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Berlin, 6 May 2020

Dear Hans,

IASB Exposure Draft ED/2020/2 Covid-19-Related Rent Concessions (Proposed amendment to IFRS 16)

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Draft ED/2020/2 *Covid-19-Related Rent Concessions* issued by the IASB on 24 April 2020 (herein referred to as 'ED').

We appreciate the IASB's intention to help lessees by providing a practical expedient, so that lessees may elect not to assess whether a covid-19-related rent concession is a lease modification. We think that this exemption is a pragmatic solution to the accounting challenges lessees are facing in this period of significant uncertainty. In order to maximise the benefit of this exemption for lessees, the practical expedient should be available as soon as possible. Therefore, we support the aim of making that exemption immediately effective on issue of the final amendment and enabling retrospective application. Consequently, we agree with the proposed effective date and the proposed transition requirements, apart from our additional remark in our answer to Question 2, and think the amendment should be finalised in a timely manner. Beyond that, however, we would appreciate if the Board reconsidered a potential exemption for lessors (as a separate project), as they equally face challenges, especially as regards the difficult assessment of contracts to determine whether a rent concession is a lease modification.

Our response to the questions of the ED is laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Peter Zimniok (zimniok@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

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Appendix – Answers to the questions in the ED

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

Paragraph 46A of the draft amendment to IFRS 16 proposes, as a practical expedient, that a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election would account for any change in lease payments resulting from the covid-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

Paragraph 46B of the draft amendment to IFRS 16 proposes that the practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments originally due in 2020; and
- (c) there is no substantive change to other terms and conditions of the lease.

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

The ASCG agrees with the proposal of the ED to provide lessees with a practical expedient, so that lessees may elect not to assess whether a covid-19-related rent concession is a lease modification. Applying this exemption would lead to accounting for any change in lease payments as if it were not a lease modification.

We think that this exemption is a pragmatic solution to the accounting challenges lessees are facing in this period of significant uncertainty. It would provide practical relief for lessees, particularly as it reduces the complexity resulting from the requirements of IFRS 16 of assessing a potentially large volume of contracts to determine whether a rent concession is a lease modification and from applying the required accounting for rent concessions that are lease modifications.

We also support the stipulations of paragraph 46B of the draft amendments. We think it is critical that the exemption is applicable only to changes in lease payments directly resulting from the Covid-19 pandemic and occurring within a limited timeframe. These conditions are a necessary safeguard so that the exemption is not applied too broadly and does not have unintended consequences, even though it may be difficult in certain circumstances to determine whether a rent concessions is indeed related to Covid-19.



We had some discussion around the proposal of linking the relief to payments originally due in 2020. Our considerations were related to the possibility of Covid-19-related rent concessions potentially going beyond 2020, thus causing rent concessions to be accounted for differently although they are rooted in the same cause (i.e. the Covid crisis). Whilst we understand, and agree with, the desire to ringfence the relief as much as possible, we are not completely convinced that the burden on an entity to assess contracts for modifications would really be that much lowered if the lockdown continued well into or even beyond the second half of the year (e.g., if it was reinstated should the numbers of people infected rise again). An alternative may therefore be to link the relief to a 12-months period starting from the effective date rather than the 2020 calendar year, or to phrase the exception in an “the earlier of” way, as this could reduce the possibility of having to extend the exception again later in the year.

We also had some discussion around the Board’s consideration of not granting a similar relief to lessors. Whilst we agree that the accounting model for lessors has not changed significantly with the introduction of IFRS 16, we feel that lessors may (and in many cases are) affected by rent concession as well. For them, the issue would first be to ascertain whether the concession meets the definition of a lease modification and then, if that was the case, to figure out how to account for it, as the current literature is ambiguous in that regard. We therefore ask the Board to reconsider its decision to not grant any relief to lessors, but to do so in a separate project in order not to jeopardise finalisation of this amendment.

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

Paragraphs C1A and C20A of the draft amendment to IFRS 16 propose that a lessee would apply the amendment:

- (a) for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued; and
- (b) retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.

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

We agree with the proposed effective date and the proposed transition requirements in principle.

We understand and support the IASB’s intention of granting this practical expedient as soon as possible, acknowledging the urgent nature of the issue in order to maximise the benefit of



the exemption for lessees. Therefore, we support the proposal of making that exemption immediately effective on issue of the final amendment and enabling retrospective application.

Having said that, we are not entirely convinced that the atypical wording used (*'including in financial statements not yet authorised for issue at the date the amendment is issued'*) is optimal. Specifically, by linking words like "annual reporting period" with "authorised for issue", we believe this could cast doubts as to whether interim financial statements are covered by that wording. We understand that the Board's intention was to cover both, interim financial statements, as well as annual financial statements for those preparers whose financial year is not identical to the calendar year. We believe that it may be more helpful to either delete the aforementioned supplement or to explicitly include interim financial statements in paragraph C1A in order to avoid such confusion.