



In brief

A look at current financial reporting issues

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IASB exposure draft – COVID-19 rent concessions

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 24 April 2020, the IASB published an [exposure draft](#) that proposes an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification under IFRS. Instead, lessees would have the option to treat 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 periods in which they are granted.

What is the issue?

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. IFRS 16 contains requirements that apply to such rent concessions. The IASB has noted, however, that applying those requirements to a potentially large volume of rent concessions related to COVID-19 could be complex – particularly in the light of the many other challenges that stakeholders face during the pandemic.

As a result, the IASB is proposing to provide lessees (but not lessors) with relief in the form of an *optional* exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Instead, lessees could elect to account for them 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.

The practical expedient would 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:

- (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 in 2020 (for example, a rent concession would meet this condition if it results in reduced lease payments in 2020 and increased lease payments that extend beyond 2020); and
- (c) there is no substantive change to other terms and conditions of the lease.

Lessees that apply the exemption will need to disclose that fact. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The proposals are to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures.

What is the impact and for whom?

Given the pervasiveness of the pandemic and the measures taken by many governments on social distancing, it is likely that many lessees will have been granted a rent concession of some form, and so these proposals would be applicable. The proposals, however, would not make any changes to lessor accounting.

When does it apply?

Given the urgency of the issue, the exposure draft has a 14-day comment period which closes on 8 May 2020. The IASB expects to finalise any amendments in May 2020. The amendments would be effective for annual reporting periods beginning on or after 1 June 2020, with earlier application permitted to provide the relief that is intended, subject to any endorsement process.



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