

8 May 2020

Hans Hoogervorst
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

Dear Mr Hoogervorst

Exposure Draft 2020/2 – Covid-19-Related Rent Concessions

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB's') exposure draft *Covid-19-Related Rent Concessions* ('the ED') proposing to amend IFRS 16 *Leases*.

We welcome the responsiveness of the IASB in issuing this ED to address issues identified by lessees following changes to their leasing arrangements as a consequence of Covid-19.

In summary, we encourage the IASB to:

- finalise the proposals providing relief to lessees as soon as possible;
- extend the relief to any reductions in lease payments *agreed on or before 30 June 2021*; and
- separately reconsider the need to provide lessors similar relief.

We are generally supportive of the proposals in the ED. In response to Question 1, we agree that the proposed practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements.

We agree that the proposed relief should only apply to Covid-19-related concessions. However, we believe assessing whether a concession is 'directly' related to Covid-19 may present significant practical challenges. Given the restrictions imposed by the other criteria, we would suggest that the reference to 'direct' in 46B be removed. Similarly, the word 'solely' in BC5(a) could helpfully be removed.

Negotiations between lessors and lessees regarding Covid-19-related concessions are at different stages of maturity: some have been agreed or are underway, particularly where these are designed to address short-term liquidity concerns experienced by some lessees, but, in many cases, such negotiations are yet to begin. Across many industries and jurisdictions, lessors and lessees are waiting for governments to make decisions on support packages and how and when businesses can be re-opened, before they can begin assessing the immediate and medium term future economic consequences in order to discuss the sharing of those economic consequences via lease concessions. In Japan, for example, the government is discussing the introduction of measures relating to rent concessions, which will affect ongoing negotiations between lessors and lessees.

We believe that negotiations relating to Covid-19 concessions and the subsequent reductions in payments will, in many cases, extend beyond the end of 2020. In addition, some leases may be paid annually or semi-annually in advance, meaning that the next payments that could be reduced may not be due until 2021.

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In light of these factors, we believe that condition (b) in paragraph 46B should be amended to refer to when reductions in lease payments are agreed, rather than when the payment reductions occur. Furthermore, we would propose that reductions in lease payments that were agreed on or before 30 June 2021 should be eligible for the relief. We note that such a timescale would broadly correspond to a period of one year from the date of the amendment's issuance.

Regarding the scope of the relief, BC5(c) in the ED currently suggests that, as an example, a three-month rent holiday followed by an additional three months' of *payments* (emphasis added) being made at the end of the lease would not preclude a lessee from applying the exemption. This reflects a very common concession where an additional period of use is added to the end of an existing lease. To ensure that such concessions benefit from the exemption, there needs to be confirmation that paragraph 40, which requires the lease liability to be remeasured using a revised discount rate when there has been a change in the non-cancellable period applying paragraph 21, would not apply. We believe such leases should be in scope of the exemption and that this was the IASB's intention. To clarify this we suggest that following underlined words could be added to 46B(c): "there is no substantive change to other terms and conditions of the lease. An increase in the lease term commensurate with the length of a rental holiday concession is not a substantive change. Likewise, in this context such a concession does not constitute a change in the non-cancellable period of the lease per paragraph 21, which would otherwise require calculation of a revised liability using a revised discount rate under paragraph 40."

If the IASB does not adopt our suggestion to scope the relief by reference to when reductions are agreed, we note that the final sentence in BC5(b) could be read as contradictory to the preceding material and 46B(b). Where reductions to payments include both payments due before the end of 2020 and after the end of 2020, we believe the IASB's intention was that no element of the concessions would be eligible for the relief. The final sentence in BC5(b) refers to 'limiting the practical expedient to reductions in lease payments originally due in 2020', which might be read as permitting the practical expedient to be applied to those reductions arising in 2020. We believe this sentence could either be clarified or deleted.

In response to Question 2, we agree with the proposed effective date and transition.

As a final comment, we encourage the IASB to consider separately, but nonetheless urgently the impact of Covid-19-related concessions on lessors. As noted by the IASB, there are significant practical challenges in applying the requirements to determine whether a particular lease concession meets the definition of a lease modification to a large volume of transactions in a short period of time and with limited resources. In some jurisdictions, this challenge is exacerbated by complexities in assessing whether existing contractual or legal provisions regarding rent abatements, force majeure events or similar are being invoked or whether negotiations fall outside such provisions. These challenges apply equally to lessors as to lessees, suggesting that some form of relief may also need to be provided for lessors. The provision of relief for lessors should not however delay the finalisation and issuance of the amendment to IFRS 16, which provides relief for lessees.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



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Global IFRS Leader