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Dear Hans,

IASB Exposure Draft ED/2021/2 Covid-19-Related Rent Concessions beyond 30 June 2021

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Draft ED/2021/2 *Covid-19-Related Rent Concessions beyond 30 June 2021* issued by the IASB on 11 February 2021 (herein referred to as 'ED').

We appreciate the IASB's intention to extend the availability of the help provided to lessees in the form of the practical expedient.

In accordance with our support of the IASB's original amendment *Covid-19-Related Rent Concessions*, issued by the IASB in May 2020, we think that extending the availability of this exemption by 12 months, from 30 June 2021 to 30 June 2022, is (a) a pragmatic solution to the ongoing accounting challenges lessees are facing and, considering the extended period of observable Covid-19-related rent concessions, (b) consistent with what the Board had in mind when it developed the practical expedient in May 2020.

We think that extending the availability of this exemption to 30 June 2022 is an appropriate and necessary compromise to consider the uncertainty as to the length and the severity of the ongoing Covid-19 pandemic.

Additionally, we generally agree with the proposed effective date and the proposed transition requirements. However, we have some additional remarks on issues that also concern transition, i.e. the interaction of the 2020 amendment with the current proposals (see our answer to Question 2).

Our responses to the questions of the ED are 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,

Sven Morich

Executive Director

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Appendix – Answers to the questions in 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?

The ASCG agrees with the proposal of the ED 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.

We were supportive of the IASB's original amendment *Covid-19-Related Rent Concessions*, issued by the IASB in May 2020, and therefore think that extending the availability of this exemption by 12 months, from 30 June 2021 to 30 June 2022, is (a) a pragmatic solution to the ongoing accounting challenges lessees are facing and, considering the extended period of observable Covid-19-related rent concessions, (b) consistent with what the Board had in mind when it developed the practical expedient in May 2020.

In our 2020 comment letter, we also supported the stipulations of paragraph 46B of the amendments. We still think that 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 specified timeframe. These conditions are a necessary safeguard so that the exemption is not applied too broadly and does not have unintended consequences. Even though, in some cases it may be difficult to determine whether a rent concession is indeed (still) related to Covid-19 or, particularly in some sectors, the result of significantly changed market conditions in a post-Covid-19 economy.

Having said that, we think that extending the availability of this exemption by 12 months, from 30 June 2021 to 30 June 2022, is an appropriate and necessary compromise to take into account the uncertainty as to the length and the severity of the ongoing Covid-19 pandemic.

Question 2 - Effective date and transition (paragraphs C1C, C20BA and C20BB of the [Draft] amendment to IFRS 16)

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?

We agree with the proposed effective date and the direction of the proposed transition requirements.

We understand the IASB's intention of granting the extension of the practical expedient as soon as possible, acknowledging the urgent nature of the issue to maximise the benefit of the exemption for lessees. Therefore, we support the proposal of making that exemption effective immediately on issue of the final amendment and enabling retrospective application.

We also support 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 that lessees would 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 they first apply the amendment.

However, and in addition to the questions raised, we think that the IASB should also consider the following issues regarding transition:

Firstly, the ED states in para. BC8 that '*A lessee that chooses to apply the practical expedient in paragraph 46A of IFRS 16 is required by paragraph 2 to apply it consistently to all lease contracts with similar characteristics and in similar circumstances. This Exposure Draft proposes to amend only the date within the condition in paragraph 46B(b)—it neither introduces a new practical expedient nor a new option to apply (or not apply) the practical expedient. Therefore, a lessee that has already applied the practical expedient in paragraph 46A must also apply the extended scope of the practical expedient proposed in this Exposure Draft (see paragraph BC9).*'

We disagree with this restriction, as it would prohibit entities from deciding to end applying the relief with the intention to account for Covid-19-related rent concessions beyond 30 June 2021 as lease modifications under IFRS 16. More specifically, it would prohibit entities from (voluntarily) applying the accounting deemed true and fair. The IASB argues that this would impair comparability, as lessees could account '*for similar rent concessions differently during the height of the covid-19 pandemic*' (ED.BC11). We acknowledge this argument but would give more weight to the idea of applying the 'correct' accounting as soon as possible if a lessee voluntarily chooses to do so. Further, in times of crisis, financial statements will be impacted by many one-off effects so that comparability will be impaired to some extent anyway.

Secondly, the ED states in para. BC8 that '*Similarly, the proposal in this Exposure Draft does not allow a lessee to elect to apply the practical expedient if the lessee has previously elected not to apply it to eligible rent concessions.*' We also disagree with this restriction. This would negatively affect lessees that (maybe reluctantly) chose not to apply the 2020 amendment,



e.g., because there was uncertainty in the market whether the amendment would be endorsed in time and be available for use in the European Union. We think that these lessees should also benefit from the extension of the exemption.

For the sake of completeness, we do agree with the view of the IASB regarding the third fact pattern (also ED.BC8): *‘Some lessees may not yet have established an accounting policy on applying (or not applying) the practical expedient to eligible rent concessions. If such a lessee decides to apply the practical expedient, the lessee would be required to do so retrospectively and to apply it consistently to contracts with similar characteristics and in similar circumstances.’* We agree that lessees that have not had Covid-19-related rent concessions granted to them before should be able to apply the exemption to these newly (just recently or in the future) granted rent concessions, even though these lessees formally did not apply the 2020 amendment.

If the IASB decides to maintain its views regarding the prohibition and/or requirement of applying the amendment in the cases outlined above, we encourage the IASB to explicitly address and explain its reasoning in the main body of the final amendment as this does not become clear from the mandatory text.