



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



The IFRS Interpretations Committee,
7 Westferry Circus,
Canary Wharf,
London E14 4HD,
United Kingdom

Paris, 20 May 2022

Dear M Mackenzie

March 2022 IFRIC Update—Feedback on the Tentative Agenda Decisions on Lessors Forgiveness of Lease Payments (IFRS 9 – *Financial Instruments* and IFRS 16 – *Leases*)

We are writing in response to the Tentative Agenda Decision (TAD) for lessors and the proposed annual amendment for lessees.

In our opinion:

- The two subjects ought to be dealt with simultaneously, not necessarily with the objective of arriving at symmetrical accounting treatments but in order to ensure that the chosen methods are mutually consistent and that they result in the most useful financial information;
- It is surprising that there is no consideration of the reflections or conclusions that were developed at the time of the “COVID amendment”; the fact pattern under consideration is quite close to the rent concessions accorded during the pandemic and we think that it would be apposite to include certain elements of the analysis made at that time in the current project.
- The IASB and the IFRS Interpretations Committee (IFRIC) should consider amending IFRS 16 on the basis of a single principle which would provide useful financial information and depict the economic substance of the transaction. This amendment would concern both lessors and lessees

and would be applicable in clearly circumscribed circumstances¹. The principle of this amendment would be to recognise the impact of these agreements over the periods concerned by the rental concessions, both for lessors and for lessees.

It would be a case of recognising a reduction in rental income for lessors and a reduction in the lease amortisation for lessees in each period concerned by the forgiveness of rental payments, without modifying the way the rental contract was initially accounted for, since the other elements of the contract are unchanged and the forgiveness is a “one-off” decision.

Detailed comments on several aspects of the decision if the approach suggested above were not adopted:

1. We acknowledge that IFRIC’s approach, which is to apply IFRS 9 to recognise the forgiveness of rental instalments that the lessor is prepared to grant (before the actual contractual formalisation of this decision) as an expense, can be a possible interpretation.

Indeed, at present there is no other provision in IFRS 16 which would allow a lessor to anticipate a highly probable rental abandonment, in contrast to IFRS 15 which allows a seller to anticipate the reduction in revenue before it becomes effective, notably through the provisions for variable consideration. In contrast to IFRS 9, the provisions of IFRS 15 require that this adjustment be recognised in revenue and not as a credit loss.

2. We think that other interpretations are possible, in particular:

- The provisions of IFRS 9 are applicable only in cases of credit risk or default by the customer. This is of course not the case in the fact pattern under review. The extensive analogising to credit risk that is made in the TAD could have unintended consequences on other transactions unrelated to this fact pattern.

This echoes the questions raised by the IFRIC itself when it was considering the possibility of allowing the lessor to make use of a COVID exemption. The committee noted that *“we think that in considering whether to undertake a project on this topic, it is important for the Board to keep in mind the interaction between the lessor accounting requirements and related requirements in other Standards. In particular, the accounting for changes in operating leases is very similar to that for changes in similar service contracts applying IFRS 15. 31. Consequently, we think there is a risk that any practical expedient developed by the Board could result in an entity accounting for similar contracts differently (i.e., those subject to IFRS 16 and those subject to IFRS 15). This would be an unhelpful outcome and would impair the usefulness of information provided to investors”*.

We think that this risk is still present and that the subject should be analysed in greater depth.

¹ We think that the circumstances envisaged by this specific amendment to IFRS 16 could be defined as those cases in which “the lessor agrees to release legally the lessee from its obligation to make specifically identified lease payments and no other changes are made to the lease”.

- This programmed forgiveness of rental payments related to an economic conjuncture is, from a conceptual point of view, no different from a lease incentive and that the arguments advanced by the IFRIC against this are not convincing.

In view of the different readings that can be made and the links to other relevant standards, it seems to us that it is impossible to conclude on the topic with only a TAD.

3. We do not agree with the accounting subsequent to the contractual formalisation of the forgiveness, that is, the recognition of a contract modification whose effects are spread over the remaining life of the lease, for the following reasons:

- The IFRIC has not taken into account the elements of the analysis carried out at the time of the COVID amendment in respect of the fact that certain instances of rent forgiveness could not be considered to be contract modifications when such instances correspond to a situation envisaged by legal or statutory provision in specific circumstances:

“Relevant facts and circumstances may include contract, statutory or other law or regulation applicable to lease contracts. For example, lease contracts or applicable law or regulation may contain clauses that result in changes to payments if particular events occur or circumstances arise. Government action (for example, requiring the closure of retail stores for a period of time because of covid-19) might be relevant to the legal interpretation of clauses, such as force majeure, that were in the original contract or in applicable law or regulation. Changes in lease payments that result from clauses in the original contract or in applicable law or regulation are part of the original terms and conditions of the lease, even if the effect of those clauses (arising from an event such as the covid-19 pandemic) was not previously contemplated. In such a case there is no lease modification for the purposes of IFRS 16”

- As rental forgiveness is an isolated and specific event decided upon in unusual circumstances, it seems to us that the most appropriate approach is that only the period which is the object of the decision be affected by it. Moreover, it appears from a reading of paragraph 77 of the IFRIC agenda paper AP4 that this solution is the preferred approach for lessees.
- This last point leads us to the conclusion that the IASB / IFRIC should deal with the two aspects of the transaction (lessor/lessee) in a consistent and homogeneous manner and thus by means of the same standard-setting process.
- The IASB had noted in a working paper that the recognition of the rent forgiveness spread over the remaining life of the contract was not necessarily the approach to adopt. We think that at the very least this view should be reproduced in the TAD – *“However, we think application of paragraph 81 of IFRS 16 would not lead to straight-line income recognition in every case—the circumstances arising during the covid-19 pandemic may result in a lessor recognising lease income other than on a straight-line basis.”*
- Finally, the proposed solution, which comprises different treatments before and after the modification becomes effective and specific treatment for contract modification, seems very complicated to apply, particularly if the lessor is faced with a large number of cases to deal with. It is, in our view, important that the IASB recognises that these processes are not

always capable of being automated and that the management of the modification of contracts is always a process fraught with difficulty, even in the most advanced systems.

If you require any further information on this subject, please do not hesitate to contact us.

Yours sincerely,

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Lise CHORQUES



AFEP

Lé Quang TRAN VAN



MEDEF

Karine MERLE

