

COVID-19 RELATED RENT CONCESSIONS AMENDMENT TO IND AS 116, LEASES

**VIRTUAL OUTREACH ON RECENT AMENDMENTS TO IND AS
AUGUST 02, 2020, NEW DELHI, INDIA**



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IFRS 16 LEASES: ISSUANCE AND AMENDMENTS



Jan 2016

- IFRS 16, Leases, issued by IASB effective from 1 January 2019

March 2019

- Ind AS 116, Leases, issued by MCA in India effective from 1 April, 2019. Year 2019-20 is the 1st year of application of Ind AS 116

Dec 2019
onwards

- Outbreak of COVID-19 declared by WHO 19 as a pandemic on March 12, 2020

April 2020

- To provide relief to lessees in COVID 19 pandemic, IASB issued ED on *Covid-19-Related Rent Concessions (Proposed amendment to IFRS 16, Leases)*.

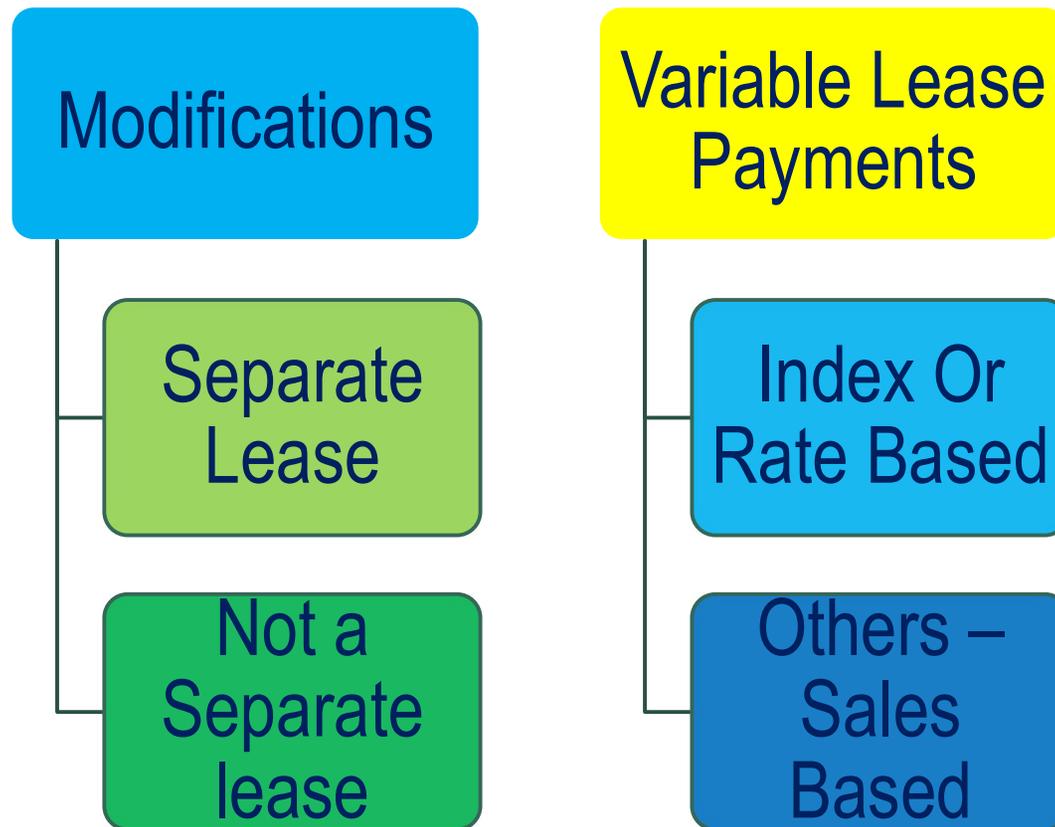
May 2020

IASB issued final amendments

July 2020

- MCA issued amendments to Ind AS 116, Leases

IND AS 116, LEASES – LESSEE ACCOUNTING CHANGES IN LEASE PAYMENTS – TWO MODELS



IND AS 116, LEASES – LESSEE ACCOUNTING LEASE MODIFICATIONS

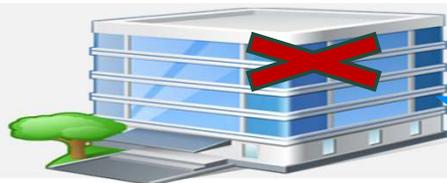


- Modifications accounted as a **separate lease** if:
- it **increases** the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. **(Paragraph 44)**



NO

Apply Lease Modification Accounting Model



(1)
Scope

(2) Other Modifications

IND AS 116, LEASES – LESSEE ACCOUNTING LEASE MODIFICATIONS



Separate Lease	Not a Separate Lease (Paragraph 45)
In this case, account for the separate new lease like any other new lease	lessee shall: (a) allocate consideration between lease and non-lease component (b) determine the lease term (c) remeasure the lease liability by discounting the revised lease payments using a revised discount rate

IND AS 116, LEASES – LESSEE ACCOUNTING

LEASE MODIFICATIONS



Modification decreasing the scope of lease



- ✓ Decrease carrying amount of right-of-use asset to reflect partial or full termination
- ✓ Recognise any gain or loss in profit or loss

other modification (say lease rentals change)



- For**
- ✓ Make corresponding adjustment to carrying amount of right-of-use asset
 - ✓ Adjust lease liability to reflect re-measurement

(Paragraph 46)

COVID 19 RELATED RENT CONCESSION REASON FOR AMENDMENTS - IASB VIEWS



Many lessors around the world have provided rent concessions to lessees as a result of the COVID -19 pandemic.

IFRS 16, Leases, contains requirements that specify the accounting for changes in lease payments, including rent concessions.

In these challenging times, the stakeholders, in particular, **lessees have identified potential difficulties in assessing whether COVID -19-related rent concessions are lease modifications.**

Many lessees are currently preparing their 1st annual FS (2019-20) based on newly issued IFRS 16. Any complexity arising as a result of the COVID-19 global pandemic will add to the work of implementing the new lessee accounting model in IFRS 16.

To address these issues, IASB has issued certain amendments to IFRS 16.

COVID 19 RELATED RENT CONCESSION REASON FOR AMENDMENTS - IASB VIEWS



- It is expected that COVID-19 related rent concessions will not meet the criteria in paragraphs 44 and 79 of IFRS 16 of separate lease.
 - Although Ind IFRS 16 already contains requirements that address the accounting for such rent concessions.
 - However, applying those requirements to a potentially large volume of COVID-19-related rent concessions could be complex particularly in the light of the many other challenges during this pandemic.
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- Complexity in applying the requirements arises in two main ways:
 - assessing whether rent concessions are lease modifications (paragraphs 11-13);
 - applying the required accounting for rent concessions that are lease modifications (paragraph 14).
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COVID 19 RELATED RENT CONCESSION LESSOR ACCOUNTING : NO AMENDMENTS PROPOSED



Why no operational relief to Lessors? IASB views

BC240A: In 2020, when the Board provided lessees with a practical expedient for rent concessions occurring as a direct consequence of the covid-19 pandemic (see paragraphs BC205A–BC205G), the Board considered whether to provide similar practical relief for lessors. Lessors informed the Board that, like lessees, they face many practical challenges associated with large volumes of covid-19-related rent concessions. Having considered the feedback, the Board decided not to provide a practical expedient for lessors for the following reasons:

(a) IFRS 16 does not specify how a lessor accounts for a change in lease payments that is not a lease modification—this is a consequence of the Board’s decision to substantially carry forward the lessor accounting requirements in IAS 17 when it developed IFRS 16.

(b) Any practical expedient would adversely affect the comparability of, and interaction between, the lessor accounting requirements in IFRS 16 and related requirements in other Standards, thus impairing the quality of information provided to users of financial statements. For example, the lessor accounting requirements in IFRS 16 interact with:

COVID 19 RELATED RENT CONCESSION LESSOR ACCOUNTING : NO AMENDMENTS PROPOSED



Why no operational relief to Lessors? IASB views

- (i) IFRS 9 for finance leases. A lessor applies IFRS 9 in accounting for particular finance lease modifications and, therefore, the accounting for those modifications is aligned with the accounting for modifications to similar financial assets within the scope of IFRS 9.
- (ii) IFRS 15 for operating leases. The application of IFRS 16 to operating lease modifications results in outcomes similar to those that result from the application of IFRS 15 to particular service contracts, and the definitions of a modification in IFRS 16 and IFRS 15 are similar.
- (iii) Although acknowledging the practical challenges lessors face during the pandemic, the IASB noted that, unlike lessees, lessors have not recently implemented a new accounting model for their leases.
- (iv) The IASB was of the view that accounting for covid-19-related rent concessions using the existing lessor accounting requirements provides useful information to users of financial statements.

COVID 19 RELATED RENT CONCESSION : AMENDMENTS TO IND AS 116, LEASES



Practical expedient introduced for lessees.

Para 46A

- Provides an option for lessees, as a practical expedient, not to assess whether a particular rent concessions are lease modifications.
- Instead, account for those rent concessions as if they were not lease modifications .
- It would effectively be treated as variable lease payment.

COVID 19 RELATED RENT CONCESSION : AMENDMENTS TO IND AS 116, LEASES



Paragraph 46B

Practical expedient given in 46A can be applied to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- ✓ Revised consideration is substantially the same or less
- ✓ Reduction in lease payments affects payments originally due on or before June 30, 2021
- ✓ There is no substantive change to other T&C of the lease.

Disclosures: Paragraph 60A

A lessee that applies the practical expedient shall disclose:

- ✓ The practical expedient applied to all rent concessions that meet the conditions in paragraph 46B.
- ✓ If not applied to all such rent concessions, information about the nature of the contracts to which practical expedient is not applied
- ✓ Amount recognised in profit or loss for the reporting period to reflect changes in lease payments to which the lessee has applied the practical expedient in paragraph 46A.

COVID 19 RELATED RENT CONCESSION AMENDMENTS TO IND AS 116, LEASES



Appendix C

Effective Date:

C1A Annual reporting periods beginning on or after April 1, 2020.

In case FS are not yet approved for issue before the issuance of this amendment, then the same may be applied for annual reporting periods beginning on or after the April 1st, 2019.

Transition:

C20A Retrospective effect, cumulative effect of initially applying the amendment to be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

C20B In the reporting period in which a lessee first applies *Covid-19-Related Rent Concessions*, a lessee is not required to disclose the information required by paragraph 28(f) of Ind AS 8.

COVID 19 RELATED RENT CONCESSION AMENDMENTS- EXAMPLE



ASB, ICAI

IASB Staff Paper Agenda Ref 32B April 2020

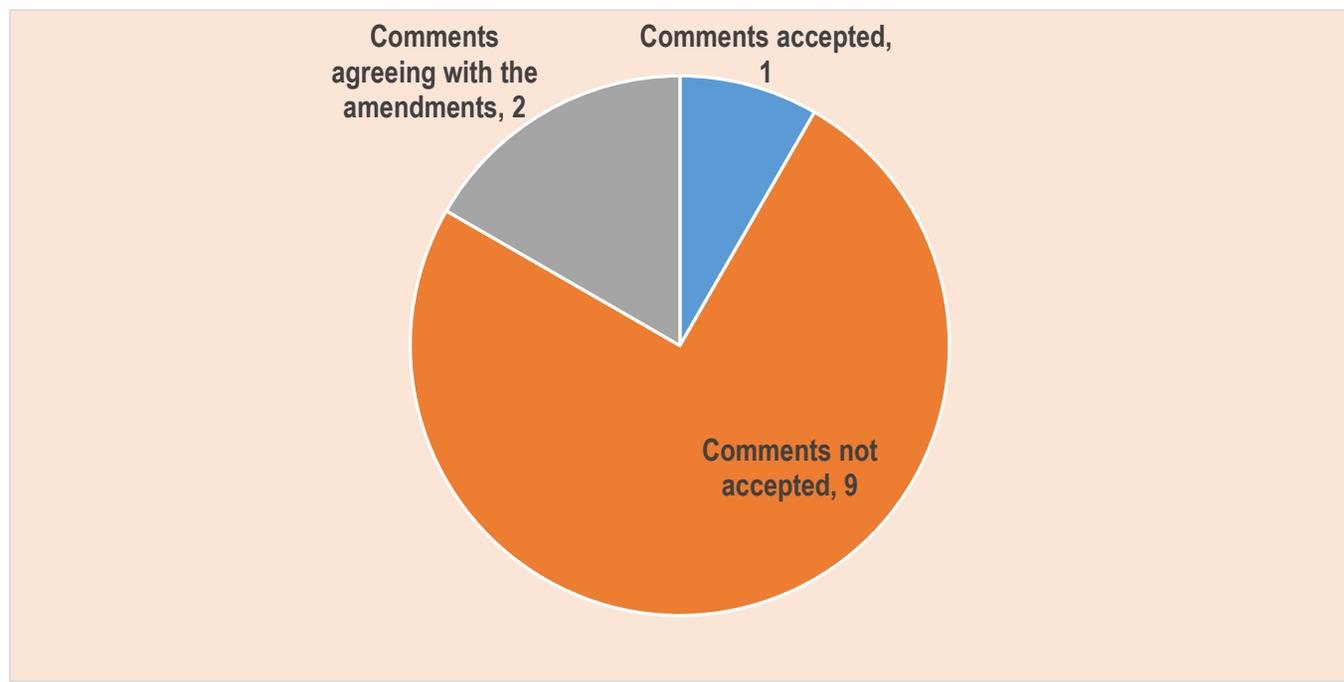
Table 1: Accounting for changes to lease payments applying the exemption

Fact pattern At 31 March 2020 a lessee has a lease liability of CU2,000. The contract requires monthly lease payments of CU100. For simplicity, it is assumed in all scenarios that (i) interest accrues at CU20 per month; and (ii) a reduction of CU100 in one month followed by an increase of CU100 in a later month is considered to affect only the timing of payments. The analysis below sets out the accounting for the lease liability in four scenarios: the first where there are no changes to the lease payments and three scenarios where the fact pattern is adjusted in the manner described. Accounting for the right-of-use asset is not included.			
No change in lease payments	Forgiveness of lease payments <i>Mar–May 2020: no lease payments</i>	Deferred lease payments <i>Mar–May 2020: no lease payments June–Aug 2020: lease payments CU 200</i>	Partially deferred, partially forgiven lease payments <i>Mar–May 2020: no lease payments June–Aug 2020: lease payments CU 160</i>
In 3-month period, March – May 2020 Dr lease liability (100*3) 300 Cr cash 300 Dr interest (P&L) (20*3) 60 Cr lease liability 60	In 3-month period, March – May 2020 Dr lease liability (100*3) 300 Cr P&L 300 <i>(negative variable payments)</i> Dr P&L (interest) 60 Cr lease liability 60	In 3-month period, March – May 2020 - - Dr interest (P&L) 60 Cr lease liability 60	In 3-month period, March – May 2020 Dr lease liability (40*3) 120 Cr P&L 120 <i>(negative variable payments)</i> Dr P&L (interest) 60 Cr lease liability 60
Lease liability at 31 May 2020: CU 1,760	Lease liability at 31 May 2020: CU 1,760	Lease liability at 31 May 2020: CU 2,060	Lease liability at 31 May 2020: CU 1,940
In 3-month period, June – Aug 2020 Dr lease liability (100*3) 300 Cr cash 300 Dr interest (P&L) 60 Cr lease liability 60	In 3-month period, June – Aug 2020 Dr lease liability (100*3) 300 Cr cash 300 Dr P&L (interest) 60 Cr lease liability 60	In 3-month period, June – Aug 2020 Dr lease liability (200*3) 600 Cr cash 600 Dr interest (P&L) 60 Cr lease liability 60	In 3-month period, June – Aug 2020 Dr lease liability (160*3) 480 Cr cash 480 Dr P&L (interest) 60 Cr lease liability 60
Lease liability at 31 August 2020: CU 1,520	Lease liability at 31 August 2020: CU 1,520	Lease liability at 31 August 2020: CU 1,520	Lease liability at 31 August 2020: CU 1,520

COVID 19 RELATED RENT CONCESSION AMENDMENTS TO IND AS 116



Comments received on Exposure Draft





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Thank You

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