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Mr Hans Hoogervorst
International Accounting Standards Board
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Ourref RD/288

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Dear Mr Hoogervorst

Comment letter on ED/2021/2 Covid-19-Related Rent Concessions beyond 30 June 2021

We appreciate the opportunity to comment on the International Accounting Standards Board's (the Board) Exposure Draft *Covid-19-Related Rent Concessions beyond 30 June 2021* (the ED). We have consulted with, and this letter represents the views of, the KPMG network.

We support the proposal to extend the availability of the practical expedient for Covid-19-related rent concessions. However, we do not agree with the Board's proposal to require retrospective application. We recommend that the Board permit prospective application as an alternative *in addition to* retrospective application. This would allow lessees not to undo previous lease modification accounting and would be consistent with the spirit of the proposals – to provide practical relief. The existing disclosure requirement in IFRS 16.60A would help mitigate the resulting reduction in comparability.

Please contact Reinhard Dotzlaw at Reinhard.Dotzlaw@kpmgifrg.com or Kimber Bascom at kbascom@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix: Responses to specific questions

Question 1—Extended scope of the practical expedient (paragraph 46B(b) of the [Draft] amendment to IFRS 16)

The Board proposes to amend paragraph 46B(b) of IFRS 16 to extend the availability of the practical expedient in paragraph 46A so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions in paragraph 46B are met. Do you agree with this proposal? Why or why not?

We support the proposal to extend the practical expedient.

We share the Board's view that we are still at the height of the Covid-19 pandemic, and that limiting application of the practical expedient to reductions in lease payments due on or before 30 June 2021, as had originally been envisaged, is no longer desirable.

We continue to agree with limiting the application of the practical expedient to a specified date. As we said in our May 2020 comment letter, a strict cut-off date is the most practical way of ensuring that the scope of the relief is determined in an objective and consistent manner.

In relation to the cut-off date itself, whatever date is selected will to an extent be arbitrary in nature. We understand that the choice of 30 June 2022 was influenced by the fact that lessees have told the Board they have already been granted Covid-19-related rent concessions that reduce lease payments up to 31 December 2021 and are in negotiations that could soon result in reductions in lease payments beyond that date.

We ourselves currently do not have systematic, comprehensive survey evidence of how far into the future Covid-19-related rent concessions are being granted. We further recognise that preparers need clarity and that there is consequently an urgent need to extend the relief, which means that it is not practicable to carry out extensive research in this area on a timely basis. We therefore support the proposed choice of 30 June 2022 as the cut-off date for eligible rent concessions but recommend that, in finalising the choice of date, the Board considers any additional evidence it may obtain, either through the comment letter process or other means.

Finally, as there is the unfortunate possibility that the pandemic will last longer than expected, we continue to recommend that the Board monitors the situation and revisits the cut-off date before the relief expires if there is a change in circumstances that warrants an extension.

Question 2—Effective date and transition (paragraphs C1C, C20BA and C20BB of the [Draft] amendment to IFRS 16)

Paragraphs C1C, C20BA and C20BB of the draft amendment to IFRS 16 propose that a lessee applying the practical expedient in paragraph 46A would:

- (a) apply the 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;**
- (b) apply the 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; and**
- (c) not be required to disclose the information required by paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in the reporting period in which the lessee first applies the amendment.**

Do you agree with this proposal? Why or why not?

Retrospective vs prospective application

We do not agree with the Board's proposal to require retrospective application, which would require lessees to undo previous lease modification accounting in some scenarios. We believe that this is inconsistent with the objective of providing practical relief to lessees. The Board notes in BC10 that it expects this scenario to be 'rare'. However, no evidence is cited to support this expectation. While we have not had sufficient time to gather our own comprehensive survey evidence, our instinct is that the scenario will not be uncommon.

We do not find the Board's rationale for not permitting prospective application in BC11 persuasive. The May 2020 practical expedient was an election. Lessees were not required to apply that election to all eligible lease modifications, and were free to make different choices to other lessees in the same industry.

In addition, it appears that the Board continues to believe that application of the lease modification requirements of IFRS 16 provides the most useful information to financial statement users about those transactions because the May 2020 practical expedient and the proposed extension represent *exceptions* to those requirements. Consequently, we do not agree that prospective application would meaningfully lessen the usefulness of the information provided to financial statement users.

We recommend that the Board permits prospective application as an alternative *in addition to* retrospective application. This would allow lessees not to undo previous lease modification accounting and would be consistent with the spirit of the proposals – to provide practical relief. The existing disclosure requirement in IFRS 16.60A would help mitigate the resulting reduction in comparability.

Early application

While we agree with the rationale behind the Board’s proposal to enable rather than require immediate application, as set out in BC8 of the ED, we suggest that encouraging entities to early adopt the revised practical expedient would mitigate against the risk of accounting anomalies arising on transition if the Board does not accept our recommendation to permit prospective application. For instance, an entity that has early adopted the original version of the practical expedient might continue to use that version of the practical expedient rather than early adopting the revised version, potentially leading it to undo lease modification accounting when it eventually adopts the revised version.

Encouraging entities to early adopt the revised version where they are able to do so, might guard against such accounting anomalies.

Application to ‘similar’ transactions

Lessees that choose to apply the practical expedient are required by paragraph 2 of IFRS 16 to apply it consistently to all lease contracts with similar characteristics and in similar circumstances. We note in relation to this requirement that the extension of the practical expedient will place additional pressure on the assessment of which rent concessions are considered ‘similar’ in terms of characteristics and circumstances.

The Basis for Conclusions section of the ED that discusses transition appears to assume that rent concessions of different lengths are similar. If this is the view of the Board, we recommend that it is stated explicitly in the Basis for Conclusions.