



In depth

A look at current financial reporting issues

June 2020

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IFRS 16 COVID-19-Related Rent Concessions Amendment

At a glance

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

1. Background

In many territories, rent concessions have been, or are expected to be, provided to lessees as a result of the COVID-19 pandemic. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments for a period of time, sometimes followed by increased rent payments in future periods. Absent the amendment, an entity would need to assess whether such rent concessions meet the definition of a modification under IFRS 16 and, if so, it would need to follow the modification guidance. The IASB noted, however, that it could be complex to perform this assessment and, where appropriate, apply the requirements for lease modifications to a potentially large volume of rent concessions related to COVID-19 – particularly in the light of the many other challenges that lessees face during the pandemic.

As a result, the IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19, and that meets certain conditions, is a lease modification. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

This In depth addresses questions arising from application of the amendment. The questions are grouped into the following sections:

[2 Scope;](#)

[3 Measurement;](#)

[4 Presentation and disclosure; and](#)

[5 Transition and effective date.](#)

2. Scope

The practical expedient only applies to lessees' 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 due on or before 30 June 2021; and
- c. there is no substantive change to other terms and conditions of the lease.

[\[IFRS 16 para 46B\]](#).

[2.1 Could a rent concession that increases total lease payments be in the scope of the practical expedient?](#)

[2.2 Could reductions in lease payments that extend beyond 30 June 2021 be in the scope of the practical expedient?](#)

[2.3 What is included in 'consideration' for the purposes of paragraph 46B\(a\) of IFRS 16?](#)

[2.4 Does 'consideration for the lease immediately preceding the change' refer to the total consideration for the lease or the remaining consideration for the lease?](#)

[2.5 What is considered a 'substantive' change to the other terms and conditions of the lease?](#)

[2.6 Could changing lease payments from fixed to variable be eligible for the practical expedient?](#)

[2.7 Are open-ended rent concessions eligible for the practical expedient?](#)

If a lessee chooses to apply the practical expedient to a lease, it must apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances, as required by paragraph 2 of IFRS 16.

[\[IFRS 16 para BC205C\]](#).

[2.8 Can the election to apply the practical expedient be made on a lease-by-lease basis?](#)

[2.9 How does a lessee account for a rent concession if it does not elect to apply the practical expedient?](#)

The practical expedient is not available to lessors.

[2.10 Why can the practical expedient not be applied by lessors?](#)

3. Measurement

A lessee that uses the practical expedient accounts for any change in lease payments resulting from the rent concession in the same way that it would account for the change applying IFRS 16 if the change were not a lease modification. [\[IFRS 16 para 46A\]](#).

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 – that is, recognising the concession 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. [\[IFRS 16 para BC205E\]](#).

[3.1 How does a lessee account for a reduction in lease payments if it elects the practical expedient?](#)

[3.2 Does a lessee recognise the gain from a reduction in lease payments all at once or over time?](#)

[3.3 How does a lessee account for a deferral of lease payments?](#)

[3.4 Does a lessee continue to recognise interest expense on the lease liability when it elects to apply the practical expedient?](#)

[3.5 Does applying the practical expedient have any effect on the accounting for the right-of-use asset?](#)

[3.6 Does paragraph 40\(a\) of IFRS 16 apply if a rent deferral results in the lease term being extended?](#)

[3.7 Are there any current or deferred tax consequences of applying the practical expedient?](#)

4. Presentation and disclosures

A lessee that applies the practical expedient is required to disclose that fact and whether it has applied the practical expedient to all rent concessions that meet the conditions of the amendment. If a lessee has not applied the practical expedient to all such rent concessions, it should disclose information about the nature of the contracts to which it has applied the practical expedient. In addition, lessees are required to disclose the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which they have applied the practical expedient.

[\[IFRS 16 para 60A\]](#).

[4.1 What are the specific qualitative disclosures required for COVID-19-related rent concessions?](#)

[4.2 What are the specific quantitative disclosures for COVID-19-related rent concessions?](#)

[4.3 What disclosures might a lessee have to make related to the cash flow statement?](#)

[4.4 What other disclosures should a lessee consider making related to COVID-19 rent concessions?](#)

[4.5 Where should negative variable lease payments, arising from COVID-19-related rent concessions where the lessee has elected the practical expedient, be presented in the statement of comprehensive income?](#)

5. Transition and effective date

The amendment is to be applied retrospectively in accordance with IAS 8. However, lessees are not required to restate prior period amounts, and they are not required to disclose the information required by paragraph 28(f) of IAS 8 in the period of adoption.

[\[IFRS 16 App C paras C20A–C20B\]](#).

The amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in interim or year end financial statements not yet authorised for issue at 28 May 2020, to permit application of the relief as soon as possible, subject to any endorsement process. [\[IFRS 16 App C para C1A\]](#).

[5.1 Can an entity apply the practical expedient in its 31 March 2020 annual financial statements if they had not been authorised for issue by 28 May 2020?](#)

[5.2 Can an entity apply the practical expedient in its 30 June 2020 interim financial statements?](#)

Illustrative text

These Frequently Asked Questions demonstrate the practical application of the principles of the amendment.

Scope

2.1 Could a rent concession that increases total lease payments be in the scope of the practical expedient?

It depends. A rent concession that increases total lease payments for the lease, such that the revised consideration is not substantially the same as the consideration for the lease preceding the change, would not meet the requirements in paragraph 46B(a) of IFRS 16, and so it would not be in the scope of the practical expedient. However, if the increase in consideration reflects only the time value of money, the consideration is substantially the same, and so the rent concession could be in the scope of the practical expedient.

2.2 Could reductions in lease payments that extend beyond 30 June 2021 be in the scope of the practical expedient?

No. If reductions in lease payments extend beyond 30 June 2021, the rent concession in its entirety would not be within the scope of the practical expedient. It would not be appropriate to apply the practical expedient to the portion of the rent concession that reduces lease payments prior to 30 June 2021, and then apply IFRS 16, without the practical expedient, to the portion of the rent concession that reduces lease payments after 30 June 2021. However, if the rent concession reduces lease payments due on or before 30 June 2021, but then there is a related increase in lease payments that extends beyond 30 June 2021, this would meet the condition in paragraph 46B(b) of IFRS 16. As a result, if other conditions in paragraph 46B are also met, the concession would be in the scope of the practical expedient.

2.3 What is included in 'consideration' for the purposes of paragraph 46B(a) of IFRS 16?

Whilst the term 'consideration' is not defined in IFRS 16, it would be consistent with the objective of the practical expedient to include the fixed lease payments as well as, for example, expected variable lease payments (for example, based on a probability weighted approach) to be made by the lessee during the lease term ([see also MoA FAQ 15.5.1](#)).

2.4 Does 'consideration for the lease immediately preceding the change' refer to the total consideration for the lease or the remaining consideration for the lease?

Given that the objective is to assess the effect of the rent concession at the time when it is made, we believe that lessees should only look at the remaining consideration of the lease at the time when the concession is granted, including any past due lease payments that are part of that concession.

2.5 What is considered a 'substantive' change to the other terms and conditions of the lease?

There is no explicit guidance on what is considered 'substantive'. Judgement will need to be applied, considering both qualitative and quantitative factors. For example, a lease that has a remaining term of five years, and is the subject of a three-month rent holiday before 30 June 2021 followed by a three-month extension at the end of the lease term with substantially the same lease payments, would not constitute a substantive change. In contrast, a three-month rent holiday before 30 June 2021 followed by a two-year extension at the end of the lease term for the same monthly rental would be a substantive change to the terms of the lease, as well as a substantial increase in the lease payments. Therefore, such a concession would not be eligible for the practical expedient.

In addition, changes to the scope of the lease (for example, an increase or decrease in space rented in a real estate lease) would likely be considered a substantive change.

2.6 Could changing lease payments from fixed to variable be eligible for the practical expedient?

It depends. If the concession is to change from fixed payments to fully variable payments (for example, based on percentage sales of a leased retail store) for, say, a three-month period during 2020 and then the payments revert to the original fixed payments for the remaining maturity of, say, five years, it is likely to meet the requirements to be eligible for the practical expedient. However, if all of the payments for the remaining maturity of five years are changed from fixed to variable, the change would not be eligible for the practical expedient; this would be considered a substantive change that would be ineligible for the practical expedient under 46B(c) of IFRS 16, even if the other conditions in paragraph 46B were met.

2.7 Are open-ended rent concessions eligible for the practical expedient?

It depends. If the rent concession is that a lessee does not have to pay rent for as long as a leased retail store remains closed because of government restrictions, and it is expected that the store will open before 30 June 2021 and the rent concession does not cover any subsequent store closure events after 30 June 2021, it would be eligible for the practical expedient, assuming that the other conditions in paragraph 46B of IFRS 16 are also met. However, if it is not expected that the store will open before 30 June 2021, the lessee would not be eligible for the practical expedient.

2.8 Can the election to apply the practical expedient be made on a lease-by-lease basis?

No. The practical expedient should be applied consistently to leases with similar characteristics and in similar circumstances. For example, it could be applied to all property leases which are leases of the same class, but not to equipment leases. It would not be appropriate to 'cherry-pick' which leases to apply the practical expedient to.

2.9 How does a lessee account for a rent concession if it does not elect to apply the practical expedient?

Please see [FAQ 4.1 in COVID-19 In depth 2020-2](#).

2.10 Why can the practical expedient not be applied by lessors?

The IASB decided not to provide the practical expedient to lessors for a number of reasons. The Board noted that IFRS 16 does not specify how a lessor accounts for a change in lease payments that is not a lease modification, whereas it does for lessees, and so a practical expedient for lessors would have to include new recognition and measurement requirements. The Board also noted that any practical expedient would adversely affect the comparability of, and interaction between, the lessor accounting requirements in IFRS 16 and related requirements in other standards, such as IFRS 9 for finance leases and IFRS 15 for operating leases. In addition, the Board noted that, unlike lessees, lessors have not recently implemented a new accounting model for their leases. Finally, the Board noted that it was of the view that accounting for COVID-19-related rent concessions using the existing lessor accounting requirements provides useful information to users of financial statements. Please see [FAQs 4.6-4.9 in COVID-19 In depth 2020-2](#) for further information on how lessors account for rent concessions.

Measurement

3.1 How does a lessee account for a reduction in lease payments if it elects the practical expedient?

A lessee would generally account for a reduction of lease payments as a variable lease payment, applying paragraph 38 of IFRS 16 – that is, the lessee recognises the reduction in lease payments in profit or loss 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 to reduce the part of the lease liability that has been forgiven or waived, consistent with partial derecognition of liabilities in IFRS 9.

3.2 Does a lessee recognise the gain from a reduction in lease payments all at once or over time?

It depends. Paragraph 38 of IFRS 16 notes that variable lease payments are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs. Similarly, for partial derecognition of a lease liability, paragraph 3.3.3 of IFRS 9 requires the resulting gain to be recognised when the liability is extinguished.

For example, assume that a lessee has a lease liability for a store that requires monthly lease payments of CU100. As a result of COVID-19, the government has forced all non-essential stores to close until it decides that it is safe to reopen. On 31 March 2020, the lessor forgives the lease payments for April, May and June 2020, on condition that the store remains closed under government restrictions and there is genuine uncertainty about the timing of the reopening. The lessee would recognise a credit of CU100 in each month of April, May and June 2020, and a corresponding debit of CU100 to the lease liability in each month, because of the condition that the store remains closed under government restrictions.

In contrast, if the lessee was forgiven the lease payments at 31 March 2020 for payments due in April, May and June 2020 without a condition attached to the forgiveness (that is, irrespective of whether the store is allowed to reopen by the government in those months), the lessee should recognise a gain for the portion of the lease liability that is forgiven (that is, for the present value of CU300) on 31 March 2020.

3.3 How does a lessee account for a deferral of lease payments?

A change in lease payments that only reduces payments in one period but proportionally increases payments in another does not extinguish the lessee's liability or substantially change the consideration of the lease. This could include short-term deferrals where additional interest is not charged for the period of the deferral. In this case, a lessee would continue to recognise interest expense on the lease liability. In economic terms, the only benefit for the lessee is the present value effect of the deferral (that is, the time value of money). A lessee should recognise the present value effect that would result from discounting the revised payments using an unchanged discount rate at the time when the deferral is granted (that would be month by month, if the deferral is granted month by month). The discount rate is unchanged, because the

lessee is not applying modification accounting. This is analogous to the accounting for modification of liabilities in IFRS 9.

Consider the following example: a lessee has a lease with monthly payments of CU100,000, a remaining term of 10 months with a discount rate of 5%, for which it has recognised a lease liability of CU981,533. The lessor grants a rent concession to the lessee. Under the concession, at the beginning of month 2, the lessee is not required to make the monthly lease payments of CU100,000 in months 1, 2 and 3, but it has to make up for those payments in months 4, 5 and 6. The revised payment profile is discounted using an unchanged discount rate of 5%, as illustrated in the table below. There is a resulting difference of CU3,704 that is recognised in profit or loss when the concession is granted at the end of month 1. This adjustment is needed to ensure that the liability will amortise down to zero by the end of the lease term.

Month	Opening	Adjustment	Interest	Cash Payment	Ending Lease Liability
1	977,460		4,073	-	981,533
2	981,533	- 3,704	4,074	-	981,903
3	981,903		4,091	-	985,994
4	985,994		4,108	- 200,000	790,103
5	790,103		3,292	- 200,000	593,395
6	593,395		2,472	- 200,000	395,867
7	395,867		1,649	- 100,000	297,517
8	297,517		1,240	- 100,000	198,756
9	198,756		828	- 100,000	99,585
10	99,585		415	- 100,000	-
					0

3.4 Does a lessee continue to recognise interest expense on the lease liability when it elects to apply the practical expedient?

Yes, a lessee continues to recognise interest expense on the lease liability using the unchanged discount rate for all rent concessions. In addition, there might be a time value of money adjustment (measured using an unchanged discount rate) that needs to be made to the lease liability to ensure that, at all times, the lease liability reflects the present value of future lease payments owed to the lessor. This accounting is similar to the accounting followed for modifications of financial liabilities under IFRS 9.

3.5 Does applying the practical expedient have any effect on the accounting for the right-of-use asset?

No. The practical expedient does not directly impact the accounting for the right-of-use asset. A lessee continues to account for the right-of-use asset, applying the requirements in IFRS 16, including considering whether there is any impairment (or reversal of impairment) to recognise in accordance with IAS 36, 'Impairment of Assets'.

3.6 Does paragraph 40(a) of IFRS 16 apply such that an entity needs to remeasure the lease liability using an updated discount rate if a rent deferral results in the lease term being extended?

Illustration

A lessee is given a three-month rent holiday in 2020, followed by three additional months of substantially equivalent payments added on to the lease term. The lessee is applying the practical expedient.

Question

Does the lessee have to apply paragraph 40(a) of IFRS 16 such that an entity needs to remeasure the lease liability using an updated discount rate, since the non-cancellable period of the lease has changed by three months?

No. We believe that a lessee does not have to apply paragraph 40(a) of IFRS 16 in these circumstances, because the extension of the lease term is substantially equivalent to or less than the rent deferral period. We note that paragraph 40(a) applies if there is a change in the lease term (as described in para 21 of IFRS 16). Such a change could occur as a result of termination or extension options (such as a lessee exercising an extension option that it was not previously reasonably certain to exercise) or as a result of a renegotiation between a lessor and a lessee.

The extension in this fact pattern does not result from an option, but rather from a modification of the lease. Since modification accounting is not applied if the lessee elects the practical expedient, the lessee does not remeasure the lease liability using a revised discount rate, but rather it remeasures the lease liability using an unchanged discount rate. In addition, there is no adjustment to the right-of-use asset. However, the right-of-use asset will be depreciated prospectively over the longer lease term.

3.7 Are there any current or deferred tax consequences of applying the practical expedient?

The practical expedient might impact taxable income of an entity, or it might impact taxable or deductible temporary differences recognised relating to a lease. Entities should understand the tax impacts in their jurisdiction, and consider what tax consequences might arise and the related implications on the accounting for current and deferred taxes.

Presentation and disclosures

4.1 What are the specific qualitative disclosures required for COVID-19-related rent concessions?

Lessees that apply the exemption are required to disclose that fact. Lessees are also required to disclose whether they applied the practical expedient to all rent concessions that meet the conditions in the amendment and, if not, to disclose information about the nature of the lease contracts to which they have applied the practical expedient.

4.2 What are the specific quantitative disclosures for COVID-19-related rent concessions?

Lessees are required to disclose the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient. For example, if a lessee has recognised negative variable lease payments, that amount should be disclosed separately from other variable lease payments that are already required to be disclosed by paragraph 59(b)(i) of IFRS 16.

4.3 What disclosures might a lessee have to make related to the cash flow statement?

The main effect on cash flows would be the reduction in, or absence of, cash outflows for leases during the period of the rent concession. Where the carrying amount of the lease liability is adjusted, a lessee would generally disclose this effect as a non-cash change in lease liabilities, applying paragraphs 43–44A of IAS 7, 'Statement of Cash Flows'. In addition, if the lessee treats interest payments as operating cash flows and principal repayments as financing cash flows, in the periods in which it makes payments for previously deferred amounts, it will have to allocate those payments between principal and interest for the purposes of presenting those cash flows in the cash flow statement.

4.4 What other disclosures should a lessee consider making related to COVID-19 rent concessions?

The cash flow effects and other information about, for example, the nature of rent concessions are relevant, regardless of whether a lessee applies the practical expedient. Lessees should consider the disclosures required by paragraphs 51–59 of IFRS 16 and disclose such information if material. Furthermore, lessees should consider the impact of rent concessions on all of the following:

1. the liquidity disclosures required by IFRS 7;
2. the going concern assessment and related disclosures; and
3. the IAS 1 critical accounting judgements and estimates.

4.5 Where should negative variable lease payments, arising from COVID-19-related rent concessions where the lessee has elected the practical expedient, be presented in the statement of comprehensive income?

IFRS 16 does not specify a location for rent concessions in the statement of comprehensive income. As noted above, paragraph BC205E(a) of IFRS 16 refers to the accounting for rent concessions both as a variable lease payment and as the derecognition of part of the lease liability. As a result, it might be appropriate – if an entity considers rent concessions as variable lease payments – to present them in operating expenses, similar to where the entity would present variable lease payments that are not reflected in the measurement of lease liabilities. Alternatively, if an entity considers rent concessions under the partial derecognition guidance, it might also be acceptable to present the derecognition gains in the same line item as gains or losses on extinguishment of financial liabilities. If the amount is material, the entity might also consider presenting the concessions as a separate line in the statement of comprehensive income. An entity should disclose the approach that it has taken in its accounting policies, and it should apply that policy consistently.

Transition and effective date

5.1 Can an entity apply the practical expedient in its 31 March 2020 annual financial statements if they had not been authorised for issue by 28 May 2020?

Yes. Paragraph C1A of IFRS 16 notes that earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020, subject to consideration of any endorsement processes.

5.2 Can an entity apply the practical expedient in its 30 June 2020 interim financial statements?

Yes. An entity can apply the practical expedient in its 30 June 2020 interim financial statements, under IFRS as issued by the IASB. However, to the extent that a jurisdictional version of IFRS is applied, entities should consider the impact of any endorsement processes in accordance with local regulatory requirements.

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