



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



International Accounting Standards Board

7 Westferry Circus, Canary Wharf London E14 4HD

United Kingdom

7 May 2020

Dear Mr Hoogervorst,

Comment letter on Exposure Draft Proposed amendments to IFRS 16, Covid-19-Related Rent Concessions (the “ED”)

We are pleased to have the opportunity to comment on the ED. We fully support the initiative of the IASB to provide a quick and pragmatic answer with the proposed relief for lessees given the challenges they face in assessing whether lease modifications have occurred under the circumstances of Covid-19.

We broadly agree with the proposals in the ED. Our comments are detailed below.

1. Accounting for a lessee that applies the practical expedient

We think that the Board should further clarify how a lessee should account for a change in lease payments applying the practical expedient.

We understand that a lessee would generally account for that change as a negative variable lease payment in profit or loss. However, it is unclear whether that negative variable lease payment should be accounted for one shot in the period in which the reduction is granted or on an ongoing basis over the period in which the reduction affects the lease payments originally due.

For example, if a forgiveness of lease payments is granted in April 2020 and reduces the lease payments originally due in May, June and July 2020, should the negative variable lease payment corresponding to the forgiveness of 3 month payments be accounted for on shot in April (and thus impacting only H1 2020), or on an ongoing basis over the 3 month period from May to July 2020 (thus impacting H1 and H2 2020) ? We note that Agenda Paper 32 published in April 2020 refers both to paragraph 38 of IFRS 16 for the credit side (the negative variable lease payments) and paragraph 3.3.1 of IFRS 9 for the debit side (the extinguishment of the

lease liability), creating confusion on when the negative variable lease payments should be accounted for.

We think that accounting for the change on an ongoing basis in profit or loss over the period in which the reduction affects the lease payments originally due provides a better economic representation of the transaction. In that case, the negative variable lease payments are recognised on the periods in which the operating losses resulting from the business interruption are incurred.

In order to illustrate the accounting for changes to lease payments applying the practical expedient as proposed in the ED, we think that examples should be added in IFRS 16 as described below:

- Example 1: forgiveness of lease payments, cf. § BC7 (a);
- Example 2: deferred lease payments (i.e. a change in lease payments that reduces payments in one period but proportionally increases payments in another), cf. § BC7 (b);
- Example 3: partially forgiven and partially deferred lease payments, cf. § BC7 (c);
- Example 4: a three-month rent holiday in 2020 followed by three additional months of substantially equivalent payments at the end of the lease, cf. § BC5 (c).

In example 4, our understanding is that this specific transaction includes:

- a three-month forgiveness of lease payments as described in BC7 (a), with a P/L impact and a corresponding extinguishment of the lease liability.
- and a lease modification corresponding to a change in the lease term, with a remeasurement of the lease liability (due to three additional month of lease payments) and a corresponding adjustment of the right of use asset.

2. Scope of the practical expedient proposed in the ED

We agree that the practical expedient should apply only to rent concessions that occur as a direct consequence of the covid-19 pandemic.

However, in case negative variable lease payments are accounted for on an ongoing basis over the period in which the reduction affects the lease payments originally due, we think that the practical expedient should also apply to reductions in lease payments that affect payments originally due in 2021. Indeed, we expect that the reductions granted by lessors will go beyond 2020 and will also affect 2021. This would align the proposals of the IASB with those of the FASB in its Q&A. We think that the IASB should also clarify the wording of condition (c) in § 46B of the ED (“there is no substantive change to other terms and conditions of the lease”). Indeed, we note that § BC5 (c) indicates that “a three-month rent holiday in 2020 followed by three additional months of substantially equivalent payments at the end of the lease would not prevent a rent concession from being within the scope of the practical expedient”. Our understanding is that the change in the lease term in this example is considered as a direct consequence of the covid-19 pandemic and therefore is “related” to the covid-19 pandemic as mentioned in § BC5 (c)

3. Other comments

Lastly, we note that the Board indicates in § BC9 that "...the circumstances giving rise to covid-19-related rent concessions are likely to indicate that right-of-use assets may be impaired". We think that this paragraph should merely refer to the provisions in IAS 36 on the impairment of assets and that the Board should not imply that an impairment of right-of-use assets is likely to occur.

If you require any further explanation of the above, please do not hesitate to contact us.

Yours sincerely,

ACTEO

Lise CHORQUES



AFEP

Lé Quang TRAN VAN



MEDEF

Karine MERLE

