requirements for a rent concession that is not a lease modification;

    (c) the need to consider the derecognition requirements of IFRS 9 *Financial Instruments* if part of a lessee's obligation specified in a contract is extinguished by a rent concession;

    (d) the need to apply the requirements in IAS 36 *Impairment of Assets* and determine whether the circumstances giving rise to a rent concession indicate that assets may be impaired; and

    (e) the need to consider disclosure.

21. The educational material is reproduced in Appendix A to this paper.

Potential standard-setting

22. Educational material can only help entities apply the existing requirements in IFRS Standards—such material cannot change, remove or add to those requirements. Consequently, in addition to the educational material described above, this paper asks the Board whether it would want to undertake standard-setting for covid-19-related rent concessions. Standard-setting could provide practical relief to entities during the covid-19 pandemic.

Staff analysis

Lessor accounting

23. In our view, the Board should not consider any amendment to lessor accounting. This is because:

    (a) for most lessors with a large volume of leases, leasing is part of their ordinary activities—a part of their core business. We would therefore expect lessors to have processes and systems in place for their leasing activities, including when changes are made to lease payments.

    (b) we would expect lessors to typically use one, or a small number of, standard lease contacts for leases of similar assets within a jurisdiction. Lessors are also likely to offer similar rent concessions to many lessees. We would therefore expect lessors to often be able to apply one assessment of whether a rent concession is a lease modification to many of its contracts. Thus, the practical challenge of making this assessment for a large volume of contracts is not expected to be as significant for lessors as it is for lessees.

    (c) IFRS 16 substantially retained the lessor accounting model in IAS 17 *Leases*. Unlike many lessees, lessors are not currently preparing their first annual financial statements applying a new accounting model to their leases. Consequently, the need for relief for lessors is less significant than it is for lessees.

(d) finally, we note that the accounting required by IFRS 16 for lease modifications—ie for an operating lease, to treat the modified contract as a new lease and, for a finance lease, generally to apply IFRS 9—would not be expected to be complicated, whereas a lessee is required to determine a new discount rate for all lease modifications.

24. In the light of these considerations, the analysis that follows considers only a possible amendment to the lessee accounting requirements of IFRS 16.

Possible amendment to lessee accounting

25. The Board could provide lessees with an exemption from assessing whether a covid-19-related rent concession is a lease modification, requiring lessees that apply the exemption to account for covid-19-related rent concessions as if they were not lease modifications. In doing so, a lessee would also apply paragraph 2 of IFRS 16 and apply the exemption consistently to contracts with similar characteristics and in similar circumstances. Such an exemption would:

(a) provide similar practical relief to lessees as the election described in the FASB staff Q&A;

(b) remove the practical challenge of possibly having to assess a large volume of contracts to determine whether a covid-19-related rent concession is a lease modification; and

(c) eliminate the need to remeasure lease liabilities using a revised discount rate for potentially large volumes of contracts.

26. The exemption described in paragraph 25 would require a lessee to account for any covid-19-related rent concession to which it applies the exemption as if that rent concession were not a lease modification. The exemption would not permit accounting for such a rent concession as a lease modification because, in our view:

(a) the effects of the exemption would be easier for users of financial statements, and others, to understand if all entities applying the exemption use the same accounting.

(b) it is unlikely that an entity applying the exemption would choose to account for such rent concessions as lease modifications (see stakeholder feedback in paragraph 14). Consequently, permitting two ways of accounting could make the exemption unduly complex for little benefit.

27. The sections that follow consider:

(a) scope of an exemption (paragraphs 28-31);

(b) accounting for changes in lease payments applying the exemption (paragraphs 32-35);

(c) transition (paragraphs 36-38);

(d) likely effects of an exemption on the quality of financial reporting (paragraphs 39-43);

(e) disclosure (paragraph 44); and

(f) possible timing if the Board were to undertake standard-setting (paragraphs 45-48).

Scope of an exemption

28. In our view, it is critical that any exemption developed is applicable only to changes in lease payments arising as a direct result of the covid-19 pandemic and occurring within a limited timeframe. Without these conditions, there is a risk that any exemption could be applied broadly and have unintended consequences. For example:

(a) entities may agree multiple different changes to a lease contract at one time. If the exemption is not limited to changes that are a direct result of the covid-19 pandemic, lessees could avoid applying lease modification accounting to other contract changes that are unrelated to the pandemic.

(b) the economic effects of the covid-19 pandemic may continue for many years. If the exemption is not limited to a particular timeframe, a lessee could argue that many future changes to lease payments are a result of the covid-19 pandemic and avoid applying lease modification accounting.

29. Limiting the timeframe within which rent concessions can occur to qualify for the exemption carries a risk that the timeframe selected would not be sufficiently long to provide the relief needed by lessees. The expected length of the covid-19 pandemic is currently unknown. However, we think the timeframe proposed—reductions in lease payments due in 2020 (see proposals in paragraph 31 below)—would provide relief when it is most needed, ie when the effects of the covid-19 pandemic would be expected to be most significant and when circumstances are changing rapidly. We would hope that after this period of significant uncertainty and change, any ongoing effects on lease payments would be manageable for lessees applying the existing requirements of IFRS 16. In other words, we think relief is most needed in this initial period of uncertainty and change, but will not be needed to the same extent thereafter. Also, specifying a defined period of time may take some pressure off identifying whether changes in payments arise as a direct result of the covid-19 pandemic.

30. Finally, we propose that any exemption developed should be permitted and not required. This is because an exemption represents a departure from the requirements of IFRS 16, which would be provided to lessees only to be responsive to particular concerns during the covid-19 pandemic. Entities should not be *required* to depart from the requirements of IFRS 16—some entities (for example, those who have established systems to address changes in lease payments) may prefer the more consistent approach of applying the existing requirements to all changes to lease contracts throughout the pandemic. We have considered the effects on comparability of permitting—but not requiring—entities to apply the exemption in paragraphs 42-43.

31. In the light of these considerations, we propose that the Board consider an amendment along the lines of the following:

Para X As a practical expedient, a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the covid-19-related rent concession consistently with how it would account for the change applying this Standard if the change were not a lease modification.

Para Y The practical expedient in paragraph X 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 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 (a rent concession would meet this condition if it results in reduced lease payments only in 2020 and increased lease payments in 2020 or periods thereafter); and

(c) there is no substantive change to other terms and conditions of the lease.

Accounting for changes in lease payments applying the exemption

32. If a reduction in lease payments (such as forgiveness of payments) does not result from a lease modification, a lessee would generally account for that change in payments as a negative variable lease payment. The lessee would apply paragraph 38 of IFRS 16 and generally recognise the variable payment in profit or loss in the period in which the event or condition that triggers those payments occurs. The lessee would also make a corresponding adjustment to the lease liability—in effect derecognising that part of the lease liability that has been extinguished by the forgiveness of lease payments. The derecognition of part of the lease liability (and recognition in profit or loss) would align with the requirements in paragraph 3.3.1 of IFRS 9, which requires an entity to remove a part of a financial liability from its balance sheet when, and only when, it is extinguished.

33. A change in lease payments that reduces payments in one period but proportionally increases payments in another (‘deferred lease payments’) does not extinguish the lessee’s lease liability. Deferred lease payments do not change the consideration for the lease; they change only the timing of individual payments.

For a change that involves only deferred lease payments, a lessee would continue to reduce the lease liability for payments made to the lessor applying paragraph 36(b) of IFRS 16.

34. Some changes in lease payments may result in a change to the consideration for the lease because of differences between the reduction in payments in one period and the increase in payments in a later period. If the consideration for a lease decreases (because the reduction in payments is greater than any subsequent increase in payments), then the change in lease payments incorporates both a forgiveness of payments and deferred lease payments.

35. Table 1 on the next page summarises the accounting for forgiveness of lease payments, deferred lease payments and partially deferred, partially forgiven lease payments.

Table 1: Accounting for changes to lease payments applying the exemption

<table>
<tr><td colspan="4">Fact pattern
At 31 March 2020 a lessee has a lease liability of CU2,000. The contract requires monthly lease payments of CU100.
For simplicity, it is assumed in all scenarios that (i) interest accrues at CU20 per month; and (ii) a reduction of CU100 in one month followed by an increase of CU100 in a later month is considered to affect only the timing of payments. The analysis below sets out the accounting for the lease liability in four scenarios: the first where there are no changes to the lease payments and three scenarios where the fact pattern is adjusted in the manner described. Accounting for the right-of-use asset is not included.</td></tr>
<tr><td>No change in lease payments</td><td>Forgiveness of lease payments
Mar–May 2020: no lease payments</td><td>Deferred lease payments
Mar–May 2020: no lease payments
June–Aug 2020: lease payments CU 200</td><td>Partially deferred, partially forgiven lease payments
Mar–May 2020: no lease payments
June–Aug 2020: lease payments CU 160</td></tr>
<tr><td>In 3-month period, March – May 2020
Dr lease liability (100*3) 300
Cr cash 300

Dr interest (P&L) (20*3) 60
Cr lease liability 60</td><td>In 3-month period, March – May 2020
Dr lease liability (100*3) 300
Cr P&L 300
(negative variable payments)

Dr P&L (interest) 60
Cr lease liability 60</td><td>In 3-month period, March – May 2020
-
-

Dr interest (P&L) 60
Cr lease liability 60</td><td>In 3-month period, March – May 2020
Dr lease liability (40*3) 120
Cr P&L 120
(negative variable payments)

Dr P&L (interest) 60
Cr lease liability 60</td></tr>
<tr><td>Lease liability at 31 May 2020:
CU 1,760</td><td>Lease liability at 31 May 2020:
CU 1,760</td><td>Lease liability at 31 May 2020:
CU 2,060</td><td>Lease liability at 31 May 2020:
CU 1,940</td></tr>
<tr><td>In 3-month period, June – Aug 2020
Dr lease liability (100*3) 300
Cr cash 300
Dr interest (P&L) 60
Cr lease liability 60</td><td>In 3-month period, June – Aug 2020
Dr lease liability (100*3) 300
Cr cash 300
Dr P&L (interest) 60
Cr lease liability 60</td><td>In 3-month period, June – Aug 2020
Dr lease liability (200*3) 600
Cr cash 600
Dr interest (P&L) 60
Cr lease liability 60</td><td>In 3-month period, June – Aug 2020
Dr lease liability (160*3) 480
Cr cash 480
Dr P&L (interest) 60
Cr lease liability 60</td></tr>
<tr><td>Lease liability at 31 August 2020:
CU 1,520</td><td>Lease liability at 31 August 2020:
CU 1,520</td><td>Lease liability at 31 August 2020:
CU 1,520</td><td>Lease liability at 31 August 2020:
CU 1,520</td></tr>
</table>

Transition

36. In our view, an exemption would be most helpful to entities if it is immediately effective on issue of the final amendment (such that it can be applied in any set of financial statements not yet authorised for issue) and the Board require it to be applied retrospectively. As described in paragraph 31, we propose that any exemption the Board might provide should be limited to rent concessions that reduce only payments originally due in 2020. Therefore, retrospective application would not capture rent concessions that affect payments before January 2020. However, retrospective application may benefit entities that, for example:

(a) have a 31 March 2020 year-end and publish financial statements before the Board would finalise an amendment. Such entities would be able to retrospectively apply the amendment to covid-19-related rent concessions arising in March 2020 (and later) in their 31 March 2021 financial statements;

(b) prepare interim financial statements before the Board would finalise an amendment, but would like to use the exemption in their next annual financial statements.

37. For entities such as those in paragraph 36(a) above, we think it would potentially be costly to restate prior period figures and there would be little benefit in doing so.

38. Consequently, we propose that lessees should be required to apply the exemption retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but not be required to restate prior period figures. Instead, a lessee would recognise any difference arising on initial application of the amendment in opening retained earnings (or other component of equity, as appropriate) in the annual reporting period that includes the date of initial application.

Likely effects of an exemption on the quality of financial reporting

39. Paragraphs 11-14 describe the potential challenges and costs for lessees from which an exemption would provide relief during the covid-19 pandemic. In deciding whether to provide an exemption, the Board also needs to consider the

likely effects of the exemption on the usefulness of information provided to users of financial statements.

40. Table 1 above demonstrates that applying the exemption would result in:

    (a) any forgiveness of lease payments being recognised in profit or loss in the period in which the event or condition that triggers the forgiveness occurs;

    (b) any deferral of lease payments not affecting profit or loss to the extent that the changes affect only the timing of payments and not the consideration for the lease. Instead a deferral is reflected in the measurement of the lease liability, which would reflect amounts owing to the lessor;

    (c) the lease liability representing the present value of all future lease payments owing to the lessor.

41. We think the above effects provide a faithful representation of a lessee's obligations under the lease contract.

42. However, the exemption may affect comparability between entities. Notably, the effects of covid-19-related rent concessions on a lessee's right-of-use asset and profit or loss could be different depending on whether an entity applies the exemption.

43. For example: an entity applying the exemption would generally recognise the effects of forgiveness of lease payments in profit or loss. An entity applying the lease modification requirements would instead make an adjustment to the carrying amount of the right-of-use asset and generally recognise the effects of the rent concession over the useful life of the right-of-use asset. This would lead to reduced comparability between the two entities. Nonetheless, we note that the circumstances giving rise to rent concessions as a result of the covid-19 pandemic may indicate that right-of-use assets may be impaired. Any impairment would reduce the potential difference between accounting—or not accounting—for a rent concession as a lease modification.

Disclosure

44. Providing an exemption could have an adverse effect on comparability between entities (see paragraphs 42-43). Consequently, if the Board provides such an exemption, we think it should also require an entity applying the exemption to disclose that fact.

Possible timing if the Board were to undertake standard-setting

45. Many entities are already preparing their first annual financial statements applying IFRS 16, or will do so in the coming months. Entities will also have to apply IFRS 16 in preparing interim financial statements. The exemption described in paragraph 31 will be of benefit to entities only if it is provided in a timely manner. Consequently, possible timing is an important consideration for the Board when deciding whether to provide an exemption.

46. We think it would be possible to finalise an amendment to IFRS 16 by the end of May 2020 if, at this meeting, the Board decides to:

    (a) amend IFRS 16 to provide an exemption for entities similar to that described in paragraph 31;

    (b) make that exemption immediately effective on issue of the final amendment;

    (c) give the staff permission to ballot an exposure draft of that amendment. Appendix B sets out a summary of due process steps;

    (d) request approval from the Trustees of the IFRS Foundation for a comment period on that exposure draft of 14 days. We would view the current circumstances as being exceptional and, thus, would recommend a comment period of 14 days[3].

47. The covid-19 pandemic has had an increasing and dramatic effect on the world and businesses since early 2020, but little effect before then. Consequently, we think any exemption the Board might provide would not be relevant to entities

[3] Paragraph 6.8 of the *Due Process Handbook* states that, in exceptional circumstances, and only after formally requesting and receiving prior approval from 75 per cent of the Trustees, the Board may reduce the period for public comment on an Exposure Draft to below 30 days but may not dispense with a comment period.

with a 31 December 2019 year-end. We acknowledge that an exemption effective in May 2020 is unlikely to benefit entities preparing annual financial statements with, say, January 2020 or February 2020 year-ends (although retrospective application would help those entities in future). However, we also note that the gradual spread of the covid-19 pandemic in early 2020 means that there are likely to have been significantly less covid-19-related rent concessions occurring before March 2020. We would expect an exemption that is effective in May 2020 to be of benefit to many affected entities with a 31 March 2020 year-end and all affected entities with later year-ends.

48. Consequently, an exemption that is effective in May 2020 could benefit many lessees with covid-19-related rent concessions.

Conclusion

49. We conclude that providing an exemption similar to that described in paragraph 31 would provide cost relief to lessees whilst still providing useful information to users of financial statements about rent concessions.

50. The primary drawbacks of providing such an exemption are that it:

(a) would not be finalised in time to be applied in all affected financial statements—although retrospective application would help those entities in subsequent periods (see paragraphs 36 and 47); and

(b) may adversely affect comparability between entities applying the exemption and those that do not (see paragraphs 42-43).

51. Furthermore, the urgent nature of the issue identified means that we have not performed a detailed analysis of its prevalence. As described in paragraph 8, we have been informed by stakeholders that the issue arises in a number of IFRS jurisdictions—however at this time we are unable to estimate the number of entities affected and the possible quantitative effect of the issue on entities' financial statements. However, any standard-setting will be useful to entities only if it is provided in a timely manner. Consequently, we are asking the Board to make a decision based on the information available at the moment—awaiting more detailed information would limit the usefulness of any standard-setting. We note however that because the exemption is optional, any lessee for whom it is not

beneficial need not apply it. In other words, we do not expect adverse consequences for lessees if the issue is less prevalent than current information suggests. That said, if the issue is less prevalent, we might have instigated standard-setting—and asked our stakeholders to incur costs in providing feedback to us—when the benefits are less than initially anticipated.

52. On balance, we conclude that the expected benefits of providing the exemption outweigh the costs. Consequently, we recommend that the Board amend IFRS 16 to include an exemption similar to that described in paragraph 31.

53. If the Board agrees with the staff recommendations in this paper, the staff will begin the balloting process for a proposed amendment to IFRS 16.

Staff recommendations and questions for the Board

Questions for the Board

1. Does the Board agree with the staff recommendation to amend IFRS 16 to:

   (a) provide lessees with an exemption from assessing whether a covid-19-related rent concession is a lease modification;

   (b) require lessees that apply the exemption to account for covid-19-related rent concessions as if they were not lease modifications;

   (c) require lessees that apply the exemption to disclose that fact; and

   (d) require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures. Instead, a lessee would recognise any difference arising on initial application of the amendment in opening retained earnings (or other component of equity, as appropriate) in the annual reporting period that includes the date of initial application.

2. Does the Board agree with the staff recommendation that the exemption should be immediately effective on issue of the final amendment?

3. Does the Board agree with the staff recommendation to ask the Trustees to approve a 14-day comment period for an Exposure Draft of an amendment to IFRS 16?

4. Is the Board satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the Exposure Draft?

5. Does any Board member intend to dissent from the proposals in the Exposure Draft?

Appendix A—Educational material published on 10 April 2020

IFRS 16 and covid-19

Accounting for covid-19-related rent concessions applying IFRS 16 *Leases*

This document is intended to support the consistent application of requirements in IFRS® Standards.

We have been made aware of changes in lease payments that have occurred, or are expected to occur, as a result of the covid-19 pandemic. These changes include, for example, lessors providing rent ‘holidays’ to commercial lessees.

IFRS 16 *Leases* contemplates that changes may occur in lease payments over the term of a lease. The required accounting for such changes (if material) involves the application of judgement and depends on a number of factors, including importantly whether those changes were part of the original terms and conditions of the lease. Changes could arise directly from amendments to the lease contract itself or indirectly—for example, from actions of government in response to the covid-19 pandemic. When accounting for changes in lease payments, an entity considers together the lease contract and any applicable law or regulation. In other words, in applying IFRS 16 an entity treats a change in lease payments in the same way, regardless of whether the change results from a change in the contract itself or, for example, from a change in applicable law or regulation.

IFRS 16 sets out specific requirements for how to account for some changes in lease payments—for example, those arising from changes in an index or rate used to determine lease payments. Otherwise the accounting required by IFRS 16 for a change in lease payments depends on whether that change meets the definition of a lease modification.

Assessing whether a change in payments is a lease modification

IFRS 16 defines a **lease modification** as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease.

In assessing whether there has been a **change in the scope of the lease**, an entity considers whether there has been a change in the right of use conveyed to the lessee by the contract—examples of a change in the scope of a lease include adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term. A rent holiday or rent reduction alone is not a change in the scope of a lease.

In assessing whether there has been a **change in the consideration for a lease**, an entity considers the overall effect of any change in the lease payments. For example, if a lessee does not make lease payments for a three-month period, the lease payments for periods thereafter may be increased proportionally in a way that means that the consideration for the lease is unchanged.

If there is no change in either the scope of the lease or the consideration for the lease, then there is no lease modification.

If there has been a change in either the scope of or the consideration for the lease, an entity next considers whether that change was **part of the original terms and conditions** of the lease. An entity applies paragraph 2 of IFRS 16 and considers both the terms and conditions of the contract and all relevant facts and circumstances. Relevant facts and circumstances may include contract, statutory or other law or regulation applicable to lease contracts[4]. For example, lease contracts or applicable law or regulation may contain clauses that result in changes to payments if particular events occur or circumstances arise. Government action (for example, requiring the closure of retail stores for a period of time because of covid-19) might be relevant to the legal interpretation of clauses, such as force majeure, that were in the original contract or in applicable law or regulation. Changes in lease payments that result from clauses in the original contract or in applicable law or regulation are part of the original terms and conditions of the lease, even if the effect of those clauses (arising from an event such as the covid-19 pandemic) was not previously contemplated. In such a case there is no lease modification for the purposes of IFRS 16.

If a change in lease payments results from a lease modification, a lessee applies paragraphs 44-46 of IFRS 16 and a lessor applies paragraphs 79-80 or paragraph 87 of IFRS 16.

Changes in payments that are not lease modifications

If a change in lease payments does not result from a lease modification, that change would generally be accounted for as a variable lease payment. In this case, a lessee

[4] This is in contrast to the approach in some other IFRS Standards.

applies paragraph 38 of IFRS 16 and generally recognises the effect of the rent concession in profit or loss. For an operating lease, a lessor recognises the effect of the rent concession by recognising lower income from leases.

Partial lease liability extinguishment

If a change in lease payments results in the extinguishment of a part of a lessee's obligation specified in the contract (for example, a lessee is legally released from its obligation to make specifically identified payments), the lessee would consider whether the requirements for derecognition of a part of the lease liability are met applying paragraph 3.3.1 of IFRS 9 *Financial Instruments*.

Impairment of assets

IAS 36 *Impairment of Assets* applies in determining whether right-of-use assets (for lessees) and items of property, plant and equipment subject to an operating lease (for lessors) are impaired. The circumstances that give rise to rent concessions as a result of the covid-19 pandemic are likely to indicate that assets may be impaired. For example, loss of earnings during the period covered by a rent concession may be an indicator of impairment of the related right-of-use asset. Similarly, longer-term effects of the covid-19 pandemic could affect the expected ongoing economic performance of right-of-use assets. Lessors will also need to consider the applicable requirements of IFRS 9, for example when accounting for any impairment of lease receivables.

Disclosure

Lessees and lessors must also apply the disclosure requirements of IFRS 16 and other IFRS Standards, such as IAS 1 *Presentation of Financial Statements*. For example, IFRS 16 requires both lessees and lessors to disclose information that gives a basis for users of financial statements to assess the effect that leases have on their financial position, financial performance and cash flows. The information disclosed will need to be sufficient to enable users of financial statements to understand the impact of covid-19-related changes in lease payments on the entity's financial position and financial performance (paragraph 31 of IAS 1).

Appendix B—Due process steps taken in developing a possible amendment to IFRS 16

B1. As described in paragraph 45 of this paper, the amendment being considered by the Board would be of benefit to stakeholders only if it is finalised in a timely manner. With that in mind, the table below summarises the required due process steps for developing an exposure draft. The table omits the optional steps.

Step	Required/ Optional	Actions
Board meetings are held in public, with papers available for observers. All decisions are made in public sessions	Required	The Board is discussing the project in public at its April 2020 Board Meeting.
Consultation with the Trustees and the Advisory Council	Required	The Trustees and Advisory Council will be updated on the project as part of the discussions of the Board's technical activities.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs	Required	The likely cost relief for entities applying the amendment is summarised in paragraphs 11-14 of this paper. The likely effects on the quality of financial reporting are summarised in paragraphs 39-43 of this paper. The Board is discussing these effects at its April 2020 Board Meeting.
Finalisation		
Due process steps reviewed by the IASB	Required	This paper asks the Board to review the due process steps for the project.
The Exposure Draft has an appropriate comment period	Required	This paper recommends that the Board seeks approval from the Trustees for a comment period of 14 days. The proposed comment period is below the minimum period specified in paragraph 6.7 of the IFRS Foundation *Due Process Handbook* and, therefore, approval is required from 75 per cent of the Trustees.
Drafting		
Drafting quality assurance steps are adequate—The Translations team and the IFRS Taxonomy team have been included in the review process	Required	The translations team and the IFRS Taxonomy team will review drafts during the balloting process of the Exposure Draft.

Publication		
Exposure Draft published	Required	The Exposure Draft will be made available on the project website when published.
Press release to announce publication of the Exposure Draft	Required	A press release will be published on our website with the Exposure Draft.