



IFRS Adviser Alert

IASB introduces relief for rent concessions during the COVID-19 pandemic

July 2020

Executive summary

On May 28, 2020, the International Accounting Standards Board (IASB) published *COVID-19 – Related Rent Concessions (Amendment to IFRS 16)* (hereafter “the Amendment”). The Amendment adds a practical expedient to IFRS 16 *Leases* which provides relief for lessees in assessing whether specific COVID-19 rent concessions are lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications. There are no changes for the lessors.

Background

The COVID-19 pandemic is creating additional burden on entities all over the world. As a result, lessors may have provided or will be providing lessees with rent concessions. These can be in the form of rent holidays or rent reductions for an agreed timeframe (possibly followed by increased rentals in future periods). In some jurisdictions, governments are making rent concessions a requirement, in others, they are merely encouraging them. However, they will have major impact for lessees, in particular, in the retail and hospitality industries where, in many cases, they have been forced to temporarily close their premises.

IFRS 16 *Leases* contains specific requirements when accounting for changes to lease payments, and rent concessions are in the scope of these requirements. Lessees are required to assess whether rent concessions are lease modifications and, if they are, there is specific accounting to be applied. However, applying these requirements to potentially a significant number of leases could be difficult, particularly from a practical perspective.



The practical expedient

The practical expedient introduced in IFRS 16 allows lessees to elect to not carry out an assessment to determine whether a COVID-19-related rent concession received is a lease modification. The lessee would then account for the rent concession as if the change was not a lease modification. The relief is only available for lessees that are granted these rent concessions. There are no expedients available for lessors.

The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. All of the following conditions in relation to the lessee's practical expedient need to be met:

- The rent concession results in the revised consideration for the lease being substantially the same or less than the original consideration for the lease immediately before the concession was provided;
- The rent concession is for a relief of payments that were originally due on or before June 30, 2021. For example, a reduction in lease payments that were required on or before June 30, 2021 but where rentals are increased subsequently to June 30, 2021 meets this condition;
- There are no other substantive changes to the other terms and conditions of the lease.

Transitional provisions

The Amendment is applicable for annual reporting periods beginning on or after June 1, 2020. The Amendment is applicable retrospectively with recognition of 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 Amendment is first applied. Earlier application is permitted, including for interim or annual financial statements not yet authorized for issue at the date the Amendment is issued.

If the practical expedient is applied, the lessee will need to disclose that it has applied the practical expedient either to all its leases or a group of its leases that present similar characteristics, and also disclose the amount recognized in profit or loss as a result of the application of the practical expedient.

The Amendment was incorporated into Part I of the *CPA Canada Handbook – Accounting* in July 2020.

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