

## ADMIN PAPER

IFRS Foundation Trustees meeting

VIDEO CONFERENCE

1 FEBRUARY 2021

Agenda ref 1

CONTACT

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### IFRS 16 *Leases* and covid-19—shortened comment letter period

#### Purpose

1. On Thursday 4 February 2021 at a specially convened meeting, the Board will consider a staff recommendation to publish an exposure draft with a 14-day comment period proposing an amendment to IFRS 16 *Leases*. The exposure draft would propose extending the period of practical relief in accounting for covid-19-related rent concessions that the Board provided last year.
2. A comment period of less than 30 days requires approval from 75% of the Trustees. Accordingly, this paper asks the Trustees to approve a comment period of no less than 14 days for a potential exposure draft if the Board decides on 4 February to publish the exposure draft with a short comment period (the Board is being asked whether it supports a 14-day comment period).
3. The rest of this paper provides background on the potential exposure draft and the rationale for the short comment period.

#### Question for the Trustees

4. If the Board decides to publish an exposure draft of an amendment to IFRS 16 along the lines described in this paper, **do the Trustees give their approval for a comment period of no less than 14 days?**

#### Background to the issue

5. In May 2020, the Board issued an amendment to the leases Standard (IFRS 16) to provide practical relief to lessees. The amendment, in essence, permits lessees to apply a practical expedient that provides a simplified form of accounting for rent concessions occurring as a direct consequence of the pandemic. This makes the accounting less burdensome—providing relief to lessees—while still providing useful information to investors.

6. Given the urgency and very targeted nature of the amendment, in April 2020 the Trustees approved a 14-day comment period for the exposure draft leading to the amendment.
7. One of the conditions to obtain the relief contained in that amendment is that it applies only to reductions in lease payments that were due on or before 30 June 2021. This expiry date was intended to:
  - (a) assist preparers by providing a simple approach to assessing when rent concessions qualify for the practical expedient while targeting the relief to when—in May 2020—it was expected to be needed most; and
  - (b) address investors’ concerns about the potential lack of comparability if the relief were to continue for a long time. Investors supported the relief as long as it was relatively short-lived.
8. The Board has received requests from preparer representative organisations to extend the practical relief so that it is available for covid-19-related reductions in lease payments that are due beyond June 2021. These organisations note the ongoing significance of the effects of the pandemic and say that many lessors are extending rent concessions as a direct consequence of the pandemic beyond June 2021.

### **Staff recommendation—a proposed extension of the relief**

9. The staff are recommending that the Board propose to extend the practical relief already provided in IFRS 16 so that lessees can apply it to covid-19-related rent concessions that reduce lease payments due on or before **30 June 2022**<sup>1</sup>. In other words, **the staff recommends extending the existing relief by one year** without any other change to its application.
10. In the light of the ongoing significance of the effects of the pandemic, the staff have concluded that such an extension would (a) provide practical relief to lessees during the height of the pandemic; (b) provide useful information to investors by enabling lessees to report similar rent concessions in the same way during the height of the pandemic; and (c) be consistent with the Board’s intentions when it originally developed the practical expedient. Retaining an expiry date would be important

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<sup>1</sup> Some of the preparer organisations suggested that the extension be to 31 December 2021. However, to reduce the risk of needing to provide an additional extension, the staff is recommending to the Board that the extension be until 30 June 2022.

to address investors' concerns about comparability by continuing to limit the relief to the period when it is needed most.

## Recommended comment period

11. If the Board decides to extend the relief, it needs to act quickly and finalise the amendment to IFRS 16 by the end of March so that the relief would be available for newly-eligible rent concessions currently being negotiated and granted. This would require a shortened comment period.
12. Comment periods for exposure drafts are usually 120 days. However, the Board can, and does on occasion, seek the Due Process Oversight Committee's approval for a comment period of no less than 30 days in accordance with the *Due Process Handbook*. The *Handbook* also contemplates that 'in exceptional circumstances' the comment period can be less than 30 days, but it is explicit that there must be some comment period. A comment period of less than 30 days requires approval from 75% of the Trustees<sup>2</sup>.
13. As noted, in April 2020, the Trustees approved a 14-day comment period for the exposure draft of the proposal to amend IFRS 16 to provide the original relief. Despite the shortened comment period, the Board was able to obtain the necessary feedback from stakeholders to ensure a high-quality amendment<sup>3</sup>. Given this and given that the proposed amendment would merely extend the existing relief, the staff are recommending that the Board also sets a comment period of 14 days for the exposure draft proposing the extension.
14. Investors that provided feedback in 2020 generally supported (or did not object to) the original relief on the basis that it was a limited-life exemption from the usual requirements of IFRS 16. In light of this, the staff are seeking input from some investors on the possible exemption in advance of the 4 February Board meeting and will also contact investors during the comment period to obtain their feedback on the proposal as was done in 2020.

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<sup>2</sup> Paragraph 6.8 of the *Handbook* states 'In exceptional circumstances, and only after requesting and receiving approval from 75% of the Trustees, the Board may reduce the period for public comment on an exposure draft to below 30 days but may not dispense with a comment period'.

<sup>3</sup> The Board received 96 comment letters by the end of the comment period.

## **DPOC involvement**

15. As noted, a comment period of less than 30 days requires approval by the full body of Trustees rather than the Due Process Oversight Committee. In April 2020, to assist the Trustees and reflecting the fact that that was the first time that approval for a comment period of less than 30 days had been sought, the DPOC considered the request for the 14-day comment period in advance of the Trustee discussion, although there is no requirement for such a discussion in the *Due Process Handbook*. With the approval of the Chair of the DPOC, we have not held a separate discussion with the DPOC on this occasion. This reflects that this request for a shortened comment period is an extension of the original relief and is being sought on the same basis as in 2020. The Chair of the DPOC however expressed support for the proposal that a 14-day comment period be approved.
16. In addition, it was agreed with the Chair of the DPOC that the transparency that would be provided by a DPOC discussion should be replicated by posting a recording of the Trustee discussion of this agenda item on the Foundation's website together with this paper.