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Mr. Hans Hoogervorst
International Accounting Standards Board
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Dear Mr. Hoogervorst

Comment letter on ED/2020/2 Covid-19-Related Rent Concessions

We appreciate the opportunity to comment on the International Accounting Standards Board's (the Board) Exposure Draft *Covid-19-Related Rent Concessions – Proposed amendment to IFRS 16* (the ED). We have consulted with, and this letter represents the views of, the KPMG network.

We support the proposal to provide relief to lessees in accounting for rent concessions. We believe that this is a practical and proportionate response to current conditions. In addition, for the reasons set out in the Appendix to this letter, we ask that the Board:

- extend the practical expedient to lessors, assuming this can be done within the Board's accelerated due process for finalising the proposed amendment; and
- clarify the scope of the practical expedient in certain respects.

Please contact Reinhard Dotzlaw at Reinhard.Dotzlaw@kpmgifrg.com or Kimber Bascom at kbascom@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix: Responses to specific 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.

We agree, subject to the points noted below.

Application to lessors

We recommend that the Board extend the proposed relief to lessors, subject to the same scoping restrictions that apply to lessees. We note the Board's rationale for not proposing relief for lessors in paragraph BC3 of the ED but believe that the following additional considerations are relevant.

- As noted in BC3, lessors will often deal with a large volume of leases, as leasing is a core part of their business. By the same token, lessors will need to process a large volume of rent concessions. We note that many lessors may not have the systems to cope with the changes and therefore their efforts will still be substantial.

The expected large volume of rent concessions poses challenges for lessees and lessors.

- Although the general accounting approach for lessors in IFRS 16 is similar to that in IAS 17 *Leases*, the detailed guidance on lease modifications for lessors is new. Paragraph BC3(a) of the ED does not acknowledge that lessors have recently implemented this aspect of IFRS 16.
- The dual accounting model for lessors retains complexity for lessors that the single accounting model for lessees eliminates. For example, in the case of a modification of a finance lease that is not accounted for as a separate lease, paragraph 80 of IFRS 16 requires the lessor to reconsider the classification of the lease on the assumption that the modification had been in place at lease inception. Paragraph BC3(c) of the ED does not acknowledge this step and instead states that a lessor always applies IFRS 9 *Financial Instruments* to modifications of finance leases. Also, IFRS 9 *Financial Instruments* is itself a new standard and lessors may have limited experience of applying it to lease modifications.
- In the case of an intercompany lease, the relief provided to the lessee from having to assess whether a rent concession is a lease modification is nullified if the lessor is required to make that assessment.
- Similarly, in the case of a sublease, where the intermediate lessor receives a rent concession in the head lease and also grants a matching rent concession in the sublease, the relief provided from having to assess whether the rent concession in the head lease is a lease modification may substantially be negated if that assessment is required for the rent concession in the sublease.

Limiting the relief to 2020

We agree with the proposal to limit the practical expedient to lease payments originally due by a specified date. We believe that a strict cut-off by date is the most practical – perhaps the only practical – way of ensuring that the scope of the relief is determined in an objective and consistent manner.

However, given how rapidly the situation is evolving, we recommend that the Board reviews the cut-off date at the time that it votes on whether to finalise the proposals. This will ensure that the cut-off date reflects the latest information available. We also recommend that the Board plans to monitor the situation and revisit the cut-off date before the relief expires if there is a change in circumstances that warrants an extension.

A direct consequence of covid-19

We note that paragraph 46B of the ED limits the relief to rent concessions that are “a direct consequence” of covid-19. However, other parts of the ED use a different form of words, for example “covid-19 related” (paragraph 46A) and “result solely from” (paragraph BC5(a)). The use of different terms may create unintended application issues.

Further, the term “direct consequence” (or any similar term) will introduce interpretative issues. For example, some entities may find it practically impossible to identify whether a given rent concession arises as a direct consequence of covid-19 or, for example, the recent extreme volatility in oil prices.

We recommend that the Board use a single, neutral term (e.g. “primarily related to covid-19”) regarding the cause of a given rent concession and rely instead on the criteria in sub-paragraphs 46B(a)-(c) of the ED to limit the scope of the practical expedient.

Consideration in the lease

We recommend that the Board clarify whether the references to the “consideration in the lease” in paragraph 46B(a) of the ED refer to the *total* consideration in the lease, or the *remaining* consideration in the lease immediately preceding the change. This could impact the assessment of which rent concessions qualify for the practical expedient.

Time value of money

We recommend that the Board clarify the relationship between the criterion in paragraph 46B(a) of the ED and the time value of money. We note that paragraph BC5(a) of the ED addresses this, and appears to be a response to the Board’s discussion of this issue in its supplementary meeting. However we believe that BC5(a) could be clarified.

If it is the intention of the Board that a rent concession would meet the criterion in paragraph 46B(a) of the ED if there is a more than insubstantial increase in consideration but that increase is attributable to the time value of money, then that should be stated explicitly.

Relationship with other requirements in IFRS 9 and IFRS 16

A key part of the proposed relief for lessees is that the lessee does not need to determine a revised discount rate when it does not account for a rent concession as a lease modification. It would be unfortunate if other applicable requirements in IFRS Standards required a lessee to revise the discount rate for a rent concession that

qualifies for the practical expedient. We recommend that the Board clarifies the following points.

- Paragraph 3.3.2 of IFRS 9 includes guidance on accounting for a substantial modification of a financial liability. That guidance is within the derecognition section of IFRS 9. Given that the Board's recent educational material on IFRS 16 emphasises that lease liabilities are within the scope of IFRS 9 for derecognition purposes, it would be helpful to clarify whether the Board believes that paragraph 3.3.2 of IFRS 9 applies to rent concessions that are not accounted for as lease modifications.
- Paragraph 21 of IFRS 16 requires an entity to revise the lease term if there is a change in the non-cancellable period, and paragraph 40(a) of IFRS 16 requires the lessee to revise the discount rate when it does so. It would be helpful to clarify whether the Board believes that this requirement applies if there is a change to the lease term arising in a rent concession that qualifies for the practical expedient.

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.

We agree.