AMENDMENT TO IFRS 16: COVID-19-RELATED RENT CONCESSIONS

PRACTICAL RELIEF FOR LESSEES

In response to the Covid-19 pandemic and the economic difficulty faced by many businesses, landlords have granted rent concessions to lessees. On 28 May 2020, the International Accounting Standards Board (IASB) issued the amendment to IFRS 16 Leases, “Covid-19-Related Rent Concessions”. The purpose of the amendment is to simplify lessee accounting for rent concessions. No changes were made to lessor accounting.

WHAT IS A RENT CONCESSION?
A rent concession is a compromise a landlord makes to the original rental terms, these include rent holidays or rent reductions for a period of time.

WHAT IS THE ISSUE?
Previously under IFRS 16, a rent concession would likely meet the definition of a lease modification. The accounting for lease modifications can be complex and challenging when lessees have a large volume of leases, as a lease modification would require recalculation and adjustment of lease assets and liabilities using a revised discount rate.

WHAT DOES THE AMENDMENT ENTAIL?
The IFRS 16 standard was amended to:
1. provide a practical expedient, so that lessees could elect not to assess whether a rent concession is a lease modification, provided that the rent concession is a direct consequence of Covid-19 and meet all 3 conditions:
   • 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;
   • any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
   • there is no substantive change to other terms and conditions of the lease.
2. require lessees that apply the exemption to account for Covid-19-related rent concessions as if they were not lease modifications. In many instances, this concession would be accounted for as a variable lease payment and be recognized in profit or loss;
3. require lessees that apply the exemption to disclose that fact; as well as the amount recognized in profit or loss arising from Covid-19-related rent concessions; and
4. require lessees to apply the exemption retrospectively in accordance with IAS 8, but does not require them to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.
WHAT IS THE EFFECTIVE DATE?
The amendment is effective 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 28 May 2020.

CLICK HERE TO ACCESS THE FINAL AMENDMENT

HOW CAN AFA HELP?
During this unprecedented time, Finance functions will need to be agile and responsive as businesses come to grips with the impact of Covid-19. Having access to trained professionals, valuable insights and relevant information is crucial — but your resources may be stretched. Contact our AFA team to assist your business respond to the accounting impacts of Covid-19 on your business: info@afadvisory.co.za

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