



IASB PROPOSES EXTENSION TO COVID-19 PRACTICAL EXPEDIENT (IFRS 16)

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BACKGROUND

On 28 May 2020, the IASB issued amendments to IFRS 16, which provide relief for lessees in accounting for rent concessions granted as a direct consequence of COVID-19.

BDO has published several detailed publications on these amendments, including FAQs, which are available [here](#).

The rationale for those amendments was that the IASB had received feedback that lessees were experiencing significant operational difficulty in applying the requirements of IFRS 16 for rent concessions. Many types of rent concessions provided to lessees as a result of COVID-19 met the definition of a lease modification, which would have required lessees to remeasure the lease liability based on the revised consideration using a revised discount rate. The IASB noted while this requirement is not typically onerous, it becomes challenging to apply for lessees with potentially hundreds or thousands of leases, especially when entities are experiencing significant other operational disruptions due to the effects of COVID-19. Without relief, entities would also have been required to assess whether each change to a lease contract met the definition of a lease modification, which would have added another layer of complexity.

If the lease modification requirements had been applied, any change in the lease liability would have resulted in an adjustment to the right-of-use asset, meaning the benefit of the concession would generally have been reflected in reduced depreciation expenses in the current and future periods, rather than in the period to which the concession related.

THE ORIGINAL AMENDMENTS

IFRS 16 was therefore amended to introduce a practical expedient in IFRS 16, which is summarised as follows:

- (a) Provide lessees with an exemption from the requirement to determine whether a COVID-19-related rent concession is a lease modification; and
- (b) Require lessees that apply the practical expedient to account for COVID-19-related rent concessions as if they were not lease modifications. Lessees generally account for the change in lease payments as a 'negative variable payment' (i.e. DR lease liability, CR profit or loss).

The amendments limited the application of this practical expedient to rent concessions meeting certain criteria. One of these criteria was that any reduction in lease payments could only affect payments originally due on or before 30 June 2021. Therefore, for example, a rent concession agreed to in June 2020 that reduced lease payments by 15% from July 2020 - July 2021 would not have qualified for the practical expedient because it would have reduced lease payments originally due beyond 30 June 2021. This type of rent concession would instead have been required to be accounted for using the lease modification requirements of IFRS 16.

WHY IS THE IASB PROPOSING ADDITIONAL AMENDMENTS?

Since the original amendments were issued, the IASB has received feedback from investors indicating that, due to the ongoing effects of the pandemic, they thought the criteria to apply the practical expedient should be extended. This would result in gains from the forgiveness or waiver of lease payments that are a

STATUS

Exposure draft forthcoming; 14 day comment period is expected.

EFFECTIVE DATE

Proposed to be mandatorily effective for annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including to financial statements not yet authorised for issue at the date the final amendments are issued.

ACCOUNTING IMPACT

Extend the criterion for applying the practical expedient to concessions that reduce lease payments originally due on or before 30 June 2022 (criterion was originally 30 June 2021).

direct consequence of the pandemic continuing to be included in profit or loss in the period to which they relate (i.e. reflect the financial effects of the pandemic during the period of the pandemic).

WHAT IS THE IASB PROPOSING?

The proposals set out in this publication are based on the staff paper which was discussed by the IASB at its meeting on 4 February 2021. This publication will be updated following the issue of the exposure draft.

The IASB is proposing to modify one of the criteria that must be met in order for the practical expedient to be applied. This would extend the period over which lease payments originally due may be reduced from 30 June 2021 to 30 June 2022. Therefore, using the earlier example of a rent concession which reduced lease payments originally due by 15% from July 2020 - July 2021, an entity that is able to apply the revised practical expedient would account for this rent concession using the practical expedient, whereas it could not under the original amendments issued in May 2020.

WHAT WOULD BE THE EFFECT OF THE PROPOSED AMENDMENTS?

More rent concessions would qualify for use of the practical expedient because one of the criteria that must be met in order to apply it would be extended a further 12 months. This would result in the effect of more rent concessions being recognised in profit or loss during the period of the pandemic as opposed to an adjustment of the associated right-of-use asset.

Extending the application of the practical expedient may also provide operational relief to lessees, as use of the practical expedient means that a lessee does not need to determine whether the rent concession would meet the definition of lease modification, which may be onerous if the population of leases is very large.

WHAT ARE THE PROPOSED TRANSITIONAL PROVISIONS?

The IASB is proposing that the amendments to the practical expedient be mandatorily effective for annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not authorised for issue at the date the final amendment is issued. For example, if the final amendments were issued on 1 April 2021 and an entity had not yet authorised its 31 December 2020 financial statements for issue, that entity could apply these amendments in its 31 December 2020 financial statements.

The amendments would be applied retrospectively, with the cumulative effect of initial application being reflected as an adjustment to opening equity at the beginning of the annual reporting period in which the amendments are first applied.

WHEN MIGHT THE AMENDMENTS BE FINALISED?

The IASB intends to finalise the amendments by the end of March 2021. An exposure draft will be issued shortly with a 14-day comment period.

For entities that do not apply IFRS as issued by the IASB (e.g. IFRS as endorsed by the European Union or based on the endorsement of other national standard setters), application of the amendments will be delayed until the applicable endorsement or approval process occurs.



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