



STAFF PAPER

September 2022

IFRS® Interpretations Committee meeting

Project	Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)
Paper topic	Comment letters

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Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)' published in March 2022.

16 May 2022

Mr. Bruce Mackenzie
Chair of the IFRS Interpretations Committee
International Accounting Standards Board
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Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Tentative Agenda Decision Relating to
Lessor Forgiveness of Lease Payments
(IFRS 9 *Financial Instruments* and IFRS16 *Leases*)

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (“the Committee”)’s tentative agenda decision relating to “Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS16 *Leases*)” in the March 2022 IFRIC Update.

Lessor accounting

2. We do not support finalising this tentative agenda decision because, in our view, the principles and requirements of IFRS 9 and IFRS 16 do not provide an adequate basis for addressing this issue for the reasons set out below. We believe that the IASB should consider adding this issue on its agenda as a standard-setting project in accordance with paragraph 5.16 of the Due Process Handbook.
 - (a) With respect to lessor accounting for rent concessions, we believe it is unclear whether the requirements of IFRS 9 or IFRS 16 take precedence. This is because paragraph 2.1(b)(i) of IFRS 9 states that the derecognition requirements of IFRS 9 applies to operating lease receivables recognised, whereas paragraph 87 of IFRS 16 requires the lessor to consider the accrued lease payments relating to the original lease as part of the lease payments for the new lease in the lease modification. Therefore, while the tentative agenda decision states that, for forgiven lease payments that the lessor had included in operating lease

receivables, the derecognition requirements in IFRS 9 should be applied and thus the receivable should be derecognised, we believe that the lease modification requirements in IFRS 16 could be read to mean that those requirements apply to all forgiven lease payments because lease modifications are not qualified in any way.

- (b) The tentative agenda decision states that the forgiven lease payments are not "accrued lease payments relating to the original lease" as stated in paragraph 87 of IFRS 16. However, IFRS16 does not provide detailed guidance on accrued lease payments, and thus we believe that it is inappropriate to conclude that the forgiven lease payments are not "accrued lease payments". Accordingly, we believe that the forgiven lease payments for months 10 through 12 could be considered accrued lease payments of the original lease, and thus could be considered part of the lease payments for the new lease, by applying the requirements in paragraph 87 of IFRS 16 related to lease modifications.
 - (c) The tentative agenda decision apparently does not consider rent concessions to be lease incentives (that is, payments made by the lessor to the lessee that are associated with the lease, or the reimbursement or assumption by the lessor of costs of the lessee.). However, we believe that rent concessions could be interpreted as "assumptions by the lessor of costs of the lessee". Under such interpretation, we believe that rent concessions could be accounted for as a component of lease payments, given that lease incentives comprise lease payments.
3. Regarding the lessor accounting for rent concessions, some constituents in our jurisdiction support the analysis in the tentative agenda decision, while others argue that only IFRS 16 should be applied. Accordingly, we believe it is necessary to fully discuss the appropriate accounting treatment.
 4. In addition, some constituents in our jurisdiction have commented that it is unclear whether the term "forgiveness" used in the tentative agenda means full as well as partial forgiveness. Accordingly, we suggest that the agenda decision clarify that "forgiveness" means full as well as partial forgiveness of receivables.

Lessee accounting

5. We agree with the Committee's recommendation that the IASB consider undertaking

a narrow-scope standard-setting project to address the lessee's accounting for rent concessions described in the submission. Constituents in our jurisdiction have noted that there is more than one appropriate accounting treatment to account for the lessee's rent concessions described in the submission, and we believe it is necessary to fully discuss the appropriate accounting treatment.

6. We hope that our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink that reads "Y. Kawanishi". The signature is written in a cursive, flowing style.

Yasunobu Kawanishi

Chair

Accounting Standards Board of Japan

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**Financial Reporting Technical
Committee**

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Berlin, 17 May 2022

Dear Bruce,

IFRS IC's tentative agenda decisions in its March 2022 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS IC as published in the March 2022 *IFRIC Update*.

As regards the **tentative agenda decision on IAS 32**, we basically agree with the IFRS IC's findings. However, we acknowledge that the issue comprises a more general and broadly relevant question, whether an action (or a decision) of the shareholders, e.g. at a shareholders meeting, is an action (or a decision) of the entity. This question seems crucial and, as mentioned in the *IFRIC Update*, arises equally in other circumstances. Therefore, it deserves a timely answer.

Overall, we like to note that any matter being deferred to the FICE project – as has been repeatedly the case in the past – leads to a delayed answer or none at all. While this allows for comprehensive consideration of those issues, which – on its own – would be beneficial, the respective issue(s) often will not be solved in a timely manner, which is rather detrimental to accounting.

Regarding the **tentative agenda decision on IFRS 2 / IFRS 3 / IAS 32**, we do not fully support the findings and reasoning behind the decision. While the conclusions on who is the acquirer and whether the acquisition constitutes a business appear appropriate, two other findings do not seem intuitive.

Firstly, the idea of splitting the acquisition and allocating the shares and the warrants to the individual assets/liabilities acquired does not appear evident. Further, while the IFRS application and outcomes as regards accounting/measurement at the acquisition date are broadly

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explained, we acknowledge that further questions as regards subsequent measurement could arise – on which the decision’s wording is silent.

Secondly, the finding that considering the legal structure of the acquisition might lead to the conclusion that the acquirer (i) assumes the SPAC warrants or (ii) does not assume the SPAC warrants opens up room for judgement. We understand that the IFRS IC does not suggest which of the two conclusions applies to the fact pattern submitted, nor does the IFRS IC provide further details on how to appropriately conclude on this question more generally. Overall, we feel that the decision and the respective wording do not add to clarity or to consistent application.

As regards the **tentative agenda decision on IFRS 16** (in respect of the lessor), the decision and the reasons behind do not appear fully comprehensible. More generally, this issue again touches on the interaction of modification vs. impairment vs. write-off vs. derecognition, which still awaits clarification. (We refer to our respective comments in our comment letter, dated 28 January 2022, to the PIR on IFRS 9 / classification and measurement.) It seems worth integrating and discussing this complex issue comprehensively within the next PIR on IFRS 9 / section “Impairment”.

As regards the **tentative agenda decision on IFRS 17**, we agree with the conclusions of the IFRS IC on the technical matters, in particular with the general finding that IFRS 17.B119 contains a principle without prescribing particular methods for determining the quantity of benefits.

In addition, we like to note that this tentative agenda decision is taken close to the date of initial application of IFRS 17. While we do not generally object to solving application issues even close to initial application, we have been made aware of concerns by insurance entities in respect of this particular case.

Due to the complexity of IFRS 17, accompanied by a parallel run of IFRS 4 / IAS 39 and IFRS 17 / IFRS 9 throughout 2022, these entities are currently in a crucial period of implementation and facing a high workload. Hence, for these entities it might be impracticable to implement further changes before the effective date of IFRS 17 that derive from an agenda decision. This said, we suggest that the IFRS IC thoroughly discusses, and potentially clarifies, how the principle “sufficient time” to implement applies in the respective context. Further, we kindly ask the IFRS IC to carefully consider which steps it undertakes in responding to a submission that affects IFRS requirements right before initial application.

We would like to add more generally that IFRS IC deliberations on new or just amended IFRS requirements come along with an additional challenge: The agenda decisions do not only affect the crucial implementation period, but there is also only limited accounting practice yet (be it predominance or diversity) which can be considered and analysed. Therefore, we urge the IFRS IC to carefully consider the due process it undertakes in responding to those submissions



as it may have a significant impact for entities during the implementation period if accounting policies need to be changed.

In the specific case of IFRS 17 the IFRS IC due process might benefit, inter alia, from input from the Transition Resource Group (TRG) as one of the ways the IASB is supporting implementation of the new standard by providing a public forum for stakeholders to follow the discussion of questions raised on implementation.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



The IFRS Interpretations Committee,
7 Westferry Circus,
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United Kingdom

Paris, 20 May 2022

Dear Mr. Mackenzie

March 2022 IFRIC Update—Feedback on the Tentative Agenda Decisions on Lessors Forgiveness of Lease Payments (IFRS 9 – *Financial Instruments* and IFRS 16 – *Leases*)

We are writing in response to the Tentative Agenda Decision (TAD) for lessors and the proposed annual amendment for lessees.

In our opinion:

- The two subjects ought to be dealt with simultaneously, not necessarily with the objective of arriving at symmetrical accounting treatments but in order to ensure that the chosen methods are mutually consistent and that they result in the most useful financial information;
- It is surprising that there is no consideration of the reflections or conclusions that were developed at the time of the “COVID amendment”; the fact pattern under consideration is quite close to the rent concessions accorded during the pandemic and we think that it would be apposite to include certain elements of the analysis made at that time in the current project.
- The IASB and the IFRS Interpretations Committee (IFRIC) should consider amending IFRS 16 on the basis of a single principle which would provide useful financial information and depict the economic substance of the transaction. This amendment would concern both lessors and lessees

and would be applicable in clearly circumscribed circumstances¹. The principle of this amendment would be to recognise the impact of these agreements over the periods concerned by the rental concessions, both for lessors and for lessees.

It would be a case of recognising a reduction in rental income for lessors and a reduction in the lease amortisation for lessees in each period concerned by the forgiveness of rental payments, without modifying the way the rental contract was initially accounted for, since the other elements of the contract are unchanged and the forgiveness is a “one-off” decision.

Detailed comments on several aspects of the decision if the approach suggested above were not adopted:

1. We acknowledge that IFRIC’s approach, which is to apply IFRS 9 to recognise the forgiveness of rental instalments that the lessor is prepared to grant (before the actual contractual formalisation of this decision) as an expense, can be a possible interpretation.

Indeed, at present there is no other provision in IFRS 16 which would allow a lessor to anticipate a highly probable rental abandonment, in contrast to IFRS 15 which allows a seller to anticipate the reduction in revenue before it becomes effective, notably through the provisions for variable consideration. In contrast to IFRS 9, the provisions of IFRS 15 require that this adjustment be recognised in revenue and not as a credit loss.

2. We think that other interpretations are possible, in particular:

- The provisions of IFRS 9 are applicable only in cases of credit risk or default by the customer. This is of course not the case in the fact pattern under review. The extensive analogising to credit risk that is made in the TAD could have unintended consequences on other transactions unrelated to this fact pattern.

This echoes the questions raised by the IFRIC itself when it was considering the possibility of allowing the lessor to make use of a COVID exemption. The committee noted that *“we think that in considering whether to undertake a project on this topic, it is important for the Board to keep in mind the interaction between the lessor accounting requirements and related requirements in other Standards. In particular, the accounting for changes in operating leases is very similar to that for changes in similar service contracts applying IFRS 15. 31. Consequently, we think there is a risk that any practical expedient developed by the Board could result in an entity accounting for similar contracts differently (i.e., those subject to IFRS 16 and those subject to IFRS 15). This would be an unhelpful outcome and would impair the usefulness of information provided to investors”*.

We think that this risk is still present and that the subject should be analysed in greater depth.

¹ We think that the circumstances envisaged by this specific amendment to IFRS 16 could be defined as those cases in which “the lessor agrees to release legally the lessee from its obligation to make specifically identified lease payments and no other changes are made to the lease”.

- This programmed forgiveness of rental payments related to an economic conjuncture is, from a conceptual point of view, no different from a lease incentive and that the arguments advanced by the IFRIC against this are not convincing.

In view of the different readings that can be made and the links to other relevant standards, it seems to us that it is impossible to conclude on the topic with only a TAD.

3. We do not agree with the accounting subsequent to the contractual formalisation of the forgiveness, that is, the recognition of a contract modification whose effects are spread over the remaining life of the lease, for the following reasons:

- The IFRIC has not taken into account the elements of the analysis carried out at the time of the COVID amendment in respect of the fact that certain instances of rent forgiveness could not be considered to be contract modifications when such instances correspond to a situation envisaged by legal or statutory provision in specific circumstances:

“Relevant facts and circumstances may include contract, statutory or other law or regulation applicable to lease contracts. For example, lease contracts or applicable law or regulation may contain clauses that result in changes to payments if particular events occur or circumstances arise. Government action (for example, requiring the closure of retail stores for a period of time because of covid-19) might be relevant to the legal interpretation of clauses, such as force majeure, that were in the original contract or in applicable law or regulation. Changes in lease payments that result from clauses in the original contract or in applicable law or regulation are part of the original terms and conditions of the lease, even if the effect of those clauses (arising from an event such as the covid-19 pandemic) was not previously contemplated. In such a case there is no lease modification for the purposes of IFRS 16”

- As rental forgiveness is an isolated and specific event decided upon in unusual circumstances, it seems to us that the most appropriate approach is that only the period which is the object of the decision be affected by it. Moreover, it appears from a reading of paragraph 77 of the IFRIC agenda paper AP4 that this solution is the preferred approach for lessees.
- This last point leads us to the conclusion that the IASB / IFRIC should deal with the two aspects of the transaction (lessor/lessee) in a consistent and homogeneous manner and thus by means of the same standard-setting process.
- The IASB had noted in a working paper that the recognition of the rent forgiveness spread over the remaining life of the contract was not necessarily the approach to adopt. We think that at the very least this view should be reproduced in the TAD – *“However, we think application of paragraph 81 of IFRS 16 would not lead to straight-line income recognition in every case—the circumstances arising during the covid-19 pandemic may result in a lessor recognising lease income other than on a straight-line basis.”*
- Finally, the proposed solution, which comprises different treatments before and after the modification becomes effective and specific treatment for contract modification, seems very complicated to apply, particularly if the lessor is faced with a large number of cases to deal with. It is, in our view, important that the IASB recognises that these processes are not

always capable of being automated and that the management of the modification of contracts is always a process fraught with difficulty, even in the most advanced systems.

If you require any further information on this subject, please do not hesitate to contact us.

Yours sincerely,

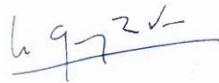
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20 May 2022

Dear Bruce,

Re: Tentative agenda decision – Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

We are responding, on behalf of PricewaterhouseCoopers, to your invitation to comment on the tentative agenda decision (TAD) “Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)” published in March 2022.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the TAD. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Our detailed response is set out below in the following sections: (1) Applying the expected credit loss model in IFRS 9 to the operating lease receivable; (2) Lessor accounting for the rent concession – IFRS 9 and IFRS 16; and (3) Other comments.

1) Applying the expected credit loss model in IFRS 9 to the operating lease receivable

We agree with the Committee’s analysis that operating lease receivables are within the scope of the IFRS 9 impairment requirements, and that a lessor measures expected credit losses (ECL) on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by para 5.5.17 of IFRS 9).

However, we believe that the final agenda decision should better reflect the assessment and measurement of ECL at different points in time, rather than only focus on the measurement of

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ECL after an event of default. We are concerned that, without a clear articulation in the final agenda decision as to how the Committee considered the probability of default and the possible outcomes at specified points in time, the agenda decision does not fully address how the lessor applies the ECL model to the lease receivables recognised, in periods before the forgiveness is granted.

Paragraph 5.5.15 of IFRS 9 allows entities to measure the loss allowance of a lease receivable at an amount equal to lifetime expected losses – that is, “the simplified approach”. The simplified approach is the approach that is often applied in practice. Therefore, on initial recognition of the lease receivable, entities will consider the expectation of credit losses over the lifetime of the receivable. In practice, lease contracts typically contain credit enhancements such as security deposits, which would reduce the expected shortfalls in the case of a default.

We believe that it would be helpful for the Committee to be clear that, when measuring ECL (which are defined in IFRS 9 as the weighted average of credit losses with the respective risks of a default occurring as the weights), the expected outcomes, including forgiveness, would be weighted by the probability of default, at each measurement date. Additionally, the TAD is silent with respect to the consideration of any collateral, or any other credit enhancements. We believe that the expectations with respect to the repossession of collateral is another important consideration in the measurement of ECL, and it would be helpful for the Committee to be clear on how this was considered.

In the fact pattern included in the submission, we note that, at the time of modification, the lessee had not paid contractually due lease payments for three months. As such, unless the entity has rebutted the “90 days past due” presumption of default in paragraph B5.5.37 of IFRS 9, which we assume is not the case here, there has been an event of default. Where a default has occurred, we believe that forgiveness of payments would be considered a reasonably possible scenario by the lessor, which is then incorporated into the measurement of ECL, alongside other reasonably possible scenarios, with a probability of default of 100%. However, even at that point, the measurement of ECL would also need to factor in any expectations with respect to the collateral received that would be used in the mitigation of the expected losses.

In summary, we think that the TAD should be clarified to explain the ECL measurement considerations at specified points in time, including the consideration of collateral and repossession thereof. We believe that the analysis and conclusions on this aspect of the TAD should be amended to include: (i) the full fact pattern provided by the submitter; and (ii) clear articulation as to how the Committee considered default and expectations with respect to collateral in the submitted fact pattern and their progression over time.

2) Lessor accounting for the rent concession – IFRS 9 and IFRS 16

We agree with the Committee’s analysis that operating lease receivables are within the scope of IFRS 9 for derecognition, and we also agree with the Committee’s analysis that the forgiveness of lease payments meets the definition of a lease modification in IFRS 16, because there is a change in consideration for the lease contract that was not part of the original terms of the lease.

We believe that this results in conflicting guidance between the standards when accounting for a lease modification that includes forgiveness of past-due payments. The analysis in the TAD with respect to accounting under paragraph 87 of IFRS 16 is one interpretation of the requirements of that paragraph, and one that we have observed being applied in practice.

However, we believe that an alternative interpretation of the words in paragraph 87 of IFRS 16 can be taken, since “accrued lease payments” is not a defined term in IFRS 16. In the context of a lease modification, we believe that unpaid amounts relating to revenue recognised in periods prior to the effective date can be considered to be “accrued lease payments”, because they relate to past periods of use of the asset. However, since they are unpaid, these accrued lease payments are subject to negotiation between the parties in determining the extent and quantification of the lease modification, and they would be factored by both parties into the rental payments negotiated going forward.

The Committee’s statement that “lease payments due from the lessee that the lessor has recognised as an operating lease receivable (to which the derecognition and impairment requirements in IFRS 9 apply) are not accrued lease payments” does not appear to be dependent on the specific fact pattern where the modification is only a reduction in the lease payments over the term of the lease; the statement would appear to apply to all lease modifications, including those where the future payments under the lease are increased in compensation, or where the scope of the lease is changed. We believe that, if finalised as drafted, this statement could have unintended consequences and produce different accounting results for transactions that are economically similar.

Forgiveness of past-due rent cannot necessarily be viewed in isolation, because an operating lease is a long-term contract with unrecognised contractual payments as well as recognised contractual amounts (that is, receivables). Lessees and lessors can negotiate which individual cash flows identified in a contract will be modified in a number of ways while achieving the same economic impact. For example, the two following scenarios are economically equivalent:

Scenario 1 – parties negotiate a forgiveness of CU300 for months 10 to 12, and a rent-free period for months 13 and 14 (as per the submitted fact pattern).

Scenario 2 – parties negotiate deferred payment terms for the CU300 receivables originally due in months 10, 11 and 12 to be made in months 15, 16 and 17 respectively, and a rent-free period for months 13 to 17.

The cash flow timing and amounts are the same in both circumstances. Following the Committee’s analysis, the first scenario results in a derecognition of the lease payments for months 10, 11 and 12. However, the second scenario would result in no derecognition of payments; this is because these payments are contractually deferred and are not extinguished or discharged until paid, and the effect of the five-month rent-free period would be recognised over the remaining term of the modified lease on a straight line basis from the date of the modification.

Because of the interdependency between recognised operating lease receivables and unrecognised contractual payments under an operating lease, we believe that all outstanding lease balances at the date of modification can be viewed as being within the scope of paragraph 87 of IFRS 16 as “accrued lease payments”, which would permit economically alike transactions to be accounted for in a similar manner.

Therefore, we do not agree that, on the date of a modification of an operating lease, it is clear whether the transaction could be considered to be a derecognition (or partial derecognition) event or a lease modification, and we are concerned about the outcome of the Committee’s

single interpretation of the words “accrued leases payments”, which would result in economically similar transactions being accounted for differently.

We believe that, if reducing diversity in the application of paragraph 87 of IFRS 16 with respect to past-due payments is a desired outcome, standard setting would be required to direct entities to the standard that does take precedence (that is, IFRS 9 versus IFRS 16). We note that the IFRS IC staff paper concluded that standard setting was required for a similar issue with respect to lessee accounting, and we believe that the issues raised for lessors, as described above, are equally, if not more, significant than for the lessee side from a consistency of application and outcome perspective.

In summary, we think that the forgiven lease payments that are past due when the rent concession is granted are within the scope of both IFRS 9 and IFRS 16. Consequently:

- we do not agree that it is clear in the standards that IFRS 9, rather than IFRS 16, should be applied to this aspect of the forgiveness;
- we believe that the agenda decision would introduce a requirement that is not clear in the standards (that is, the requirement to apply IFRS 9 and not IFRS 16); and
- we believe that standard setting is required if the IASB wishes to reduce diversity in practice in this area.

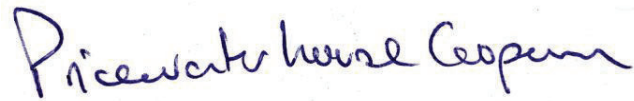
3) Other comments

In addition to the questions addressed in the TAD, the submitter asked the IFRS IC about lessee accounting for the same fact pattern. However, the TAD does not include any reference to the disposition of the questions raised relating to the lessee accounting. We believe that any final agenda decision should reference the Committee’s recommendation that the IASB consider undertaking a narrow-scope standard-setting project to address a lessee’s accounting for rent concessions.

In general, we find the application of the impairment and derecognition requirements of IFRS 9 to operating lease receivables, including those arising from tenant incentives or rent-free periods, to be challenging in practice; this is because an operating lease consists of multiple contractual payments, some of which are recognised on a lessor’s balance sheet and others of which are not. This creates challenges such as how to apply expected cash shortfalls compared to contractual amounts where contractual amounts due over the term of an operating lease are both recognised and unrecognised. Determining whether expected cash shortfalls relate to recognised receivables, as opposed to unrecognised contractual payments, can be arbitrary in some cases. We believe that these issues should be assessed by the IASB in the “Post-Implementation Review for IFRS 9 – Impairment” to determine whether these are desirable outcomes.

If you have any questions in relation to this letter, please do not hesitate to contact Henry Daubeney (henry.daubeney@pwc.com), Global Chief Accountant and Head of Reporting, or Marie Kling (marie.kling@pwc.com), Global IFRS Leader for Financial instruments.

Yours sincerely,

A handwritten signature in blue ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

Henry Daubeney
Global Chief Accountant and Head of Reporting
Email: henry.daubeney@pwc.com
PricewaterhouseCoopers International Limited

Buenos Aires, Argentina, May 23, 2022

**IFRS Foundation
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REF: IFRS IC Tentative Agenda Decisions reached in the March 15 and 16, 2022 meetings

Dear Board Members,

The “Group of Latin American Standards Setters”¹ (GLASS) appreciates the opportunity to comment on the Tentative Agenda Decisions (TAD) reached by the IFRS IC during its meeting on March 15 and 16, 2022, which included the following topic:

- **Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)**

This response summarizes the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process

The discussions regarding the Tentative Agenda Decision (TAD) of IFRS IC were held within a specified Permanent Technical Commission (PTC) created in December 2020. All GLASS country-members had the opportunity to appoint at least one member to participate in this PTC. Each standard setter represented in GLASS has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for GLASS discussion process.

GLASS discussed the different points of view included in the summary through emails exchanged among its members. In those emails GLASS developed a final document on the basis of the consensual responses and the technical points of view of its members. Finally, the GLASS document was submitted to and approved by the GLASS Board.

Comments

In relation to the request received by the Committee on the form of application of IFRS 9 *Financial Instruments* and IFRS 16 *Leases* by a lessor in the accounting for a particular rent concession, GLASS agrees that, in the case presented, both standards are applicable and therefore the entity must determine the form of interaction between the two standards to ensure adequate compliance with the applicable requirements.

The fact pattern

In the case presented to the Committee, a lessor that has classified the contract as an operating lease in the terms of IFRS 16 and grants the lessee a partial forgiveness of the lease payments contemplated under that contract.

Therefore, the lessor legally releases the lessee from its obligation to make certain specifically identified lease payments, some of which are amounts contractually due but unpaid (which the lessor had recognized as an operating lease receivable) and some of which are amounts that are not yet due contractually, with this

¹ The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts, Requests for Information and Discussion Papers issued by the IASB and Tentative Agenda Decisions issued by the IFRS IC. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Vice Chairman), Chile (Board), Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board).

modification of the contract being the only one that occurred, and the parties are not considering making other changes.

GLASS agrees with the analysis made by the Committee in relation to the fact that the forgiveness of unpaid balances owed by the lessee, recorded by the entity as an account receivable for services rendered, should be treated separately from the forgiveness of the remaining payments that, according to the modified contract, should be recognized in the future.

Account receivable recognized prior to the granting of a reduction on the rent

In accordance with its classification as an operating lease in the terms of IFRS 16, the lessor must recognize, in accordance with paragraph 81 of the standard, which is transcribed below, an account receivable as a counterpart to the recognized income.

“81. A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.”

On the other hand, paragraph 2.1(b)(i) of IFRS 9 establishes that *“operating lease receivables recognized by a lessor are subject to the derecognition and impairment requirements of this Standard”*.

Therefore, a lessor is required to additionally apply the impairment requirements of IFRS 9 to an operating lease receivable from the date it recognizes that receivable.

On the other hand, IFRS 9, in its Appendix A, defines credit loss as “the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive. (ie. all cash shortfalls) ...”.

Paragraph 5.5.17 of IFRS 9 states that “an entity shall measure expected credit losses ... in a way that reflects (a) an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions”.

Consequently, in the fact pattern described in the request, the lessor must apply the impairment requirements of IFRS 9 to the operating lease receivable. The lessor must estimate the expected credit losses on the operating lease receivable by measuring any credit losses to reflect “all cash shortfalls”.

These shortfalls are the difference between all contractual cash flows due to the lessor under the lease and all related cash flows expected to be received, determined using 'reasonable and supportable information' about 'past events, current conditions and forecasts'. of future economic conditions.

GLASS concurs with the Committee's conclusion that, in the period before the rent concession is granted, a lessor should measure the expected credit losses on the operating lease receivable in a manner that reflects an unbiased and likely amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including consideration of its expectations of forgiving certain lease payments recognized as part of that receivable.

Recognition of the effect of the reduction granted to the lessee on the lease payments

The forgiveness by the lessor of part of the amounts owed by the lessee previously recognized as a receivable for operating leases, implies a reduction of these amounts that must be considered in relation to the derecognition criteria of IFRS 9.

Paragraph 2.1(b)(i) of IFRS 9 establishes that operating lease receivables recognized by a lessor are subject to the derecognition requirements of IFRS 9. Therefore, by granting the reduction of part of the lease amount, the lessor should consider whether the derecognition requirements in paragraph 3.2.3 of IFRS 9 are met.

In the forgiveness described in the request, the lessor legally releases the lessee from its obligation to make certain specifically identified lease payments, some of which the lessor had recognized as forming part of the operating lease receivable.

Therefore, by granting the lessor the forgiveness of part of the rent to the lessee, its contractual rights over the respective cash flows of the operating lease receivable expire and it has waived its contractual rights over said

specifically identified cash flows. In that case, the lessor must conclude that the requirements of paragraph 3.2.3(a) of IFRS 9 have been met.

Therefore, on the date the rent reduction is granted, the lessor must derecognize such amounts from the operating lease receivable (and the associated expected credit loss provision) and recognize any difference as a loss in the income statement.

Application of the lease modification requirements of IFRS 16 to future lease payments

The rent reduction described in the request received by the Committee meets the definition of a lease modification under the terms of IFRS 16.

The rent reduction granted is "a change in ... the consideration for a lease, that was not part of the original terms and conditions ...". Therefore, the lessor must apply paragraph 87 of IFRS 16 and account for the modified lease as a new lease from the date the rent reduction is granted.

When accounting for the modified lease as a new lease, the lessor must apply paragraph 81 of IFRS 16 and recognize in the future as income the lease payments to be made by the lessee during the term of the lease (including advance or accrued payments related to the original lease) either on a straight-line or another systematic basis.

GLASS agrees with the opinion of the Committee, which concluded that the lessor must account for the forgiveness granted on the rent described in the request by applying:

1. the derecognition requirements in IFRS 9 for forgiven lease payments that the lessor had included in an operating lease receivable on the date the rent reduction is granted; and
2. the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor had not included in an operating lease receivable.

GLASS shares the Committee's reasoning in concluding that the principles and requirements of IFRS Standards provide an adequate basis for a lessor to determine how to apply the expected credit loss model in IFRS 9 to an operating lease receivable and to account for the forgiveness of rent described in the request.

GLASS also agrees that it is not necessary for the topic to be included as an agenda item for the IASB and that it is appropriate to specify through the Agenda Decision (AD) procedure a response on the reasoning to be used, and therefore the description of the proper application of the accounting treatment that should be given to the subject.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,



Jorge José Gil

Chairman

Group of Latin American Accounting Standard Setters (GLASS)

23 May 2022

Mr. Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Mackenzie,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comment on the following Tentative Agenda Decisions:

- (a) Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)
- (b) Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition
- (c) Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)
- (d) Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)

We agree with the IFRS Interpretations Committee's reasons set out in the Tentative Agenda Decisions for not adding a standard-setting project to its work plan based on the specific fact patterns described in the Tentative Agenda Decisions.

If you need further clarification or have any queries regarding this letter, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director

Paris, 23 May 2022

Patrick de Cambourg

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Mr Bruce Mackenzie

Chairman of the IFRS Interpretations
Committee

Columbus Building, 7 Westferry Circus,
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United Kingdom

PDC n°29

March 2022 IFRIC Update—Feedback on the Tentative Agenda Decisions on Lessors Forgiveness of Lease Payments (IFRS 9 – *Financial Instruments* and IFRS 16 – *Leases*)

Dear Bruce,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above mentioned IFRS Interpretations Committee's (Committee) Tentative Agenda Decision (TAD) published in March 2022.

We recommend the Committee not finalise the proposed TAD. This is because we think the technical analysis set out in this TAD:

- includes developments that only arise from a possible reading of the requirements in IFRS Standards,
- may have significant unintended consequences, and
- raises questions as to whether the resulting conclusion (i) provides information that is useful and (ii) paves the way for structuring opportunities.

Accordingly, we think the matter described in the submission would be best addressed in the context of a standard-setting project which would holistically clarify the requirements applicable to *both* lessors and lessees.

- **How the Committee reads the existing requirements in IFRS Standards**

Our comments below include developments on the Committee's analysis of how to apply the expected credit loss model (ECL model) in IFRS 9 to the operating lease receivable. They also outline two other arguments that, we think, could lead to reach a conclusion that does not align with the Committee's tentative conclusion.

- **How to apply the ECL model in the fact pattern described in the submission and in other fact patterns**

We agree with the Committee's conclusion that an entity applies the impairment requirements in IFRS 9 and thus, the ECL model, to the operating lease receivable from the date on which the entity recognises that receivable.

That being said, we have reservations on the Committee's conclusion whereby '...in the period before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including considering its expectations of forgiving lease payments recognised as part of that receivable' (emphasis added). We think the existing requirements in IFRS 9 may enable an entity to reach this conclusion—for the reasons set out in the TAD—but they also may enable to conclude otherwise. In our view, an entity may not consider its expectations of forgiving lease payments recognised as part of the receivable to measure ECLs when the forgiveness of lease payments does not relate to a credit event such as the lessee defaulting or being expected to default on the lease payments. We observe that Appendix A to IFRS 9 includes a definition for ECLs stating those are 'the weighted average of credit losses with the respective risks of a default occurring as the weights' (emphasis added). We also note that the requirements in IFRS 9 are strongly interrelated to the notion of credit risk (for example the requirements in (i) paragraph 5.5.3 of IFRS 9 to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the *credit risk* on that financial instrument has increased significantly and (ii) paragraph B5.5.36 of IFRS 9 to consider the change in the *risk of default* occurring since initial recognition to determine whether an instrument's credit risk has increased significantly) as defined in Appendix A to IFRS 7 *Financial instruments: Disclosures*¹. Applying this view, the measurement of ECLs would exclude concessions the lessor expects to grant for reasons other than the lessee's credit risk.

We understand that there has been a long standing debate among stakeholders as to whether to restrict the cash shortfalls used to measure ECLs on financial assets to those arising from the counterparty's credit situation (and thus, ignoring shortfalls arising from the entity's decision to waive cash flows for reasons other than credit risk). The TAD as drafted, inadvertently or not, concludes on that debate. This conclusion would apply to any financial asset to which the requirements in IFRS 9 apply, without having considered the possible unintended consequences—we question whether the TAD is an appropriate way forward to bring such a clarification. The analysis in the TAD might also affect requirements in IFRS 9 other than those related to impairment. In particular, we think this could also affect the reading of the requirements for the derecognition of financial assets in paragraphs 3.2.1–3.2.23 of IFRS 9—in particular those in paragraph 3.2.6 of IFRS 9 with regard to the transfer (or retention) of substantially all the risks and rewards of ownership of a financial asset (for example assessing whether future concessions that an entity expects to grant are part of an instrument's credit risk or dilution risk²).

Additionally, we think the Committee's analysis in this respect raises questions as to how to account for financial assets that an entity recognises applying other IFRS Standards but to which IFRS 9, in particular the impairment requirements in this Standard, apply. The TAD applies to an asset recognised applying the requirements in IFRS 16 but also subject to the derecognition and impairment requirements in IFRS 9. We specifically seek clarifications as to *whether*, and if so, *how* the proposed analysis would apply to receivables and contract assets that an entity recognises applying IFRS 15 *Revenue from Contracts with Customers* and to which IFRS 9 applies.

To illustrate our questions, assume that an entity in the context of an ongoing and established business relationship (i) has transferred the control of goods or services to a customer and has recognised a

¹ IFRS 7 defines credit risk as '*the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation*'.

² Also called dispute risk. This risk is generally excluded from the risks and rewards analysis.

receivable accordingly and (ii) expects subsequently to grant a price concession to the customer (for a reason other than the customer's credit risk). In those circumstances, entities currently apply the requirements in paragraphs 50–59 of IFRS 15 on variable consideration and adjust the transaction price to reflect this price concession and thus, reduce the amount of revenue recognised in profit or loss—as explained in paragraph BC194 of IFRS 15³, IFRS 15 distinguishes price concessions (which adjust the transaction price) and impairment losses (which do not adjust the transaction price) that are recognised to reflect the customers' credit risk. Entities do not apply the ECL model in IFRS 9 in the example above because the concession is granted for reasons other than the customer's credit risk. However, if the analysis set out in the TAD were to apply, entities would first apply the ECL requirements to the receivable, and then recognise an impairment loss (ECL loss allowance) ie an expense to reflect the price concession—this is because the analysis in the TAD, unlike IFRS 15, does not distinguish a price concession and impairment losses. Some could arguably ask why a different approach should prevail when applying the requirements to IFRS 16 in similar circumstances. Without further clarification in this respect, concerns exist that the analysis in the TAD could be applied to situations other than those described in the submission and thus, could have unintended consequences.

Accordingly, we recommend the Committee not finalise the TAD, or at least, not in its current form. If the Committee were to proceed with the TAD, we suggest the description of the fact pattern be amended to restrict the fact pattern to a situation in which the rent concession is granted because of the lessees' credit situation—all stakeholders would at minimum agree on the Committee's conclusion on such a fact pattern.

As a final note, we remind that the IASB (Board) decided to begin the *Post Implementation Review of IFRS 9—Impairment* (PIR) in the second half of 2022. This PIR may shed light on how the interaction between IFRS 9 and other IFRS Standards works in practice. Consequently, it may be helpful to defer this matter to the PIR or to await the end of the PIR to conclude.

- ***Viewing the forgiveness of lease payments as a lease incentive***

The Committee did not investigate in the TAD whether the forgiveness of lease payments would qualify as a lease incentive. If so, an entity would recognise the effect of the rent concession over of the lease term. We observe that paragraphs 44–45 of [Agenda Paper 4](#) for the March 2022 Committee meeting (March 2022 paper) reject this view contending that the forgiveness does not meet the definition of lease incentives in Appendix A to IFRS 16⁴.

We think the definition of lease incentives in IFRS 16 should not be interpreted narrowly to only capture payments in cash. In our view, lease incentives may include 'notional payments' made by the lessor to the lessee that are settled *net* in the lease payments—such payments reduce the amounts owed by the lessee but involve no formal cash outflow from the lessor. We would question the relevance of the requirements in IFRS 16 if that Standard were to distinguish—and thus, to specify differing accounting requirements for—incentives settled in cash from those that are settled net. This would also not align with how a lessor would account, at the lease commencement date, for rent-free periods which, in substance, are lease incentives.

Absent any reference in the definition of lease incentives as to how the payment should be settled, we think the Committee cannot reject the view whereby an entity may account for the rent concession as

³ Paragraph BC194 of IFRS 15 states that '*the boards observed that in some cases it may be difficult to determine whether the entity has implicitly offered a price concession or whether the entity has chosen to accept the risk of default by the customer of the contractually agreed-upon consideration (ie customer credit risk). The boards noted that an entity should use judgement and consider all relevant facts and circumstances in making that determination. The boards observed that this judgement was being applied under previous revenue recognition requirements. Consequently, the boards decided not to develop detailed requirements for differentiating between a price concession and impairment losses*'.

⁴ IFRS 16 defines lease incentives as '*payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee*'.

a lease incentive—this is paving the way for an accounting that does not align with the conclusion in the TAD.

Our above-described view also aligns with the requirements in SIC Interpretation 15 *Operating Leases—Incentives*⁵. Forgiving lease payments is, in substance, equivalent to a rent free (or reduced rent) period. SIC Interpretation 15 considered rent free periods as incentives. We acknowledge that IFRS 16 superseded this Interpretation. However, we think the reading of that Interpretation can usefully inform the understanding of lease incentives in IFRS 16 because paragraph BC65 of IFRS 16 includes the Board’s observation that ‘...IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, with the exception of the definition of a lease..., initial direct costs... and lessor disclosures...’. Absent any statement indicating otherwise, we presume that IFRS 16 substantially carried forward the requirements in IAS 17 (and its related SIC Interpretations) with regard to the definition of incentives.

- ***The lack of definition for ‘accrued lease payments’ in IFRS 16***

The TAD explains that paragraph 87 of IFRS 16 requires a lessor to consider any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. The TAD goes on and says that the Committee observed that lease payments due from the lessee that the lessor has recognised as an operating lease receivable (to which the derecognition and impairment requirements in IFRS 9 apply) are *not* accrued lease payments.

We observe that (i) paragraph 87 of IFRS 16 does not distinguish ‘lease receivables’ and ‘accrued lease payments’ (it solely refers to ‘prepaid or accrued lease payments’) and (ii) IFRS 16 does not define ‘accrued lease payments’. Accordingly, an alternative view exists whereby, in the fact pattern described in the submission, all unpaid amounts relating to revenue recognised before the contract’s modification date, and thus the operating lease receivable, can be part of ‘accrued lease payments’—those unpaid amounts accrued as part of the lease, noting they are often part of the negotiations between to the lessor and the lessee to determine the revised terms and conditions of the lease. Absent any clear requirements in this respect, we think the Committee’s analysis is only one possible reading of the requirements in IFRS 16.

- **The relevance of the requirements in IFRS 9 and IFRS 16 in the TAD and the risk of structuring opportunities**
 - ***Applying the analysis in the TAD to more prevalent situations than the fact pattern described in the submission***

The TAD discusses a fact pattern in which the rent concession is one for which the only change to the lease contract is the lessor’s forgiveness of lease payments due from the lessee under that contract. In other words, the lessor waives some lease payments without negotiating other changes to the lease. In our view, this fact pattern is less common than the circumstances in which the forgiveness of lease payments is made alongside other changes to the lease (for example, lease term’s extension, modifications to the future lease payments, etc.). We seek clarifications as to whether the analysis set out in the TAD would also be applicable to those fact patterns—it would be helpful if this could be further clarified given the prevalence of those other fact patterns.

Applying the analysis set out in the TAD, the lessor would (i) first apply the ECL requirements in IFRS 9 to any operating receivable recognised as part of the lease until the modification is agreed, (ii) then apply the derecognition requirements in IFRS 9 to the receivable on the date the rent concession is granted and (iii) the lease modification requirements in IFRS 16 to future lease payments.

⁵ SIC 15 Interpretation 15 was an interpretation of IAS 17 *Leases*.

We question whether the analysis, if transferable to the fact patterns described above, would provide useful information in all those circumstances. Let's assume that (i) a lessor waives the payment of rent that became receivable until the lease modification is agreed and (ii) the lessor and the lessee agree to increase the future lease payment by the same amount than the one of the waived receivables (ignoring the effect of passage of time). In this case, the lessor would recognise an ECL impairment loss on the amount receivable before the modification date —this receivable having been recognised together with income—and would recognise exactly the same amount as income over the new lease term as part of the rents dues afterwards. Over time, the lessor would have recognised that amount twice as income. We are unsure of this resulting in useful information. Applying the lease modification requirements in paragraph 87 of IFRS 16 may provide more useful information.

- ***The relevance of the requirements in IFRS Standards to the fact pattern described in the submission***

On the basis of its analysis of the requirements in IFRS 9 and IFRS 16, TAD results in outlining differing accounting requirements for:

- amounts contractually due but not paid (which the lessor had recognised as an operating lease receivable). An entity applies the ECL requirements and derecognition requirements in IFRS 9 to those amounts. It recognises them as *expense* in profit or loss when it grants the rent concession.
- amounts that are not yet contractually due (or future lease payments under the lease). The lease modification requirements in paragraph 87 of IFRS 16 apply to those payments, thus resulting in those amounts being recognised as *reduction of income* over the new lease term.

We question whether having differing recognition and presentation outcomes for those two types of amounts provides useful information. In substance, the lessor grants a rent concession to the lessee and allocates part of that concession on amounts contractually due. We think this allocation does not, itself, fundamentally change the nature of the underlying transaction.

Let's assume a lessee makes quarterly prepayments for rents due under a lease. The lessee stops making the payments for one quarter. The lessor has a receivable for the amounts outstanding. The lessor and lessee enter into negotiations. Further to the negotiations, the lessor releases the lessee from its obligation to pay an amount equivalent of three month-rents. The parties have here some leeway with regard to the allocation of the corresponding forgiveness—ie whether it settles the existing receivable or reduces future lease payments—and by doing so, to achieve differing accounting outcomes (whereas the substance of the agreement is not so different, if different at all). The lessee resumes payments. There are differing ways of allocating that forgiveness of lease payments which, each, result in differing accounting outcomes—ie allocating the forgiveness to (i) the receivable (and then impairing that receivable), or (ii) the future lease payments (and then recognising the forgiven amount as a reduction of future income over the new lease term), or (iii) the receivable and future lease payments together.

Accordingly, we think that treating a rent concession on a lease receivable differently from a rent concession on future lease payments inevitably risks paving the way for structuring opportunities to recognise and present differently rent concessions that have the same economic substance. As illustrated in the example above, this is detrimental to comparability and risks creating opportunities for earnings management.

In practice, negotiations between a lessor and a lessee to amend a lease contract may also take time. In the example above, the negotiations may continue between the parties to such an extent that several quarters in a row may be unpaid, thus making the allocation of the forgiveness even more crucial.

The length of the negotiations between the lessor and the lessee to agree on a lease modification (including a rent concession), the allocation of that concession, the existence and amounts of lease payments already made at the modification date are possible inputs to create, wittingly or unwittingly,

variations in accounting outcomes for similar transactions.

We have even more doubts about the relevance of the existing requirements when having in mind the proposed standard-setting approach in paragraph 77 of the March 2022 agenda paper—which, the staff thinks, best aligns with the Board’s intentions when developing IFRS 16 and thus, would justify *Annual Improvements to IFRS*—which would result in the lessee recognising *both* types of amounts as income when the rent concession is granted. We acknowledge that lessors and lessee’s accounting are (wittingly) not symmetrical in IFRS 16 but think any discrepancy for the accounting of the forgiveness is difficult to understand.

- **Our overall recommendation**

Overall, we are not convinced by the technical robustness of the TAD and its helpfulness. We think the Committee should recommend standard-setting to the Board to address a lessor’s accounting for a rent concession in which the only change to the lease contract is the lessor’s forgiveness of lease payments due from the lessee. This recommendation also would align with the Committee’s recommendation in relation to the lessee’s accounting⁶—a recommendation we do support. In particular, we think:

- more adequate to consider the matter holistically, ie considering both the lessor’s and lessee’s sides and, by doing so, to retain coherent and information-useful principles to account for the rent concession on both of those sides⁷.
- recommending standard-setting for a lessee and finalising an agenda decision for a lessor’s accounting may also predetermine the Board’s decisions on specifying the accounting for a lessee.

Should you need any further clarification, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Patrick de Cambourg". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Patrick de Cambourg

⁶ March 2022 *IFRIC Update*, Other matters.

⁷ We do not recommend any specific way forward in this respect—in particular we do not opine that the lessor’s and the lessee’s accounting should be symmetrical.



IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)

Nomor : 547/DSAK/IAI/V/2022

Jakarta, 23 May 2022

International Financial Reporting Standards Interpretations Committee
Columbus Building, 7 Westferry Circus
Canary Wharf, London
E14 4HD

Ref: Invitation to comment – Tentative Agenda Decision (TAD): Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

Dear IFRS Interpretations Committee members,

Dewan Standar Akuntansi Keuangan (DSAK) - The Indonesian Financial Accounting Standards Board, as part of Ikatan Akuntan Indonesia (IAI) - the Institute of Indonesia Chartered Accountants, is the national accounting standard-setter in Indonesia.

On behalf of DSAK IAI, I am writing to respond regarding on the TAD: Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16).

Our detailed responses to the questions are attached in the Appendix to this letter below.

We hope that our responses could contribute to the Interpretation Committee's future deliberations. Should you have further concerns regarding our responses, please do not hesitate to contact us at dsak@iaiglobal.or.id.

Yours sincerely.



Indra Wijaya

Chairman

The Indonesian Financial Accounting Standards Board
Institute of Indonesia Chartered Accountants

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**IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)**

DSAK IAI RESPONSE

We agree with the Committee's analysis related to the rent concession to forgiven lease payments, the lessor should apply the derecognition requirements in IFRS 9 and also apply the lease modification requirements in IFRS 16. We also support the Committee's analysis that the lessor should apply the expected credit loss and derecognition guidance in IFRS 9 for the existing operating lease receivable before granting the rent concession. The lessor should consider the future economics and measures expected credit losses on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes which as required by paragraph 5.5.17 of IFRS 9. Once IFRS 9 is applied, the lessor will apply paragraphs 81 and 87 of IFRS 16 in accounting for the operating lease modification as a new lease going forward, recognizing over the lease term the effects of forgiving lease payments not recognized as an operating lease receivable.

Whilst this TAD focuses on lessor's accounting, we observe that the submitter also asked the IFRS Interpretation Committee about lessee accounting for the same fact pattern. We agree with the IASB Staff's analysis that there's a potential diversity in practice due the lack of clarity to bridge the conflict between IFRS 9's derecognition of a financial liability and IFRS 16's modification of a lease liability model. We therefore support the Committee's recommendation that the IASB should consider undertaking a project to address a lessee's accounting for rent concessions.

May 22, 2022

IFRS Foundation
7 Westferry Circus,
Canary Wharf
London E14 4HD,
United Kingdom

SOCPA Comments on *Tentative Agenda Decision, Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)*

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision, Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)*.

Overall, we support the IFRS IC's conclusion that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a lessor's application of IFRS 9 and IFRS 16 in accounting for a particular rent concession (as described in the request) and consequently deciding not to add a standard-setting project to the work plan.

SOCPA supports the IFRS IC's conclusion as:

- IFRS 9 (paragraph 2.1(b)(i)) requires a lessor to apply the Expected Credit Loss (ECL) model to an operating lease receivable from the date on which it recognises the receivable
- The rent concession results in the lessor legally releasing the lessee from its obligation to make specifically identified lease payments. The lessor would conclude that IFRS 9:3.2.3(a) is met given its contractual rights to the cash flows from the operating lease receivable expire on granting the rent concession.
- The rent concession in the submitted fact pattern meets the definition of a lease modification in IFRS 16 and therefore IFRS 16 (paragraph 87) applies to treat the modified lease as a new lease from the date of granting the rent concession.

SOCPA also supports the IFRS IC's decision to add a standard-setting project (an annual improvement) to the work plan with respect to a lessee's accounting for the rent concession described in the submission as there is more than one way for a lessee to read the principles and requirements in IFRS in accounting for the rent concession in the submitted fact pattern.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames
Chief Executive Officer



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reinhard.dotzlaw@kpmgifrg.com

Mr Bruce Mackenzie
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref RD/288

23 May 2022

Dear Mr Mackenzie

Tentative agenda decision: Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (Committee) tentative agenda decision: *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)*. We have consulted with, and this letter represents the views of, the KPMG network.

The Committee discussed how a lessee and lessor should account for a specific form of rent concession. The Committee recommended that the Board undertake narrow-scope standard-setting on lessee accounting and issued a tentative agenda decision addressing lessor accounting. We disagree with aspects of the tentative agenda decision on lessor accounting and do not believe that the Committee should finalise it. We recommend instead that the Board addresses both lessee and lessor accounting for this form of rent concession. Our detailed comments on the tentative agenda decision are attached.

Please contact Reinhard Dotzlaw (rdotzlaw@kpmg.ca) or Kimber Bascom (kbascom@kpmg.com) if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

Appendix – Detailed comments on the tentative agenda decision

Applying the expected credit loss model in IFRS 9 to the operating lease receivable

The tentative agenda decision does not specify that the lessee is in financial difficulties. Indeed, in the Committee meeting, the staff specifically rejected calls from Committee members that the conclusion specify that the lessee is in financial difficulties. We believe that if a modification does not relate to the lessee's financial difficulties, then expected modifications should not be considered in the determination of the expected cash flows for the purposes of IFRS 9.

We do not believe that the analysis in the tentative agenda decision accurately reflects the definition of 'credit loss' in Appendix A of IFRS 9. That definition states that '*An entity shall estimate cash flows by considering all contractual terms of the financial instrument...*'. We do not think that the definition requires an entity to anticipate the future cash flows of modifications (in the absence of forbearance events) in the measurement of the expected credit loss, because contractual terms arising from a yet to occur modification are not part of the contractual terms of the instrument at the measurement date.

Lessor accounting for the rent concession

The agenda decision is inconsistent with the income recognition principle in IFRS 16

The effect of the tentative agenda decision is that the lessor does not adjust operating lease income if it modifies a lease contract to forgive specified lease payments that are included in an operating lease receivable at the date of the lease modification. We believe that this conclusion is inconsistent with the core requirement in IFRS 16.81 that 'a lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis'.

For example, if a lease agreement requires a lessee to pay a premium at lease commencement and the lessor subsequently forgives that premium before it is paid, the tentative agenda decision appears to require the lessor to continue to recognise the lease premium as income over the remaining lease term, even though it is no longer a lease payment under the contract.

The proposed accounting does not provide useful information to users

We believe that it does not provide useful information to users for a lessor to continue to recognise as income an amount to which the lessor has waived its contractual rights.

Elaborating on the above example, suppose a lease agreement required a lessee to pay an upfront lease payment of 200 to a lessor on lease commencement on 1 January 2020. The lessor records a receivable of 200 and deferred operating lease income of 200 on lease commencement. The lease term is 10 years. Shortly after lease commencement, the lessor modifies the lease agreement to forgive the upfront lease payment. The tentative agenda decision would appear to require the lessor to derecognise the receivable via profit or loss immediately and continue to recognise the

deferred operating lease income in profit or loss over the remaining lease term – i.e. to recognise 20 per year for the next 10 years.

In this example, what does the operating lease income of 20 to be recognised in, say, 2022 represent? It does not represent a right to receive cash in the future, nor does it represent cash that has been received in the past that has been deferred to be recognised as income in 2022. It does not reflect any kind of right in the contract that exists in 2022. Instead, it represents an historical contractual right that was waived in 2020.

Finalising the agenda decision will not improve consistency...

Basing lessor income recognition on whether an amount is recognised as a receivable on the effective date of the lease modification will not enhance consistency, as there is diversity in when lease payments are recognised as receivables. In particular, we note that:

- there is no guidance in IFRS 16 on when a lessor recognises a receivable, in contrast to IFRS 15;
- there is no linkage between performance by the lessor and recognition of a receivable, as illustrated by the above example. In other cases, recognition of an operating lease receivable lags performance by the lessor – e.g. when the lessor offers upfront lease incentives such as rent-free periods; and
- there appears to be no restriction in IFRS 16 that prevents a lessor recognising income that it knows to be uncollectable.

... and would create additional structuring opportunities

Introducing a ‘bright-line’ difference in income recognition depending on whether an amount is recognised as a receivable at the date of the rent concession will require economically similar agreements to be accounted for differently. This will increase the risk of structuring opportunities.

For example, consider a lease contract under which the lessee is required to pay to the lessor lease payments of 100 on the first day of each month. On 31 March, the lessee has not yet paid the amount due on 1 March. The lessor agrees to forgive 100 of lease payments on 31 March. If the lessor specifies that the amount forgiven is the lease payment due on 1 March that is recognised as a receivable, this will not reduce future operating lease income. If, however, the lessor specifies that the amount forgiven is the lease payment that will become due on 1 April that is not yet recognised as a receivable, then this will reduce future operating lease income.

There is a simple alternative analysis that could be applied

If the forgiveness of the lease payments were treated as a lease incentive, then many of the concerns outlined above would be addressed.

The agenda paper asserts that the forgiveness does not meet the definition of a lease incentive but no arguments for this are presented. The tentative agenda decision itself is silent on this point.

- If the Committee’s view is that the forgiveness of specified lease payments does not meet the definition of a lease incentive because it is not a “payment”, then we disagree. In our experience, lease incentives may be monetary or non-monetary – transfers of value from a lessor to a lessee in connection with leases generally reduce operating lease income.
- Economically, the purpose of the forgiveness could be to incentivise the lessee to remain in the lease – e.g. to make it more likely that the lessee will exercise a renewal option, or less likely to exercise a termination option. As noted under our comments regarding the application of IFRS 9 above, the tentative agenda decision does not specify that the lessee is in financial difficulties.

However, the Committee process has identified diversity of practice and of view.

Recommendation

Given the diversity identified, we support standard-setting to clarify the interaction of IFRS 9 and IFRS 16 for both lessors and lessees. We believe that a possible course of action to address lessor accounting would be to amend the definition of a lease incentive, or IFRS 16.77, specifying that the amount that adjusts operating lease income is the amount specified in IFRS 9.3.2.12.



May 18, 2022

International Accounting Standards Board
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Committee Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Tentative Agenda Decision (TAD) reached by the IFRS Interpretations Committee (the Committee) in its meetings in March 2022. That TAD deals with the Lessor Forgiveness of Lease Payments.

Set forth below you will find our comments on the conclusions reached in the TAD.

Overall comments

We agree with the conclusion reached by the Committee in the TAD that the principles and requirements in IFRS provide an adequate basis to determine how the lessor applies the expected credit loss model in IFRS 9, *Financial Instruments*, to the operating lease receivable when it expects to forgive payments due from the lessee under the lease contract before the rent concession is granted. We also agree that the principles and requirements in IFRS provide an adequate basis to determine whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16, *Leases*, in accounting for the rent concession. Consequently, we agree with the decision not to add a standard-setting project to the work plan of the IASB.

Specific comments

Our local outreach indicated unanimous agreement that in the situation described, the guidance in IFRS 9 and IFRS 16 is sufficient.

IFRS 9 is clear that operating lease receivables recognized by a lessor prior to the rent concession are subject to the derecognition and impairment requirements of IFRS 9.

Additionally, we agree that the rent concession described in the request meets the definition of a lease modification in IFRS 16. Accordingly, the lessor applies IFRS 16 and accounts for the modified lease as a new lease from the date the rent concession is granted. As a result, the lease modification requirements in IFRS 16 are applied to forgiven lease payments that the lessor had not included in an operating lease receivable.

Should you require additional information on our comments listed above, please contact William A. Biese at (52) 55-5433-3070 or me at (52) 55-5403-8309 or by e-mail at wbiese@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,

A handwritten signature in blue ink, appearing to be 'E. Bojorges', written in a cursive style.

C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

Cc: Mr. Tadeu Cendon



Tentative Agenda Decision and comment letters: Lessor Forgiveness of
Lease Payments (IFRS 9 and IFRS 16)

**Response from the Public Accountants
and Auditors Board (PAAB), Zimbabwe**

23 May 2022

The Public Accountants and Auditors Board (PAAB), Zimbabwe, was established by section 4 of the Public Accountants and Auditors Act, 1995 (as amended) (the Act). Public accountants (public auditors) are defined in the Act as any person registered by the PAAB to provide public accountancy services (public audit services) to any person, including a public company or statutory body. PAAB is the National Standards Setter in Zimbabwe responsible for endorsing and adopting international accounting standards, international standards on auditing and international public sector accounting standards when they meet certain criteria for prescription by statutory regulation by PAAB in accordance with section 44(2)(a) of the Act. PAAB is responsible for defining and enforcing ethical practice and discipline among registered public accountants and public auditors and setting Ethics standards (section 5(1)(d) of the Act); and representing the views of the accountancy profession on national, regional and international issues (section 5(1)(g) of the Act). PAAB also plays a role in accountancy-specific education (section 5(1)(h) of the Act).

Further information about PAAB can be obtained at www.paab.org.zw

Any questions arising from this submission should be directed to:

Admire Ndurunduru

Secretary

Public Accountants and Auditors Board

72 Harare Drive

Mount Pleasant

Harare

Zimbabwe

Elles Mukunyadze

Technical Advisor

Public Accountants and Auditors Board

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Tel: + 263 4 301 063, + 263 4 301 096

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Email: secretary@paab.org.zw

Tel: + 263 4 301 063, +263 4 301 095, + 263 8644 106 548

Mobile: +263 773 488754

Email: standards@paab.org.zw

Our ref: Tentative Agenda Decision and comment letters: Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

Applying the expected credit loss model in IFRS 9 to the operating lease receivable:

Partially Agree. *IFRS 9: 5.5.4The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there **have been significant increases in credit risk since initial recognition** — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.*

Where the entity expects to offer rent concessions, it may be seen as an indicator of significant increase in credit risk. Thus, at the time when an entity expects to give a rent concession, an allowance for credit loss should be raised.

However, an entity may expect to give rent concession for reasons other than to do with the credit risk of the borrower for example it was common during COVID 19 period for lessors to give blanket rent concessions on all lessees without consideration of the increase in credit risk of the lessee. In such cases an expectation to give a rent concession is not indicative of an increase in credit risk by the borrower. No credit loss allowance should therefore be raised as the decision to give a rent concession has nothing to do with the quality of the borrower in relation to credit risk.

Applying the derecognition requirements in IFRS 9 to the operating lease receivable

We agree with the committee technical position

Overall Conclusion

We agree with the committee that this issue is adequately dealt with in the standard and there is no need to add it to the standard setting agenda for the IASB.



Commentary on Tentative Agenda Decision and Comment letters: Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

IFRS Foundation
Columbus Building, 7 West ferry Circus
Canary Wharf, London E14 4HD
United Kingdom

23 May 2022

Dear Sir/Madam,

**Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS)
Submission – Commentary on Tentative Agenda Decision and Comment letters: Lessor
Forgiveness of Lease Payments (IFRS 9 and IFRS 16)**

In response to your request for comments on Tentative Agenda Decision and comment letters: Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16), attached is the comment letter prepared by Chartered Accountants Academy and Training & Advisory Services. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in Auditing, IFRS , and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Nyasha Chakuma
Project Director

Webster Sigauke
Project Director

Project team : Felicity Thandiwe
: Nyashadzaishe Samukange

Tentative Agenda Decision

The question

The submitter asked:

- a. how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable when it expects to forgive payments due from the lessee under the lease contract before the rent concession is granted; and
- b. whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

The Committee concluded that the lessor accounts for the rent concession described in the request by applying:

- a. the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor had included in an operating lease receivable on the date the rent concession is granted; and
- b. the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor had not included in an operating lease receivable.

Our View

We agree with the conclusions reached by the Committee.

This is because there is sufficient guidance in IFRS as deduced in the fact pattern presented in the agenda decision. Since the expected credit loss calculation includes weighted probability of possible outcomes this is sufficient to include the probability of granting the lease forgiveness as stated in IFRS 9 5.5.17. IFRS provides enough guidance on calculating the lease forgiveness.

The derecognition guidelines for the lease receivable in IFRS 9 are sufficient.

The lease modifications requirements in IFRS 16 are sufficient to account for the lease modification.

International Financial Reporting Standards Interpretations
Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

23 May 2022

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative Agenda Decision (TAD): Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above Tentative Agenda Decision of the IFRS Interpretations Committee (the Committee) that was published in the March 2022 *IFRIC Update*.

The Committee discussed the request in relation to a lessor's application of IFRS 9 *Financial Instruments* and IFRS 16 *Leases* in accounting for a narrow fact pattern, where a lessor grants a rent concession that includes only a forgiveness of operating lease receivables (in the scope of IFRS 9) contractually due from the lessee but not paid and amounts that are not yet contractually due. We observe that concessions provided to lessees more often involve multiple changes to the contract (e.g., extension of leases terms, changes to the mix of future fixed and variable payments).

Overall, we disagree with the TAD. We list our key concerns related to the general concept of the expected credit loss model in IFRS 9 and the concept of lease modification accounting in IFRS 16 in detail below, in sections 1 and 2 respectively.

We are concerned that, as drafted, the TAD amends existing requirements and adds further guidance to the existing guidance in IFRS 9 and IFRS 16, with the risk of affecting a much wider population of transactions than the submitted narrow fact pattern, and this should only be done as part of the standard setting process. As a result, we believe that this issue should be addressed through other means, such as the Post-Implementation Review (PIR) of IFRS 9 ECLs and IFRS 16.

We also believe that the presentation in the income statement (i.e., whether or not the effect can be presented as part of the operating lease income line item) and relevant disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* and IFRS 16, should be addressed to provide clarity.

1. Applying the expected credit loss model in IFRS 9 to the operating lease receivable

We are concerned about the implication of the following paragraphs:

“Consequently, in estimating expected credit losses on the operating lease receivable described in the request in accordance with IFRS 9, the lessor measures any credit loss to reflect ‘*all cash shortfalls*’—the difference between *all contractual cash flows* due to it in accordance with the lease contract and all the cash flows it expects to receive—using ‘reasonable and supportable information’ about ‘past events, current conditions and forecasts of future economic conditions’.

The Committee concluded that, in the period before the rent concession is granted, the lessor *measures expected credit losses* on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), taking into account its *expectations of forgiving lease payments* recognised as part of that receivable”. (emphasis added)

Firstly, we are concerned that the TAD, as worded with reference to ‘all cash shortfalls’, could have broader impacts, unless it can be clearly restricted to the narrow fact pattern alone. Otherwise, potential impacts could include widening the scope for the estimation of expected credit losses (ECLs) and requiring anticipated changes to collectability of financial instruments not related to credit risk to be accounted for on an expected basis (i.e., prior to an anticipated contract modification). This is because lessors may forgive lease receivables for reasons that do not involve a change in creditworthiness of the lessee (e.g., compensation to tenants for disruptions caused by major maintenance incurred within common areas or modifications due to the bargaining power of the lessee outside any specific events). The TAD mentions “taking into account its expectations of forgiving lease payments”, without limiting these to credit risk related events.

While the definition of ‘credit loss’ in IFRS 9 Appendix A refers to ‘all cash shortfalls’, it should be read in the context in which the definition is provided. The overarching principle of IFRS 9 is that ECLs are calculated with reference to exposure to credit risk defined by reference to the risk of a default occurring (see the definition of ‘expected credit losses’ in IFRS 9 Appendix A as well as paragraphs 5.5.3 and 5.5.4). Furthermore, the guidance in IFRS 9 (such as the guidance to identify a significant increase in credit risk), does not refer to concessions from the lender outside the context of financial difficulties of the borrower (see the definition of ‘credit-impaired financial asset’ in IFRS 9 Appendix A and paragraphs 5.5.9 to 5.5.11). Therefore, the conclusion in the TAD that ‘all cash shortfalls’ arising as a result of concessions should be taken into account in the determination of ECL, does not seem to be consistent with the existing principles and guidance in IFRS 9.

Secondly, with reference to the extract above, the shortfall is calculated as the difference between the contractual cash flows and the expected cash flows, whereas it is considered a fundamental principle of IFRS 9 that when applying the measurement requirements, this should be done by reference to the contractual terms as they stand at the reporting date, without considering possible changes to the contractual terms. It is only when a borrower is expected to fail to make payments due that expected concessions from the lender can be considered in the measurement of expected credit losses. This is because expected forbearance is part of the estimate of loss given default as a way for the lender to maximise the recovery of contractual cash flows when a borrower is expected to miss contractual payments. This approach is consistent with the definition of a credit-impaired asset which states that, “A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events (...) (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to

the borrower a concession(s) that the lender(s) would not otherwise consider.” Without the trigger of expected payment failure, it has been a commonly understood principle that one should not take into consideration future changes to contractual terms when applying IFRS 9 measurement principles. In the stated fact pattern, the contractual cash flows are those of the original unmodified contract (as the concessions are only expected, and the contract has not yet been modified) and the facts do not state that the concessions are made due to the lessee’s financial difficulties. On this basis, there are, in fact, no cash shortfalls, and therefore, there is no impact on the ECL until the contract is modified, when the existing guidance in IFRS 9.5.4.3 must be applied.

2. Applying the lease modification requirements in IFRS 16 to future lease payments under the lease

Practice generally understood that IFRS 16 did not intend to change existing practice for lessors. This was confirmed in paragraph BC65 of IFRS 16. Before the adoption of IFRS 16, under IAS 17/SIC 15, any substantive change to lease payments (both recognised lease receivables and future lease payments) would be considered a contract modification.

In addition, as the TAD acknowledges, “The rent concession described in the request meets the definition of a lease modification in IFRS 16”, to which paragraph 87 applies (i.e., a lessor accounts for a modified operating lease as a new lease). We note that paragraph 87 of IFRS 16, as well as BC240 of IFRS 16, do not distinguish between changes in consideration involving operating lease receivables and future lease payments. Nor does the paragraph refer to IFRS 9 when accounting for lease modifications. Consistently, the scope of IFRS 9 paragraph 2.1(b) only includes lease contracts for derecognition and impairment purposes (and not modifications).

We believe that by requiring the lessor to consider lease receivables differently from future lease payments and other deferred rents, the TAD concludes that the lease contract has two units of account (one for those lease payments recognised as a lease receivable and the other representing future lease payments relating to revenue not yet recognised). We believe this conclusion would represent a significant change in practice for many lessors. Also, whether a concession is deemed to be a forgiveness of past or future rents is somewhat arbitrary because it does not change the substance of the transaction, nor the expected total net consideration for the lease.

More fundamentally, perhaps if the accounting for changes in certain lease payments as lease modifications and others in the scope of IFRS 9 is the intent of the TAD, such changes appear to also require additional amendments to the defined lease modification term and IFRS 16.87.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully

Ernst + Young Global Limited

Date: May 23, 2022

Mr. Bruce Mackenzie,
Chair, IFRS Interpretations Committee,
IFRS Foundation
Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD,
United Kingdom

Dear Bruce,

Subject: Comments of the Institute of Chartered Accountants of India on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee (IFRS IC) on Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

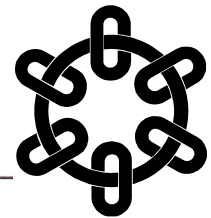
In this regard, we agree with the analysis in the tentative agenda decision that lessor applies:

- derecognition requirements in IFRS 9 to forgiven lease payments that the lessor had included in an operating lease receivable on the date the rent concession is granted and
- lease modification requirements in IFRS 16 to forgiven lease payments that the lessor had not included in an operating lease receivable.

Further as explained in the IFRS IC Staff Paper (March 2022), we agree that there are more than one way for a lessee to account for forgiveness of lease payments, though such circumstances may not be common. Some entities may view the forgiven lease payments as extinguishments of financial liability, falling under IFRS 9, while others may view it as adjustment to the right-of-use asset. Therefore, a narrow scope amendment to the IFRS Accounting Standards for lessee accounting will be helpful.

With kind regards,

CA. Pramod Jain
Chairman,
Accounting Standards Board
Institute of Chartered Accountants of India



International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

23 May 2022

Dear Madam/Sir

Tentative Agenda Decision: Lessor Forgiveness of Lease Payments

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your invitation to comment on the tentative agenda decisions “Lessor Forgiveness of Lease Payments”.

Paragraph 87 of IFRS 16 requires a lessor to consider any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. The tentative agenda decision clarifies that a lessor applies the impairment and derecognition requirements in IFRS 9 for lease receivables. Further, when a lessor grants forgiveness of lease payments, payments due from the lessee (ie: lease receivables) are not considered accrued lease payments and are therefore not included in lease payments for the new lease when applying IFRS 16.87.

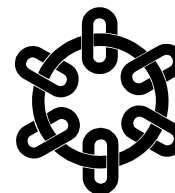
This has been illustrated by an example in the agenda paper to the Interpretations Committee meeting in March 2022. The example illustrates forgiveness of a lease receivable related to a past period (ie: rent concession for month 10-12 is granted in the end of month 12). In our opinion the tentative agenda decisions may be reasonable in such a scenario, even if there may be inherent difficulties in a model that distinguishes between recognised and unrecognised rights under the contract. Situations that are quite similar in substance will end up in different pattern of recognition, which may lead to accounting arbitrage.

The main concern we want to raise in our letter is that the TAD does not provide a clear reference to the application of the tentative agenda decision for leases with prepayments. Prepaid leases are predominant in our jurisdiction, and we have concerns regarding the application of the tentative agenda decision in such situations. As referred to above, para 87 does not distinguish between accruals and prepayments.

Consider the following scenario:

A lessor has financial year ending 31 December. The lessor has a five-year non-cancellable lease from 1 January year 1 to 31 December year 5. Lease payments are due annually in advance on 1 January (ie: the lease payment for year 1 is due 1 January year 1, the lease payment for year 2 is due January 1 year 2 and so forth).

The lease payment for year 1 is paid as agreed. During the first year the lessee experiences financial difficulties, and the lessor grants a rent concession for the lease payment for year 2.



Our understanding is that a lease receivable to be accounted for under IFRS 9, is recognised when the lease payment is due, and that the lease payment for year 2 becomes a lease receivable on 1 January year 2. As we see it, this follows by analogy from IFRS 15 (see paragraph 106 and 108, IE199-200 and BC 325). The tentative agenda decision also implies that lease payments due are lease receivables.

Based on this understanding, if the rent concession is granted in December year 1, there is no lease receivable when the rent concession is granted and therefore no impairment loss or loss from de-recognition of a lease receivable. However, if the rent concession is granted in January year 2, after the lease payment for year 2 is due, application of the tentative agenda decisions implies that there will be a loss on derecognition of the lease receivable in year 2.

In the above scenario the accounting will be quite different depending on whether the rent concession for year 2, is granted on 30 December year 1 or 2 January year 2. We are not convinced that this is a reasonable outcome as we cannot see that the economic substance of the rent concession is any different whether the rent concession is granted 30 December or 2 January.

An alternative method could be to only consider the lease payments that are both due and recognised as revenue when the rent concession is granted under IFRS 9, while lease receivables with a corresponding pre-paid rent to be recognised as revenue in future periods, are included in the lease payments for the new lease under IFRS 16.87. In other words, this means that the lease receivable is adjusted by any corresponding pre-paid rent recognised before a credit loss is recorded.

In the appendix we have included a numerical example to illustrate our understanding of the application of the tentative agenda decision when a rent concession is granted in a pre-paid contract, and also illustrated our alternative approach described above on the same numerical example.

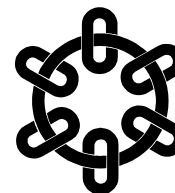
We would like to point out, that similar issues may arise in the context of IFRS 15 and IFRS 9 for non-cancellable contracts with customers requiring pre-payment, and where both a receivable and a contract liability is recognised when the pre-payment becomes due. It is not obvious how IFRS 15 and IFRS 9 interact if the customer breaches the contract due to financial difficulties, and the goods/services under the contract are not delivered.

Yours faithfully,



Bjørn Einar Strandberg

Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



Appendix: Illustration

Background information:

- Lessor has a financial year ending 31 December
- Lessor enters into a five-year non-cancellable lease commencing 1 January year 1
- Lessor recognises lease revenue on a straight-line basis over the lease term
- Annual lease payments are 1200 and are due in advance on 1 January each year
- The lease payment for year 1 is paid as agreed 1 January year 1
- During year 1 the lessee experiences financial difficulties and the lessee does not pay the rent for year 2 within the due date 1 January year 2
- 31 January year 2 the lessor grants the following rent concession:
 - The rent for year 2 is forgiven entirely
 - The rent for year 3 is reduced to 600
 - The rent for year 4 and 5 is unchanged (still 1200)
- In year 2, immediately before the rent concession the lessor has recognised 100 in lease revenue for January, and recognised the following in the statement of financial position:
 - Lease receivable: 1200 (Dr)
 - Pre-paid rent: 1100 (Cr)

Application of the tentative agenda decision as we understand it:

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Lease revenue	1 200	1 060	1 047	1 047	1 047	5 400
Credit loss/loss on derecognition of lease receivable	-	- 1 200				- 1 200
P/L	1 200	- 140	1 047	1 047	1 047	4 200

Notes:

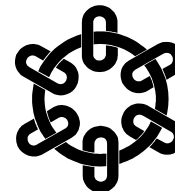
- A credit loss/derecognition loss is recognised of the lease receivable (1200)
- Lease payments for the new/modified lease are 4100 (ie: prepaid rent (1100), modified rent year 2 (0), modified rent year 3 (600), rent year 4 (1200) and year 5 (1200))
- Remaining lease term for the new lease is 47 months ($11+3*12$), monthly revenue is 87
- Revenue year 2: $100*1+87*11=1060$, revenue year 3-5: $12*87=1047$

Application of alternative method:

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Lease revenue	1 200	802	766	766	766	4 300
Credit loss/loss on derecognition of lease receivable	-	- 100				- 100
P/L	1 200	702	766	766	766	4 200

Notes:

- Pre-paid rent of 1100 is netted against lease receivable of 1200, and 100 is recognised as a credit loss/derecognition loss on the lease receivable related to already recognised revenue for January year 2.



- Lease payments for the new/modified lease is 3000 (year 2 (0), year 3 (600), year 4(1200), year 5(1200))
- Remaining lease term for the new lease is 47 months ($11+3*12$)
- Modified lease payments per month is 64 ($3000/47$)
- Revenue year 2: $100*1+11*64=802$, revenue year 3-5: $12*64=766$



Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

23 May 2022

Bruce Mackenzie
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Bruce,

Tentative agenda decision – Lessor Forgiveness of Lease Payments

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our views on this tentative agenda decision (TAD).

The HKICPA appreciates the effort of the IFRS Interpretations Committee (IFRS IC) to address the application of the requirements in IFRS 9 *Financial Instruments* and IFRS 16 *Leases* in accounting for the lessor forgiveness of lease payments as described in the submission. However, the HKICPA shares similar views with our respondents that applying the impairment and derecognition requirements under IFRS 9 to the operating lease receivable in the given fact pattern as the TAD suggested would only be one of the acceptable approaches, and that the application of the modification requirements under IFRS 16 should also be acceptable under the current IFRS Standards. Our comments and recommendations are as follows.

Applying the expected credit loss model (ECL) in IFRS 9 to the operating lease receivable

Our respondents expressed mixed views as to whether the anticipation of forgiving lease payments due should always be factored into the measurement of ECL of the lease receivable regardless of any changes to the lessee's credit risk. On the one hand, IFRS 9 defines a credit loss as "the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls) ...". Some respondents interpreted this as a requirement to include all cash shortfalls in ECL measurement irrespective whether they are due to credit-related reasons or not. On the other hand, the objective and the underlying concept of the ECL model in IFRS 9 (e.g. significant increase in credit risk, loss given default) is to reflect the changes in credit risks since the initial recognition of the financial instruments (IFRS 9 BC 5.82-83). This may imply that the measurement of ECL should be driven by credit-related factors. Given the above, we consider both approaches, i.e. including all cash shortfalls or only those credit-related cash shortfalls into the measurement of ECL, could be acceptable under the existing IFRS Standards.

The HKICPA notes that lease concessions are becoming more common in recent years as a result of the global COVID-19 pandemic and/or changes in local market conditions. Lease concessions may or may not be offered for credit-related reasons, and these situations may not have been considered by the IASB when it developed IFRS 16. The HKICPA considers that lease concessions that are offered for commercial reasons (e.g. goodwill gesture) other than the lessee's credit risk could be similar to price concessions in IFRS 15

Revenue from Contracts with Customers, in which case price concessions to trade receivables could be treated as a reduction of revenue instead of ECL. As explained in IFRS 15 BC 194, when the IASB developed IFRS 15, it decided not to develop detailed requirements for differentiating between a price concession and impairment losses due to the difficulties in determining whether the entity has explicitly offered a price concession or whether the entity has chosen to accept the risk of default by the customer. We consider that the same challenge would also exist in differentiating between a lease concession and impairment losses.

In light of the above, the HKICPA recommends the IASB clarify through proper standard-setting activities whether ECL measurement should cover all losses or only those relating to a change in credit risk when the IASB carry out the post-implementation review of the impairment requirements of IFRS 9.

Applying the derecognition requirements in IFRS 9 to the operating lease receivable

The HKICPA notes that based on a literal reading of the requirements in IFRS 9, operating lease receivables are subject to the derecognition requirements under IFRS 9. However, we consider that the forgiveness of the lease receivable is provided by the lessor to the lessee as part of a wider modification of the lease, and therefore it is also acceptable that both the operating lease receivables and future lease payments forgiven be accounted for holistically under IFRS 16.

The HKICPA notes that the forgiven amount recognised as an operating lease receivable does not meet the definition of a lease incentive under IFRS 16, and IFRS 16 does not define accrued lease payments. However, we consider that the substance of lease receivables forgiven could be similar to lease incentives (i.e. an incentive to enter into the modified lease), or be considered broadly as accrued lease payments under IFRS 16.87.

We also share a similar concern raised by our respondents about the potential structuring opportunity under the IFRS 9 derecognition approach. For example, forgiveness of lease payments due from the past is recognised in profit or loss immediately in the current year based on the derecognition requirements in IFRS 9 when this could in certain fact patterns be clearly linked to an equal and offsetting increase in future lease payments next year.

For these reasons, the HKICPA recommends the IFRS IC consider acknowledging that it is acceptable to apply either the derecognition requirements in IFRS 9 or the modification requirements in IFRS 16 to operating lease receivable in the finalised agenda decision. If the IFRS IC were to conclude that only the IFRS 9 derecognition approach is acceptable in the given fact pattern, we recommend the IFRS IC and IASB follow the due process for standard setting and consider publishing an Interpretation. We also suggest that the IFRS IC and IASB explain clearly why the operating lease receivables are not accrued lease payments or provide the definition of accrued lease payments in the standard.

Work undertaken by HKICPA in forming its views:

In response to this TAD, the HKICPA:

- a) issued an Invitation to Comment on the TAD to its members and other stakeholders;
- b) sought input from its Financial Instruments Advisory Panel and Leases Advisory Panel, which are mainly comprised of technical and industry experts from accounting firms; and
- c) developed its views through its Financial Reporting Standards Committee, which comprises preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.



If you have any questions regarding the matters raised in this letter, please contact me (ceciliakwei@hki CPA.org.hk) or Eky Liu (eky@hki CPA.org.hk), Deputy Director of the Standard Setting Department.

Sincerely,

A handwritten signature in black ink that reads 'Cecilia Kwei'. The signature is written in a cursive, flowing style.

Cecilia Kwei
Director, Standard Setting Department

PO Box 1411
Beenleigh QLD 4207
23 May 2022

Mr Bruce Mackenzie
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: <https://www.ifrs.org/projects/work-plan/lessor-forgiveness-of-lease-payments-ifs-9-and-ifs-16/>

Dear Bruce

Tentative agenda decision - Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

I do not agree that issuing the proposed TAD will solve the issue of diversity in accounting for such situations by lessors. I believe that standard setting is required for lessors, being the same view that I expressed when the IASB was considering Exposure Draft ED/2020/2 Covid-19-Related Rent Concessions in May 2020.

I have the following additional comments:

- Focus of TAD on lease receivable recognised
- Previous issues raised for lessor modifications (COVID-19)
- ECL when the loss is not related to credit losses

I agree with the proposed standard setting for lessee accounting.

Focus of TAD on lease receivable recognised

Part of the TAD focuses on the accounting for the lease receivable, being amounts contractually due but not yet paid.

I understand that during the initial period of lockdowns under COVID-19, lessors had a diversity of approaches, including:

- Recognising rental (as due) – thereby recognising a lease receivable, which would be subject to the TAD – with lease rental being recognised, with an impairment expense.
- Not recognising the reduced rental, as being a change in payments as permitted under the lease agreement (e.g. force majeure) – with no lease rental being recognised, and no impairment expense.
- Not recognising the reduced rental, and treating the reduced rental as a modification – the effect which was then spread over the remaining life of the lease.

These approaches would appear to be applicable for the situations described in the staff paper. Each of the above approaches produces different revenue, expense and net profit outcomes.

I understand that in some cases, the choice of the above approaches during COVID-19 was linked to negotiating positions. For example, for some lessors taking a hard negotiating position continued to recognise rent as legally owing under the lease until concessions were agreed, and other lessors taking a more accommodating approach not recognising rent until concessions were agreed.

Previous issues raised for lessor modifications (COVID-19)

The following are issues I previously raised on lessor rent concessions and modifications, as included in my submission on Exposure Draft ED/2020/2 Covid-19-Related Rent Concessions in May 2020. These issues relate to when lease rentals have not yet been recognised – whether or not the normal due date for payment has been passed or not – and are applicable to the situations described in the staff paper.

Issue 3 – Similar relief should be provided to lessors

Lessors are faced with the following issues”

- a) Is a rent concession a modification or not
- b) The implications of ‘undesirable’ accounting of modifications for operating leases
- c) Companies have become lessors under IFRS 16.

a) Is a rent concession a modification or not

Lessors face similar issues to lessees in determining whether a rent concession is a lease modification or not.

Lessors should be provided the same relief as lessees to not to have to sort this out.

Similar to issue 1, the expected accounting for any changes should be clarified.

Force majeure

I am seeing discussion by law firms indicating that COVID-19 may not be covered by force majeure clauses. For example:

<http://www.minterellison.com/articles/covid-19-force-majeure-and-frustration-contract>

This appears to be a complex area. And having to get legal advice on many contracts, just before 30 June reporting dates (annual, or half-year) is probably impractical for many entities.

Government imposed changes

I am seeing discussions that maybe (or maybe not) government imposed changes are part of the lease agreement. Even if the government imposed changes is new law. This further complicates whether a change is a lease modification under IFRS 16 or not.

An additional complication in Australia is that for larger companies, the government has basically said sort it out between yourselves. Is this included as part of the lease agreement, or a lease modification?

b) The implications of ‘undesirable’ accounting of modifications for operating leases

I understand that for an operating lease, when there is a lease modification, the lessor accounts for the change as a new lease. The implications of this would seem to be:

- i) Derecognition of existing indirect costs through P&L
- ii) Derecognition of any straight-line lease rentals through P&L
- iii) Any rent forgiveness periods (rent-free periods) would be spread out over the new lease term through straight-line lease rentals.

I believe that this accounting is undesirable given the change is essentially related to the current time of the COVID-19 pandemic (even if it may span a reporting date).

c) Companies have become lessors under IFRS 16

Additional companies have become lessors because of the introduction of IFRS 16, particularly for subleases. Under IFRS 16 the primary lessee will now recognise the right-of-use asset, and then will have to account for that right-of-use asset as a sublease. Examples include franchisors (where head office enters into the lease) and reporting entities within groups.

Sometimes the sublease will be a finance lease, sometimes as an operating lease.

These companies probably do not have the experience of lessor companies as do property trusts and the like.

The entities should be provided the same relief from having to assess whether a change is a modification or not, as do lessees.

ECL when the loss is not related to credit losses

I believe that the implications of accounting for the non-recovery of rentals, that are not directly linked to the credit of the lessee, as a credit loss should be further explored, and not limited to the small number of people following IFRIC Agenda Decisions.

Yours sincerely,

David Hardidge

<https://www.linkedin.com/in/davidhardidge/>

May 23, 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Members of IFRS Interpretation Committee,

Re : Tentative Agenda Decisions – Lessor Forgiveness of Lease Payments
(IFRS 9 and IFRS 16)

We welcome the opportunity to provide our comments on the Tentative Agenda Decision - “Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)” (hereinafter referred to as "TAD").

1. We agree with the conclusion in the TAD of the IFRS Interpretation Committee. We think that it is useful to understand the relationship to apply between IFRS 9 and IFRS 16 for the lessor’s accounting of forgiveness of lease payments.

Forgiveness of Lease Payments—Lessees

2. We also believe that the conclusion of TAD should be interpreted by analogy to the lessee’s accounting of forgiveness of lease payments. Moreover, paragraph 2.1(b)(ii) of IFRS 9 states clearly that ‘lease liabilities recognised by a lessee are subject to the derecognition requirements in paragraph 3.3.1 of this Standard’. The educational material “IFRS 16 and covid-19” which was issued in April 2020 also indicates that there are the application of derecognition requirements in IFRS 9 as follows.

If a change in lease payments results in the extinguishment of a part of a lessee’s obligation specified in the contract (for example, a lessee is legally released from its obligation to make specifically identified payments), the lessee would consider whether

the requirements for derecognition of a part of the lease liability are met applying paragraph 3.3.1 of IFRS 9 Financial Instruments.

3. Therefore we believe IFRS 9 prioritize IFRS 16 for the lessee's accounting of forgiveness of lease payments. In other words, the requirements of lease modification in IFRS 16 are not applied to it as long as the lessee recognises lease liability in accordance with the right-of-use model.

Covid-19-Related Rent Concessions

4. The IASB issued "Covid-19-Related Rent Concessions" as amendment to IFRS 16 in May 2020. It provide a lessee to apply the practical expedient for whether rent concessions meet the definition of lease modification of IFRS 16.
5. However its amendment might require that rent concessions include the forgiveness of lease payments and there are lots of practices to apply the requirements of lease modification, which including the practical expedient, in IFRS 16 directly without after considering the derecognition requirements in IFRS 9 to the forgiveness of lease payments. Its reason is because of BC205E of IFRS 16 states as follows (emphasis added).

The Board developed the practical expedient to relieve lessees from assessing whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and from applying the lease modification requirements to those concessions. The practical expedient does not otherwise interpret or change any requirements in IFRS 16. The Board observed therefore that a lessee would account for the lease liability and right-of-use asset applying the requirements in IFRS 16, which, for example, incorporate requirements in IAS 16 Property, Plant and Equipment. With this in mind, the Board considered how a lessee applying the practical expedient would account for three types of change in lease payments:

- (a) *a lessee applying the practical expedient would generally account for a **forgiveness** or waiver of lease payments as a variable lease payment applying paragraph 38 of IFRS 16. The lessee would also make a corresponding adjustment to the lease liability—in effect, derecognising the part of the lease liability that has been forgiven or waived.*

6. We believe that the conclusion of TAD is not consistent with the IASB's "Covid-19-Related Rent Concessions". The accounting of lessee which applies the requirements of lease modification in IFRS 16 for the forgiveness of lease payments (for example, the entity that do not consider the derecognition requirements in IFRS 9 and do not select the practice expedient in IFRS16) is

extremely different and serious problem. In addition to that, as the first place, the accounting applying the practical expedient showed in “Covid-19-Related Rent Concessions” is interpreted in various ways and not comparable. Please see Appendix: our comment letter on Exposure Draft 2021/2”Covid-19-Related Rent Concessions beyond 30 June 2021” in more detail.

7. Therefore we propose the IFRS Interpretation Committee should address above various issues on “Covid-19-Related Rent Concessions” as well as the lessee’s accounting of forgiveness of lease payments in this submission.

We hope our comments will contribute to the forthcoming deliberations in the meeting of IFRS Interpretation Committee. Please feel free to contact us if you have any questions with respect to this letter.

Yours sincerely,

Masahiro Hoshino

Appendix: Our comment letter on Exposure Draft 2021/2”Covid-19-Related Rent Concessions beyond 30 June 2021”

February 24, 2021

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Hans Hoogervorst and the IASB Board Members,

**Re: Exposure Draft 2021/2”Covid-19-Related Rent Concessions
beyond 30 June 2021”**

We welcome the opportunity to provide our comments on the Exposure Draft 2021/2”Covid-19-Related Rent Concessions beyond 30 June 2021” (hereinafter referred to as “the ED”).

Question 1—Extended scope of the practical expedient (paragraph 46B(b) of the [Draft] amendment to IFRS 16)

The Board proposes to amend paragraph 46B(b) of IFRS 16 to extend the availability of the practical expedient in paragraph 46A so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions in paragraph 46B are met. Do you agree with this proposal? Why or why not?
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Faithful representation

1. We disagree with the proposal in the ED. We believe that the fundamental cause of this issue arise from the lack of considerations when the IASB developed IFRS 16. Current requirements for lease modification do not present faithfully the Covid-19-related rent concessions. Please refer to the Appendix: our comment letter on the Exposure Draft 2020/2”Covid-19-Related Rent Concessions”.
2. The publication of this ED results from the consequence the IASB solely amended the lease standard to permit the practical expedient without sufficient comment analysis and

redeliberations for the Exposure Draft 2020/2”Covid-19-Related Rent Concessions” which was issued in April 2020. The IASB should straightforwardly admit the lack of considerations when developed IFRS 16. That amendment leads to impair the high quality and comparability of IFRS.

3. We also note the following sentence in FASB staff Q&A “TOPIC 842 AND TOPIC 840: ACCOUNTING FOR LEASE CONCESSIONS RELATED TO THE EFFECTS OF THE COVID-19 PANDEMIC” which was issued in April 2020.

While the lease modification guidance in Topic 842 and Topic 840 addresses routine changes to lease terms resulting from negotiations between the lessee and the lessor, the FASB staff believes that this guidance did not contemplate concessions being so rapidly executed as a result of a major financial crisis arising from the COVID-19 pandemic.

4. As the setting of time frame obliges the uniformed treatment like same as quantitative criteria in the requirement of standard, the transaction is draw boundaries clearly. It does not match the concept and theory of IFRS standards. The stakeholders might expect re-amendment or re-extension in the future again.

Comparability

5. The IASB had already acknowledged the comparability would be impaired between the entities that applied and not applied the practical expedient. However, in the other side, it also resulted the comparability was impaired among the entities that applied the practical expedient. In short, the practical expedient give rise to the various accounting treatments in practice with respect to the interpretation of paragraph BC205E of Basis for Conclusion on IFRS 16.
6. We do not agree with the practice expedient and the proposal of extension of applying it. However if the IASB would proceed the proposal of this ED against our comment, the IASB should ensure the comparability among entities that applied the practical expedient at least by adding the illustrative example for making clear the accounting in accordance with paragraph BC205E of Basis for Conclusion on IFRS 16, as well as making clear not to re-extend the period of applying the practical expedient after 30 June 2022.

Question 2—Effective date and transition (paragraphs C1C, C20BA and C20BB of the [Draft] amendment to IFRS 16)
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Paragraphs C1C, C20BA and C20BB of the draft amendment to IFRS 16 propose that a lessee applying the practical expedient in paragraph 46A would:

- (a) apply the amendment for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued;
- (b) apply the amendment 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; and
- (c) not be required to disclose the information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the reporting period in which the lessee first applies the amendment.

Do you agree with this proposal? Why or why not?

7. We disagree with proposal of this ED. However if the IASB would finalize the proposal of this ED against our comment by the end of March 2021, we point out the unreasonableness to enforce the entity of which annual reporting period beginning from 1 April 2021 to 31 May 2021 to apply both new and old standard together.

We hope our comments will contribute to the forthcoming deliberations in the ED. Please feel free to contact us if you have any questions with respect to this letter.

Yours sincerely,

Masahiro Hoshino

Rio de Janeiro, May 23, 2022

CONTRIB 0009/2022

Mr. Mackenzie, Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, United Kingdom

Subject: Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

Reference: Tentative Agenda Decision (TAD)

Dear Mr. Mackenzie,

Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's Tentative Agenda Decision - Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16). We congratulate the Committee for the efforts to provide guidance on:

- a) how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable when it expects to forgive payments due from the lessee under the lease contract before the rent concession is granted; and
- b) whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

In regard to the application of the expected credit loss model in IFRS 9, the Committee concluded that, in the period before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including considering its expectations of forgiving lease payments recognized as part of that receivable.

We noted that paragraph 5.5.3 of IFRS 9 states that 'Subject to paragraphs 5.5.13-5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the **lifetime expected credit losses** if the credit risk on that financial instrument has increased significantly since initial recognition.' (Emphasis added)

In addition, paragraph 5.5.5 of IFRS 9 states that 'Subject to paragraphs 5.5.13-5.5.16, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to **12-month expected credit losses**.' (Emphasis added)

We further noted that the definitions of lifetime expected credit losses and 12-month expected credit losses in Appendix A of IFRS 9 refer to ‘losses that result from default events’, as reproduced below:

12-month expected credit losses - The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. (Emphasis added)

Lifetime expected credit losses - The expected credit losses that result from all possible default events over the expected life of a financial instrument. (Emphasis added)

When reaching its conclusion about the application of the expected credit loss model in IFRS 9, the TAD did not explain the interplay between ‘expectations of forgiving lease payments’ and the definitions mentioned above that refers to ‘losses that result from default events’ in the measurement of expected credit loss. In this sense, we respectfully ask the Committee to clarify such interplay in the final agenda decision.

Lastly, we believe it would be helpful if the Committee could explain if the TAD should reach the measurement of expected credit losses applicable to all financial assets subject to the impairment requirements under IFRS 9.

If you have any questions in relation to the content of this letter, please do not hesitate to contact us (cc-contrib@petrobras.com.br).

Respectfully,

/s/Edmilson Nascimento das Neves

Edmilson Nascimento das Neves
Chief Accountant and Tax Officer

23 May 2022

Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Mr Mackenzie

Tentative agenda decision – Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2022 IFRIC Update of the tentative agenda decision (TAD) not to take onto the Committee's agenda the request for clarification about a lessor's application of IFRS 9 and IFRS 16 in accounting for a particular rent concession.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda. However, we have concerns that the analysis presented in the TAD may have unintended consequences in a number of areas and suggest that further analysis may be warranted before the TAD is finalised.

Application of the expected credit loss model

We agree that the definition of credit loss in IFRS 9 refers to "all cash shortfalls". Therefore, in the fact pattern presented in the TAD, it appears reasonable that the measurement of expected credit loss should reflect cash shortfalls that result from the expected forgiveness of lease payments recognised as part of the receivable. However, we believe it would be worth considering whether the forgiveness of a lease payment should always be viewed as a cash shortfall, including, for example, when the forgiveness is in fact granted as an incentive for an increase of the scope of a lease contract that the lessor would not obtain in the absence of the forgiveness of the lease payments that are owed (or other economically similar lease incentives). Whilst the TAD is meant to address the specific fact pattern submitted (in which the other terms of the lease contract are not changed), we are concerned that the statements made in the TAD, in particular in the third paragraph in the section addressing the application of the ECL model, leave little room for a different application of the ECL requirements to other fact patterns. We suggest that this topic may be addressed in a more comprehensive manner in the upcoming post-implementation review of the ECL requirements in IFRS 9.

Further, we note that the TAD contemplates that a derecognition loss may need to be recognised in profit or loss upon derecognition of the receivable, despite the fact that the expected forgiveness is reflected in the measurement of the ECL. We suggest that it would be useful if the agenda decision specified that the ECL should be remeasured at the derecognition date, consistent with the discussion of the Transition Resource Group for Impairment of Financial Instruments at its meeting in April 2015. We believe that this

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is important because, as we explain further below, in the case presented, we would expect that, after application of the ECL model, the net carrying amount of the lease receivable at the derecognition date would be nil and no derecognition loss would arise.

Interaction between the derecognition requirements and the recognition of revenue/income

The TAD indicates that “the lessor derecognises the operating lease receivable (and associated expected credit loss allowance) and recognises any difference as a loss in profit or loss”. It also indicates “lease payments ... recognised as an operating lease receivable ... are not accrued lease payments. Consequently, neither those lease payments nor their forgiveness are considered part of the lease payments for the new lease.”

If the lessee is released from its obligation to make the specifically identified contractually due lease payments and no other changes are made to the lease contract, we would expect that, after application of the ECL model, the net carrying amount of the lease receivable at the derecognition date would be nil and no derecognition loss would arise. Hence, in the fact pattern presented, it does not appear realistic that a derecognition loss may need to be recognised as suggested in the TAD.

In other fact patterns, if the net carrying amount of the lease receivable is other than nil immediately before the derecognition event but after measurement of the ECL, this may indicate that the lessor expects to receive some of the cash flows that are being forgiven, albeit at a later date. However, the above extracts from the TAD do not appear to require (or allow) a lessor to consider whether the forgiveness of the receivable is linked to the terms of the new lease. As a result, the analysis proposed in the TAD would yield significantly different accounting results based on the legal form and timing of the modification to the lease payments.

If the lease agreement is legally structured as modified such that lease payments recognised as a receivable are forgiven and future lease payments are increased by the same amount, applying the conclusion in the TAD, an impairment loss and/or a derecognition loss is recognised in profit or loss for the forgiven payments and lease income is recognised for the increased lease payments over the term of the new lease (in effect, double counting the lease income arising from the increased lease payments).

If instead the lease agreement is legally structured as modified to indicate that settlement of the receivable is postponed (but not forgiven), applying IFRS 9, an impairment loss is recognised to reflect the lost time value of money but the receivable may not be derecognised and, post modification, the lease income would not be affected by the change in timing of the lease payments (i.e., the double counting of lease income would not arise).

The importance of the legal form of the lease modification on future lease income is magnified by the fact that the negotiation of such lease modifications can extend over long periods. The longer the time required to negotiate the revised lease term, the greater the “double counting” of lease income.

We further note that trade receivables that result from transactions that are within the scope of IFRS 15 are also subject to the ECL and derecognition requirements in IFRS 9. Hence, we are concerned that the analysis in the TAD may have an effect on trade receivables and inadvertently lead to confusion on the application of IFRS 15, including the requirements in IFRS 15:21(a). Applying IFRS 15:21(a), the consideration promised in the original contract that has been recognised as revenue is excluded from the consideration allocated to future performance obligations. Hence, if a contract is modified such that specifically identified payments from the customer that have already been recognised as revenue are forgiven and replaced by higher payments in later periods, IFRS 15:21(a) would exclude from the future consideration receivable the payments already recognised as revenue. Instead, these amounts would be recognised as a contract asset or a trade receivable. In effect, the impact of the “derecognition” of the

forgiven trade receivable would not be recognised in profit or loss at the point of derecognition – rather, it would be factored into the measurement of future revenue.

It is common for lease arrangements to include a service component that is accounted for applying IFRS 15 by the lessor. Therefore, whilst the TAD addresses the forgiveness of operating lease payments, we believe that it is important to consider that the forgiveness of payments in a lease agreement may in fact relate to payments that are allocated to components accounted for in different IFRS Accounting Standards (either IFRS 15 or IFRS 16) and ensure that the conclusion reached on the application of IFRS 9 to the receivable previously recognised is compatible with both.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS and Corporate Reporting Leader

Mr Bruce Mackenzie

IFRS Interpretations Committee

*Columbus Building,
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom*

La Défense, 23 May 2022

March 2022 IFRIC Update — Tentative Agenda Decision on Lessor Forgiveness of Lease Payments (IFRS 9 – Financial Instruments and IFRS 16 – Leases)

Dear Bruce,

MAZARS is pleased to comment on the above mentioned IFRS Interpretations Committee's Tentative Agenda Decision, published in the March 2022 *IFRIC Update*.

While we agree that the accounting for rent concessions by both lessor and lessee is an important issue that needs to be clarified, we question the usefulness of an agenda decision that considers only from the lessor side a fact pattern that is a too narrow and not common enough.

Besides, we consider that the technical analysis set out in this TAD and the conclusion reached by the Committee result from one possible reading of the requirements in IFRS Standards, and that another reading should not be disregarded. It is beyond the Committee's role to impose a reading in a situation where other readings are possible. Moreover, we question the relevance of the reading proposed by the Committee, because:

- As drafted, the technical analysis set out in the TAD could be transferable to other fact patterns where we strongly believe it irrelevant; and
- It is potentially a source of structuring opportunities to account differently for rent concessions that have the same economic substance, which could be detrimental to comparability.

Accordingly, we recommend the Committee not to finalize the proposed TAD. In our view it is more adequate to address the matter described in the submission in the context of a standard-setting project, considering both the lessor's and lessee's sides.

Our comments are detailed below:

1. A fact pattern that is too narrow and not common enough

The TAD discusses a fact pattern in which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under the contract (either already contractually due or not yet). In our view this fact pattern is too narrow and not common enough.

In many cases forgiveness of lease payments is made alongside other changes to the lease, for example, modifications to the future lease payments (that might be either decreases or increases of lease payments), extension of the lease term or of the non-cancellable period of the lease, etc.

We question the usefulness of such an analysis that only considers a very uncommon fact pattern and that does not discuss how other features of the lease negotiation could interact with the forgiveness of some of the lease payments.

In addition, we understand that according to the Committee's tentative conclusion, the accounting treatment would differ according to whether the amounts are "contractually due but not paid" or "not yet contractually due". We believe that the TAD should more precisely describe when an amount becomes "contractually due".

2. Application of the Expected credit loss model in IFRS 9 to the operating lease receivable

We agree with the Committee's conclusion that an entity applies the impairment requirements in IFRS 9 to the operating lease receivable from the date on which the entity recognises that receivable.

Nevertheless, we have concerns on the Committee's conclusion whereby '...in the period before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including considering its expectations of forgiving lease payments recognised as part of that receivable' (emphasis added).

We think the existing requirements in IFRS 9 may enable an entity to conclude otherwise. In our opinion, an entity may not consider its expectations of forgiving lease payments to measure ECLs when the forgiveness of lease payments does not relate to a credit event such as the lessee defaulting or being expected to default on the lease payments.

We note that Appendix A to IFRS 9 includes a definition for ECLs stating those are 'the weighted average of credit losses with the respective risks of a default occurring as the weights' (emphasis added) and observe that IFRS 9 requirements are strongly interrelated to the notion of credit risk.

Additionally, we note that in a very similar situation (forgiveness of payments due by a customer following a commercial negotiation that is not related to the customer's credit risk), IFRS 15 *Revenue from Contracts with Customers* clearly makes a distinction between expected forgiveness of payments due to a credit event (to be included in the impairment of the receivables and contract assets) and expected forgiveness unrelated to a credit event.

Indeed, in accordance with IFRS 15 (paragraphs 50–59) an entity which grants subsequently a price concession to a customer, not linked to the customer's credit risk, adjusts the transaction price to reflect this price concession and thus reduces the amount of revenue recognised in profit or loss (as

explained in paragraph BC194 of IFRS 15). BC194 explains that an entity applies judgement to determine whether the requirements on price concessions in IFRS 15, or the requirements in IFRS 9 should apply to a given situation.

We wonder why the outcomes should be so different for very similar situations, according to whether the receivable arises from a contract with a customer within the scope of IFRS 15 or IFRS 16.

3. Forgiveness of an operating lease receivable could be qualified as a lease incentive

We agree with the Committee's conclusion that the lessor derecognises the operating lease receivable on the date the rent concession is granted. At that date, the lessor has agreed to legally release the lessee from its obligation and thus has given up its contractual rights to those specifically identified cash flows - its contractual rights to the cash flows from the operating lease receivable expire.

That being said, and in addition to our concerns on the Committee's conclusion whereby the lessor considers expectations of forgiving lease payments (not linked to the lessee's credit risk) when measuring ECLs on operating lease receivable, we have reservations on the Committee's conclusion whereby the lessor recognises any difference as a loss in profit or loss.

In our view, the forgiveness of an operating lease receivable (not linked to the lessee's credit risk) could be qualified as a lease incentive, and it is unfortunate that TAD does not fully investigate this possibility.

In particular, we do not understand why a lease receivable that is forgiven following the renegotiation of a lease contract could not be considered as an accrued lease payment relating to the original lease.

In our view, the definition of lease incentives should not be interpreted so narrowly that it captures only payments in cash. Lease incentives can take different forms, including for example 'nominal payments' made by the lessor to the lessee that are settled net in the lease payments—such payments reduce the amounts owed by the lessee but involve no formal cash outflow from the lessor.

We would question the relevance of the requirements in IFRS 16 if that Standard were to distinguish incentives settled in cash from those that are settled net. This would also not align with how a lessor would account, at the lease commencement date, for rent-free periods, which are lease incentives.

In the absence of any reference in the lease incentive definition as to how incentives should be settled, we are of the opinion that the Committee cannot reject the view whereby an entity may account for the rent concession described in the submission as a lease incentive.

4. Risk of extension of the analysis to other fact patterns

As stated in point 1 above, the fact pattern discussed in the TAD it is not the most common in our opinion. Therefore, we question whether the analysis set out in the TAD would also be applicable to those others fact patterns.

For example, in a situation in which the lessor forgives the lease receivable in exchange for an increase of future lease payments, would the lessor include its expectations regarding the forgiveness of the lease receivable in measuring the expected credit loss according to IFRS 9? And would it derecognise the lease receivable against P&L at the date of grant, if it expects to receive increased lease payments in the future?

We strongly believe it would be irrelevant, but we have doubts as to whether the technical analysis as drafted in the TAD could not be applied to the fact pattern above as well.

5. Risk of structuring opportunities

In practice, it is common that a lessor granting a rent concession to its lessee allocates that rent concession between amounts contractually due and amounts that are not yet contractually due, depending on the negotiation with the lessee. We think that this allocation does not, in itself, fundamentally change the nature of the underlying transaction.

Besides, negotiations between lessor and lessee generally take time, and a lessor might waive the lease payments during the negotiation time. Therefore, the amount of unpaid lease receivable, pending the completion of negotiations, can be particularly significant, thus making the allocation of the forgiveness even more crucial, and creating opportunities for earnings management.

The length of the negotiations between the lessor and the lessee to agree on a lease modification (including a rent concession), the allocation of that concession between amounts contractually due and not yet contractually due, the existence and the amount of lease payments already made at the modification date are examples of the many factors that could create variations in accounting outcomes for similar transactions.

That is why we consider that treating differently rent concessions on a lease receivable and rent concessions on future lease payments is a source of structuring opportunities which is detrimental to comparability.

For all the reasons above, we recommend the Committee not to finalize the agenda decision, but rather to propose to the Board to undertake a standard-setting project to address the accounting for the forgiveness of lease payments in a more comprehensive way, from the lessor and lessee perspective, considering the multiple situations that occur frequently when a lease contract is renegotiated.

Should you have any questions regarding our comments on the tentative agenda decisions, please do not hesitate to contact Edouard Fossat (+33 1 49 97 65 92).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'm. barbet-massin' with a stylized flourish at the end.

Michel Barbet-Massin

Financial Reporting Technical Support

A handwritten signature in black ink, appearing to read 'Edouard Fossat' with a stylized flourish at the end.

Edouard Fossat

Comment Letter

PRE-032/22

May, 23 th, 2022

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Reference: Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

Dear Sirs,

Dear IFRS Interpretations Committee members,

The Brazilian Association of Public Companies (ABRASCA, as abbreviated in Portuguese) welcomes the opportunity to submit comments on the Tentative Agenda Decision (TAD) Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16). Our comments reflect the views of our 444 members, which include public companies of different sizes and different segments in Brazil.

ABRASCA supports the IFRS Interpretations Committee (Committee) initiative to discuss a request received about how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable when it expects to forgive payments due from the lessee under the lease contract before the rent concession is granted.

In the TAD, the Committee concluded that the expectations of forgiving lease payments recognized as part of the receivable should be considered when the lessor is measuring expected credit losses.

In regard to the application of the expected credit loss model in IFRS 9, the definitions of lifetime expected credit losses and 12-month expected credit losses in Appendix A of IFRS 9 refer to 'losses that result from default events'. We noted that the TAD did not consider such definitions in its tentative conclusion.

The TAD does not clarify that consideration about expectations of forgiving lease payments recognized as part of the receivable in the measurement of expected credit loss depends on the assumption that forgiveness results from default or possible default events. The adoption of such an assumption is a matter of judgment about facts and circumstances and therefore should not be addressed by the Interpretation's Committee with an Agenda Decision.

If you have any questions regarding our comments, please contact us at canc@abrasca.org.br, abrasca@abrasca.org.br, or milton@abrasca.org.br.

Yours sincerely,

A handwritten signature in grey ink, appearing to read "Eduardo Lucano dos Reis da Ponte". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eduardo Lucano dos Reis da Ponte
Executive president
ABRASCA Brazilian Association of Public Companies