

8 May 2020

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – COVID-19 RELATED RENT CONCESSIONS – PROPOSED AMENDMENTS TO IFRS 16 (“ED”)

ISCA sought views from its members on the above ED through a one-week public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms, preparers and other stakeholders.

We agree with the Board’s plan to propose amendments to IFRS 16 *Leases*. In addition, we agree that the proposals to provide lessees with practical relief during the COVID-19 pandemic by permitting them not to assess whether particular COVID-19 related rent concessions are lease modifications would ease lessees’ burden in the preparation of financial statements during this period of uncertainty.

Notwithstanding this, we would like to share the following concerns regarding the proposed amendments:

- (i) Extend the practical expedient to rent concessions that affect payments beyond 2020

As the COVID-19 impact on lessees’ financial statements is difficult to predict and may stretch beyond 2020, we recommended that the Board extend the scope of the practical expedient to rent concessions that affect payments beyond 2020 and remove draft paragraph 46B(b). If the Board’s intention is to restrict the application of the practical expedient for rent concessions that affect payments for a certain time period, then we suggest that the Board only review this time period just before the end of 2020 and consider extending it thereafter. This would also ensure consistency and comparability in the treatment of similar rent concessions that are provided in different time periods.

(ii) Provide clarity on COVID-19 related rent concessions that affect payments originally due in 2021

If the Board decides that the practical expedient should only apply to lease payments originally due in 2020, then we suggest that the Board clarify the application of the practical expedient for rent concessions that affect payments originally due in 2021.

For instance, if the COVID-19 rent concession affects lease payments due in both 2020 and 2021, would the lessee still be able to apply the practical expedient for the entire COVID-19 rent concession or should the amounts be bifurcated into the eligible and ineligible portion? Even if the amount could be bifurcated into the eligible and ineligible portions, we believe that this would not significantly reduce the operational burden on lessees as the lease modification assessment would still be required for the portion where lease payments are due in 2021.

(iii) Extend the practical expedient to lessors

The Board has explained in paragraph BC3 of the ED that lessors are not expected to face the same practical challenges as lessees in accounting for COVID-19 related rent concessions as leasing is a core part of their business. However, we believe that lessors may have multiple leases with differing lease terms and may face the same operational challenges as lessees in terms of the volume of contracts that needs to be assessed. In addition, rent concessions could also be provided multiple times and in varying amounts and varying manners to different tenants, and the lessors will have to deal with multiple rounds of updating their lease accounting on a tenant-by-tenant basis within a short period of time. Such widespread provisions of rent concessions in such a short period of time is unprecedented and presents huge operational challenges for lessors with large volume of leases. We suggest that the Board consider granting the same practical expedient to lessors. Availing similar practical expedient to lessors would also promote consistency between US GAAP preparers and IFRS preparers.

(iv) To include selected wordings in the Basis of Conclusions in the amended IFRS 16

Paragraphs BC4 and BC6 highlight that lessees would apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances. We note that this statement is already contained in paragraph 2 of IFRS 16. However, for better emphasis, we recommend that the Board also include this statement in paragraph 46A of IFRS 16.

(v) To define “rent concessions” in the amended IFRS 16

It is not apparent whether “rent concessions” referred to in paragraph 46A includes cash payments and other forms of lease incentives (other than reduction in lease payments) given by the lessor to the lessee. To address this uncertainty, we recommend that the Board provide a definition of “rent concession” in Appendix A of IFRS 16.

(vi) Provide clarity on what constitutes substantive change to “other terms and conditions” in paragraph 46B(c)

It may not be clear from reading paragraph 46B(c) on what constitutes a substantive change to other terms and conditions of the lease. For example, would an extension of lease term by a month to compensate for the disruptions during the COVID-19 period be also considered a form of COVID-19 rent concession which is within the scope of the practical expedient? We suggest that the Board provide clarity on what constitutes substantive change to “other terms and conditions” in paragraph 46B(c).

(vii) To clarify the relationship with other requirements in IFRS 9 and IFRS 16

The amendments, among others, relieve the lessees from having to determine a revised discount rate when it does not account for a rent concession as a lease modification. It would nullify the relief if other applicable requirements in IFRS Standards (e.g. IFRS 9) would have to be applied by the lessee to revise the discount rate for a rent concession that qualifies for the practical expedient. We recommend that the Board clarifies the following points:

- In light of the Board’s recent educational material on IFRS 16 that lease liabilities are within the scope of IFRS 9 for derecognition purposes, to provide clarification that paragraph 3.3.2 of IFRS 9 does not apply to rent concessions that are not accounted for as lease modifications under the practical expedient to avoid the unintended complication of having to apply the IFRS 9 derecognition guidance.
- To provide clarification that in cases where there is a change to the lease term arising in a rent concession that qualifies for the practical expedient, paragraph 21 of IFRS 16 which requires an entity to revise the lease term if there is a change in the non-cancellable period, and paragraph 40(a) of IFRS 16 which requires the lessee to revise the discount rate when it does so, do not apply.

(viii) Provide option of prospective application

For entities that report the impact of COVID-19-related rent concessions in their annual financial statements prior to the amendments being available, the IASB's proposed "modified retrospective" transition approach would result in them restating opening retained earnings in the period in which they adopt the amendments.

We suggest that entities that have previously applied lease modification accounting for COVID-19-related rent concessions within the scope of the proposed amendments, should be permitted to not restate those amounts.

For example, a lessee was given one round of rent concession for the period of March to April 2020 which it has already accounted for as lease modification under IFRS 16 for its financial reporting period ended 31 March 2020. Thereafter due to prolonged COVID-19 impact, the lessee was given another round of rent concession from May to July 2020. Can the lessee choose to apply the practical expedient for the rent concession given from May to July 2020, but not to adjust the beginning retained earnings for the March to April 2020 rent concession already accounted for as a lease modification under IFRS 16 in the 31 March 2020 financial statements?

In addition to the "modified retrospective" approach proposed by the Board, an option should be available for lessees to apply the amendments on a prospective basis to new rent concessions after the initial issuance date of the amendments.

Should you require any further clarification, please feel free to contact myself, Mr Marcus Chan, Assistant Manager, TECHNICAL: Financial & Corporate Reporting, from ISCA via email at ju may.lim@isca.org.sg or marcus.chan@isca.org.sg.

Yours faithfully,



Ms Ju May, LIM
Deputy Director
TECHNICAL: Financial & Corporate Reporting;
Ethics & Specialised Industries;
Audit & Assurance