

Rent concessions – Proposed relief for lessees

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“This is a practical response to current conditions. The IASB is moving ahead with this as quickly as it possibly can, so that companies can take advantage of it in their 2020 financial statements. If you have a lot of rent concessions in your business, you need to engage with this right now.”

Brian O'Donovan
KPMG International Standards Group

Proposed amendments provide relief for rent concessions directly related to COVID-19

Highlights

- What's the issue? – Accounting for rent concessions
- What's the Board proposing? – Relief from lease modification accounting
- What would be the effective date?
- Next steps – Comment by 8 May 2020

In response to the COVID-19 coronavirus pandemic, the International Accounting Standards Board (the Board) is **proposing** to amend IFRS 16 *Leases* to allow lessees *not* to account for **rent concessions** as lease modifications if they arise in 2020 and are a direct consequence of COVID-19.

What's the issue?

Many lessees are seeking rent concessions from lessors. The rent concessions could be in various forms and may include one-off rent reductions, rent waivers or deferrals of lease payments. For example, a number of retailers are seeking reductions in real estate rents, and similar issues may arise in other leases.

Under IFRS 16, rent concessions often meet the definition of a lease modification, unless they were envisaged in the original lease agreement. The accounting for lease modifications can be complex. For example, the lessee may be required to recalculate lease assets and liabilities using a revised discount rate.

What's the Board proposing?

The Board proposes providing an optional exemption to lessees *not* to apply lease modification accounting to rent concessions arising as a direct consequence of COVID-19 in 2020. The resulting accounting would depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it would be accounted for as a variable lease payment and be recognised in the profit or loss statement. The proposals require lessees applying the exemption to disclose the fact.

The proposed exemption would only apply if:

- the revised consideration is substantially the same or less than the original consideration;

- the reduction in lease payments relates to payments due in the year 2020; and
- no other substantive changes have been made to the terms of the lease.

No exemption is proposed for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly. The Board believes that lessors will have adequate systems in place to address rent concessions, and that modification accounting is relatively straightforward for them.

The Board recently issued **educational material** on accounting for rent concessions under COVID-19 and believes this remains relevant for:

- lessees who do not apply the practical expedient;
- lessees after expiry of the practical expedient; and
- lessors.

What would be the effective date?

The proposed amendments are expected to be finalised by the end of May 2020 and would be effective for periods beginning on or after 1 June 2020, with earlier application permitted. They would be applicable retrospectively with the cumulative effect of initially applying them being recognised in the opening retained earnings of the reporting period in which they are first applied.

Next steps

Under an accelerated due process, the Board is accepting comments on the proposed amendments only until 8 May 2020. We encourage preparers and users of financial statements to read the proposals and provide their comments to the Board.

For further information on the financial reporting implications of the COVID-19 pandemic, please go to our **COVID 19 | Financial reporting resource centre**, which is continually updated as significant accounting and reporting issues arise. We encourage you to bookmark this page and check back frequently for updates.

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