

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street London
EC4M 6XH United Kingdom

Date: May 09, 2020

Dear Mr. Hoogervorst

Sub: Comments of the Institute of Chartered Accountants of India (the ICAI) on IASB's Exposure Draft ED/2020/2, Covid-19- Related Rent Concessions- Proposed amendment to IFRS 16

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) acknowledges the opportunity to comment on the *Exposure Draft ED/2020/2, Covid-19- Related Rent Concessions- Proposed amendment to IFRS 16*. We note the intent of the IASB to the current situation by making the IFRS 16 application less burdensome to some entities. We may mention that our comments are based on the due process which comprises:

- ASB of ICAI issuing an Exposure Draft within India, inviting all stakeholders to offer their comments;
- Deliberations at the ASB on the Exposure Draft issued by the IASB together with the comments received from stakeholders in India.

We have the following comments to submit:

- Stakeholders and investors rely on sound financial reporting framework, that is grounded in neutral and consistent concepts, in assessing the financial position and performance of entities even in such uncertain times. Therefore, it becomes imperative to ensure compliance with reporting framework which represents the information fairly and faithfully.
- An option of practical expedience under IFRS 16 will have adverse impact on the uniformity and comparability both inter firm and intra firm as well if the option is exercised for leases of some particular characteristics.
- We understand that one of the reasons for providing this practical expedient is that IFRS 16 is a recently issued IFRS Standard and many lessees are currently preparing their first annual financial statements applying IFRS 16. Therefore, the practical expedient has been given to address any complexity arising as a result of the covid-19 pandemic, which may add to the work being undertaken in implementing the new lessee accounting model in IFRS 16. It is recommended that if the proposed practical expedient is to be given, the aforementioned reason should be emphasised.

- One of the suggestions received as a part of the consultative process followed in India is that the application of the proposed practical expedient should be restricted to only those entities who have complex and large number of leases. Majority of the entities applying the IFRS 16 should continue to follow the existing provisions of IFRS 16. At the same time, there is another view as mentioned in point no.6 of our response to question no. 1 that the proposed practical expedient is too restrictive.

If IASB decides to go ahead with the proposed amendments, our comments to the specific questions asked in the Exposure Draft given in **Annexure 'A'** may be considered.

With kind regards,

CA. M.P Vijay Kumar
Chairman
Accounting Standards Board
Institute of Chartered Accountants of India

Question 1: Practical expedient (paragraphs 46A and 46B of the [Draft] amendment to IFRS 16)

Paragraph 46A of the draft amendment to IFRS 16 proposes, as a practical expedient, that a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election would account for any change in lease payments resulting from the covid-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification. Paragraph 46B of the draft amendment to IFRS 16 proposes that the practical expedient applies 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; and (c) there is no substantive change to other terms and conditions of the lease.

Do you agree that this practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements? Why or why not? If you disagree with the proposal, please explain what you propose and why.

ICAI Response:

1. Since we are still in the middle of the COVID-19 global pandemic, with no clear visibility of this scenario getting over anytime soon, limiting the benefit of this practical expedient to a very short time window i.e. for lease concessions for payments due in the year 2020 only appears to be narrow and may not meet its objective of providing relief window to lessee arising due to rent concession in Covid-19 pandemic; especially there may be possibility of lessors willing to give concession on lease payments due even beyond 2020 and in some cases, concessions may even commence only end of 2020 after uncertainty gets reduced and the lessor and lessee are able to negotiate. In view of the huge impact of such unusual situation, expected to continue in future periods as well, the IASB may consider removing the mention of specific timeline (i.e., year 2020) by replacing it with “*end of Covid 19 global pandemic*”.
2. It is common for long-term contracts and lease arrangements to include a contractual *force majeure* clause that sets out what would happen to lease rentals in case of any natural disaster or pandemic. It may be clarified as to whether the stated proposals will apply to the contracts having such pre-existing *force majeure* clause.
3. One of the conditions regarding proposed practical expedient is when the "**lease payments remaining substantially the same**". In COVID 19 scenario the lease payments would have reduced and for that purpose this amendment is being done, so the extent of benefit of this clause may need re-evaluation to retain it.

4. There can be challenges in identifying whether any lease concessions are directly related to COVID-19 or not, as the fact that change results in less consideration, the change cannot be said to be related directly to COVID-19 in all the situations. Therefore, guidance may be added in this regard.
5. Further, from the BC 5(a) regarding determination of whether the revised lease payments are substantially the same, or less than, the consideration for the lease immediately preceding the change, it is not clear whether the revised lease payments to be compared should be at nominal value or discounted value. Another issue which needs clarity is with regard to deferment of lease payments, where lease payments are deferred without any increase in the lease payments on account of compensation for time value of money; whether such deferment would be treated as modification and whether the proposed practical expedient would be available. BC 5(a) may be suitably reworded to clarify these aspects.
6. The conditions in para 46B are highly restrictive, in particular the clause (c). The practical expediency usefulness gets reduced as this is intended for lessees who have large number of contracts, with different tenor/ residual tenor and evaluation of the change of terms as substantial would be quite impractical, in particular for interim financial statements to be prepared. It is quite likely that rent concessions are accompanied by substantial change in terms which are not financial.
7. It is recommended that the proposed amendments may include an example illustrating the accounting treatment that will be followed in case the lessee opts for the proposed practical expedient. In this regard the example in the staff paper provided in the Special Meeting of IASB on April 17, 2020 may be considered relevant and useful to be incorporated in Part B of IFRS 16.

Question 2: Effective date and transition (paragraphs C1A and C20A of the [Draft] amendment to IFRS 16)

Paragraphs C1A and C20A of the draft amendment to IFRS 16 propose that a lessee would apply the amendment: (a) for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued; and (b) 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.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose and why.

ICAI Response:

We agree with the effective date and transition proposals given in the Exposure Draft.

