

IFRS Developments

IASB extends relief for COVID-19 related rent concessions

What you need to know

- ▶ The IASB has extended the amendment to IFRS 16, which provides relief to lessees from applying lease modification accounting to COVID-19 related rent concessions.
- ▶ The update to the amendment allows it to be applied to a reduction in lease payments, arising from COVID-19, originally due on or before 30 June 2022.

The update to the amendment applies to annual reporting periods beginning on or after 1 April 2021 and may be applied early.

Highlights

On 28 May 2020, the International Accounting Standards Board (the IASB or Board) issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases* (the 2020 Amendment). The Board amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

The objective of the 2020 Amendment was to provide lessees that have been granted COVID-19 related rent concessions with practical relief, while still providing useful information about leases to users of the financial statements. One of the conditions of applying the amendment was that it related to a reduction in lease payments due originally on or before 30 June 2021. However, the pandemic has continued beyond the period envisaged when the 2020 Amendment was issued. Therefore, the Board has updated this condition to apply to a reduction in lease payments originally due on or before 30 June 2022 (the 2021 Amendment).

The 2021 Amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued.

Amendment to IFRS 16

Lease modifications

The 2020 Amendment, issued in May 2020, stated that as a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The 2021 Amendment will only change the date in the second bullet point listed below, to apply to lease payments up to 30 June 2022. Therefore, the practical expedient will continue to apply only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- ▶ 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.
- ▶ Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2022 and increased lease payments that extend beyond 30 June 2022).
- ▶ There is no substantive change to other terms and conditions of the lease.

Transition and effective date

Lessees will apply the 2021 Amendment 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. In the reporting period in which a lessee first applies the 2021 Amendment, the lessee will not be required to disclose the information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

A lessee applies the 2021 Amendment for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued.

In accordance with paragraph 2 of IFRS 16, a lessee is required to apply the relief consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the lessee applying the 2020 Amendment or 2021 Amendment.

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How we see it

As a lessee is required to apply the relief consistently to contracts with similar characteristics and in similar circumstances, the 2021 Amendment does not permit changes to existing accounting policy elections to similar groups of contracts established upon applying the 2020 Amendment. However, upon applying the 2021 Amendment, certain contracts not within the scope of the 2020 Amendment (i.e., due to the timing of effected lease payments) may now be in the scope (based on the timing of effected lease payments and the entities' existing policy, if any, for contracts with similar characteristics and circumstances).