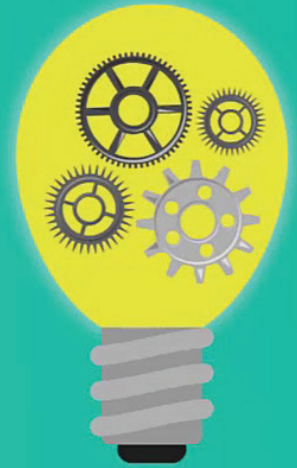


# IFRS Today

Our series on the most topical issues  
in IFRS® Standards and financial reporting

23 April 2020



## VIDEO TRANSCRIPT

### Proposed IFRS 16 amendment for COVID-19

Brian O'Donovan  
Partner, KPMG International Standards Group

**“The IASB wants to make things simpler. The IASB plans to amend the standard so that a lessee could choose not to go through that process if its rent concessions meet certain conditions.”**

I'm Brian O'Donovan, I'm a partner at KPMG, and today I want to talk about the IASB's plans to simplify accounting for rent concessions in response to COVID-19.

So, what is a rent concession? Well, it's an agreement between a lessee and a lessor – often between a tenant and a landlord – to reduce rent, or defer rent, or to waive rent altogether. We're seeing a lot of that in current market conditions.

If you're the lessee or the tenant, then a rent concession is great news from a cash perspective. So what's the accounting issue?

Well, under current requirements a rent concession is often what the standard calls a lease modification. And this means that the lessee won't recognise the benefits of the rent concession in P&L straight away. Instead, the lessee will recalculate its lease liability, adjust its right of use assets, and it will do all that using a revised discount rate. Now that's straightforward if you just have one or two rent concessions; it can be quite tough if you are dealing with hundreds or thousands of them.

The IASB wants to make things simpler. The IASB plans to amend the standard so that a lessee could choose not to go through that process if its rent concessions meet certain conditions.

The first condition is that the rent concession arises directly as a result of COVID-19 and the rent reduction happens purely in 2020.

The second condition is that the total amount payable under the lease stays more or less the same or reduces.

And the third key condition is that there are no other big changes to the lease agreement.

To take a really simple example, suppose I'm the lessee and I agree that I will pay no rent at all in Q2, and there will be no other change to the lease agreement. Under these plans, I would book a gain in Q2.

So what do I think about this proposal? Well, clearly it's not very conceptual; it's a practical response to current conditions. So my questions are exclusively practical: is it clear exactly which rent concessions would qualify for this relief? And is the accounting clear in real life cases that could be more complex than my simple example?

Now the IASB is pushing ahead with this – it's moving as quickly as it possibly can. It wants the change to be effective immediately so that companies can take advantage of it in their interim and annual financial statements for 2020.

If you have a lot of rent concessions in your business, you need to engage with this right now.

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