



MOORE

COVID-19 RELATED RENT CONCESSIONS (AMENDMENT TO IFRS 16 LEASES)

June 2020



BACKGROUND

IFRS 16 Leases contains requirements that specify the accounting for changes in lease payments, including rent concessions, where entities are required to assess whether such rent concessions are lease modifications. However, as a direct consequence of the Covid-19 pandemic during 2020, large volumes of rent concessions have been, or are expected to be, granted to lessees. These rent concessions can be in the form of rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Nevertheless, entities may find it practically difficult to apply those requirements, especially in the light of the unprecedented challenges during the pandemic.

In response to this, the International Accounting Standards Board (IASB) has published an amendment to IFRS 16 to provide a practical relief to lessees in accounting for rent concessions arising as a result of the COVID-19 pandemic with an optional exemption to lessees from assessing whether a COVID-19-related rent concession is a lease modification and account for those rent concessions as if they were not lease modifications.

The objective of this amendment is to provide lessees with practical relief during the COVID-19 pandemic while enabling them to continue providing useful information about their leases to users of financial statements.

SCOPE AND CONDITIONS

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 on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c). there is no substantive change to other terms and conditions of the lease.

The practical expedient does not apply to lessors. Lessors are required to apply the existing requirements of IFRS 16.

APPLICATION

Instead of accounting for a change in a lease payment as a lease modification, a lessee applying the practical expedient would generally account for three types of change in lease payments as follows:

- a). a lessee applying the practical expedient would generally account for a forgiveness or waiver of lease payments as a variable lease payment applying paragraph 38 of IFRS 16, and therefore recognise in profit or loss, in the period in which the event or condition that triggers those variable lease payments occurs, both:
 - i). interest on the lease liability; and
 - ii). variable lease payments not included in the measurement of the lease liability 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 the part of the lease liability that has been forgiven or waived.

- b). a change in lease payments that reduces payments in one period but proportionally increases payments in another does not extinguish the lessee's lease liability or change the consideration for the lease, instead, it changes only the timing of individual payments. In this case, applying paragraph 36 of IFRS 16, a lessee would continue to both recognise interest on the lease liability and reduce that liability to reflect lease payments made to the lessor.

- c). some covid-19-related rent concessions reduce lease payments, incorporating both a forgiveness or waiver of payments and a change in the timing of payments.

The practical expedient should be applied consistently to all lease contracts with similar characteristics and in similar circumstances as required by paragraph 2 of IFRS 16.

Lessees should evaluate the appropriate accounting for each rent concession depending on the terms and conditions.

DISCLOSURE

If a lessee applies the practical expedient, the lessee is required to disclose:

- a). that it has applied the practical expedient to all rent concessions that meet the conditions, or if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient; and

- b). the amount recognised in profit or loss to reflect changes in lease payments that arise from covid-19-related rent concessions.

If an entity applies the practical expedient to certain leases but not others that meet the application conditions, additional disclosure is required.



EFFECTIVE DATE AND TRANSITION

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements, interim or annual, not yet authorised for issue at 28 May 2020.

The amendment is to be applied retrospectively by recognising the cumulative effect of initially applying that amendment as an adjustment to the opening equity balance at the beginning of the annual reporting period in which the amendment is first applied. However, lessees are not required to disclose the information required by paragraph 28(f) of IAS 8 in the period of adoption.



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