



COVID-19 RELATED RENT CONCESSIONS BEYOND 30 JUNE 2021: EXTENSION OF PRACTICAL EXPEDIENT - ADDITIONAL FAQs

INTERNATIONAL FINANCIAL REPORTING BULLETIN

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BACKGROUND

On 28 May 2020, the IASB issued amendments to IFRS 16, which provide relief for lessees in accounting for rent concessions granted as a direct consequence of COVID-19.

BDO has published several detailed publications on these amendments, including FAQs, which are available [here](#). This includes [IFR Bulletin 2020/11 Accounting for Rent Concessions: Lessee FAQs](#).

On 31 March 2021, the IASB amended IFRS 16 further to extend the time limit for one of the criteria that must be met in order for a lessee to apply the practical expedient to a rent concession.

This publication provides additional FAQs relating to the extension of the practical expedient.

THE ORIGINAL AMENDMENTS

In May 2020, IFRS 16 was amended to introduce a practical expedient in IFRS 16, which is summarised as follows:

- (a) Provide lessees with an exemption from the requirement to determine whether a COVID-19-related rent concession is a lease modification; and
- (b) Require lessees that apply the practical expedient to account for COVID-19-related rent concessions as if they were not lease modifications. Lessees generally account for the change in lease payments as a 'negative variable payment' (i.e. DR lease liability, CR profit or loss).

The amendments limited the application of this practical expedient to rent concessions meeting certain criteria. One of these criteria was that any reduction in lease payments could only affect payments originally due on or before 30 June 2021. Therefore, for example, a rent concession agreed to in June 2020 that reduced lease payments by 15% from July 2020 - July 2021 would not have qualified for the practical expedient because it would have reduced lease payments originally due beyond 30 June 2021. This type of rent concession would instead have been required to be accounted for using the lease modification requirements of IFRS 16.

THE EXTENSION OF THE PRACTICAL EXPEDIENT

WHY IS IFRS 16 BEING AMENDED AGAIN?

Since the original amendments were issued, the IASB has received feedback from investors indicating that, due to the ongoing effects of the pandemic, they thought the criteria to apply the practical expedient should be extended. This would result in gains from the forgiveness or waiver of lease payments that are a direct consequence of the pandemic continuing to be included in profit or loss in the period to which they relate (i.e. they would reflect the financial effects of the pandemic during the period of the pandemic).

STATUS
Final

EFFECTIVE DATE
Mandatorily effective for annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including to financial statements not yet authorised for issue at the date the final amendments are issued.

ACCOUNTING IMPACT
Extend the criterion for applying the practical expedient to concessions that reduce lease payments originally due on or before 30 June 2022 (criterion was originally 30 June 2021).

WHAT ARE THE AMENDMENTS?

The amendments modify one of the criteria that must be met in order for the practical expedient to be applied. They extend the period over which lease payments originally due may be reduced to end on 30 June 2022 (previously 30 June 2021). Therefore, using the earlier example of a rent concession which reduced lease payments originally due by 15% from July 2020 - July 2021, an entity that is eligible to apply the revised practical expedient could account for this rent concession using the practical expedient, whereas it could not under the original amendments issued in May 2020.

WHAT ARE THE TRANSITIONAL REQUIREMENTS?

The amendments to the practical expedient are mandatorily effective for annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not authorised for issue at the date the final amendment is issued. For example if, on 31 March 2021, an entity had not yet authorised its 31 December 2020 financial statements for issue, then that entity could apply these amendments in its 31 December 2020 financial statements.

The amendments would be applied retrospectively, with the cumulative effect of initial application being reflected as an adjustment to opening equity at the beginning of the annual reporting period in which the amendments are first applied. See Scenarios 1 - 3 below for illustrations of the transitional requirements.

ARE THE AMENDMENTS OPTIONAL?

Adoption of the amendments is not optional, however, electing to use the practical expedient is. The consequence of this may be summarised as follows:

HAS THE ENTITY ELECTED TO USE THE PRACTICAL EXPEDIENT?	EFFECT
No	<p>The practical expedient introduced by the May 2020 amendments is optional. If an entity previously decided to not apply the practical expedient (or an entity has no rent concessions that would meet the criteria), then the extension of the practical expedient will not affect that entity.</p> <p>If an entity had not yet established an accounting policy for applying (or not applying) the practical expedient at the point at which the Board issued the 2021 amendment, the entity could still decide to apply the practical expedient.</p>
Yes	<p>If an entity previously decided to apply the practical expedient, then it must also apply the extension of the practical expedient. This is because the practical expedient is optional, however, once an entity decides to apply the practical expedient, it must do so to all leases with similar characteristics in similar circumstances (IFRS 16.2). The extension of the practical expedient modifies the scope of the expedient, not an entity's decision as to whether it applies the practical expedient.</p> <p>For an example of an entity that elected to use the practical expedient in its 31 December 2020 annual accounts, but then adopts the extension of the practical expedient at a later date, see Scenario 3 below.</p>

WHAT ARE EXAMPLES OF HOW THE TRANSITIONAL REQUIREMENTS BEING APPLIED?

To illustrate the transitional requirements, three examples are included below, all of which have the same set of common facts:

COMMON FACTS FOR EXAMPLES 1-3

- Entity A is a retailer selling pet food and accessories, which reports financial results on a calendar year basis as well as half-year interim financial statements prepared in accordance with IAS 34.
- Entity A entered into 10 rent concessions with lessors for similar lease contracts relating to its retail locations. These rent concessions were agreed to during the period from September - December 2020.
- All of the rent concessions decrease store rent by 20% per month for a number of months. These concessions are not contingent on any future events.
- Entity A applied the practical expedient and therefore did not account for the eligible rent concessions as lease modifications.
- 8 of the 10 rent concessions met the criteria introduced in the May 2020 amendments and therefore Entity A accounted for the reduction in lease liabilities as negative variable lease payments (i.e. DR lease liabilities, CR profit or loss).
- 2 of the 10 rent concessions did not meet the criteria introduced in the May 2020 amendments because those 2 concessions resulted in reduced lease payments originally due beyond 30 June 2021 (the ineligible rent concessions). The ineligible rent concessions reduced lease payments from January 2021 - October 2021.
- Entity A accounted for the ineligible rent concessions as lease modifications in its 31 December 2020 financial statements (i.e. DR lease liabilities, CR right-of-use assets).
- Entity A applies IFRS as issued by the IASB, therefore, the extension of the practical expedient is eligible to be adopted as soon as it is issued*.

* For entities that do not apply IFRS as issued by the IASB (e.g. IFRS as endorsed by the European Union or based on the endorsement of other national standard setters), application of the amendments will be delayed until the applicable endorsement or approval process occurs.

Scenario 1 - Entity A issued its 31 December 2020 financial statements on 15 February 2021

As Entity A issued its financial statements prior to the extension of the practical expedient being issued on 31 March 2021, it is unable to reflect the effect of adopting the amendments in its 31 December 2020 financial statements.

Entity A is required to adopt the amendments in its half-year 30 June 2021 interim financial statements if it will adopt the amendments in its annual financial statements for the year ending 31 December 2021. At the latest, Entity A must adopt the amendments on 1 January 2022, which is the beginning of its first annual reporting period beginning on or after 1 April 2021, the mandatory effective date of the amendments. The effect of the extension of the practical expedient must be reflected when the amendments are adopted by Entity A.

Scenario 2 - Entity A is planning to issue its 31 December 2020 financial statements on 15 April 2021 and it decides to adopt the extension of the practical expedient in its 31 December 2020 financial statements.

The effect of the amendments are such that the 2 previously ineligible rent concessions now meet the practical expedient criteria.

Entity A must reverse the effect of accounting for the rent concessions as lease modifications (i.e. DR right-of-use assets, CR lease liabilities) and reflect the reduction in the lease liability as a negative variable lease payment in profit or loss (i.e. DR lease liabilities, CR profit or loss).

Entity A must also account for the corresponding effect on depreciation of right-of-use assets from the date the lease modification was accounted for. This is because accounting for the rent concession using the practical expedient will result in higher depreciation expense from the date of the rent concession since the right-of-use asset is not reduced if the practical expedient is applied.

Scenario 3 - Entity A is planning to issue its 31 December 2020 financial statements on 15 April 2021 and it decides to not adopt the extension of the practical expedient in its 31 December 2020 financial statements.

As Entity A has not adopted the extension of the practical expedient early, the ineligible rent concessions are accounted for as lease modifications in the 31 December 2020 financial statements.

Entity A may be required to adopt the amendments in its half-year 30 June 2021 interim financial statements (see the following FAQ concerning IAS 34).

At the latest, Entity A must adopt the amendments on 1 January 2022, which is the beginning of its first annual reporting period beginning on or after 1 April 2021, the mandatory effective date of the amendments. The effect of the extension of the practical expedient must be reflected when the amendments are adopted by Entity A.

HOW DOES AN ENTITY REFLECT THE ADOPTION OF THE AMENDMENTS IN INTERIM FINANCIAL STATEMENTS?

An entity is required to apply the same accounting policies in its interim financial statements as in its immediately preceding annual financial statements. As an exception, accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements are required to be reflected in interim financial statements (IAS 34.28).

Therefore, if an entity will adopt the extension of the practical expedient in its next annual financial statements, that change in accounting policy must be reflected in its interim financial statements.

Continuing from Scenario 3, assume Entity A has decided to not adopt the amendments early in its 31 December 2020 annual financial statements, but will adopt them in its 31 December 2021 annual financial statements. In preparing its 30 June 2021 interim financial statements in accordance with IAS 34, Entity A must reflect this change in accounting policy in those interim financial statements. This means that Entity A must reflect the adoption of the amendments as at 1 January 2021 in its 30 June 2021 interim financial statements. The required approach would be similar to that described in Scenario 2, except that the effect of reversing lease modification accounting would be reflected as an adjustment to opening retained earnings (or another component of equity) on 1 January 2021.

As an example (ignoring tax effects), Entity A would record the following entry on 1 January 2021 in its 30 June 2021 interim financial statements:

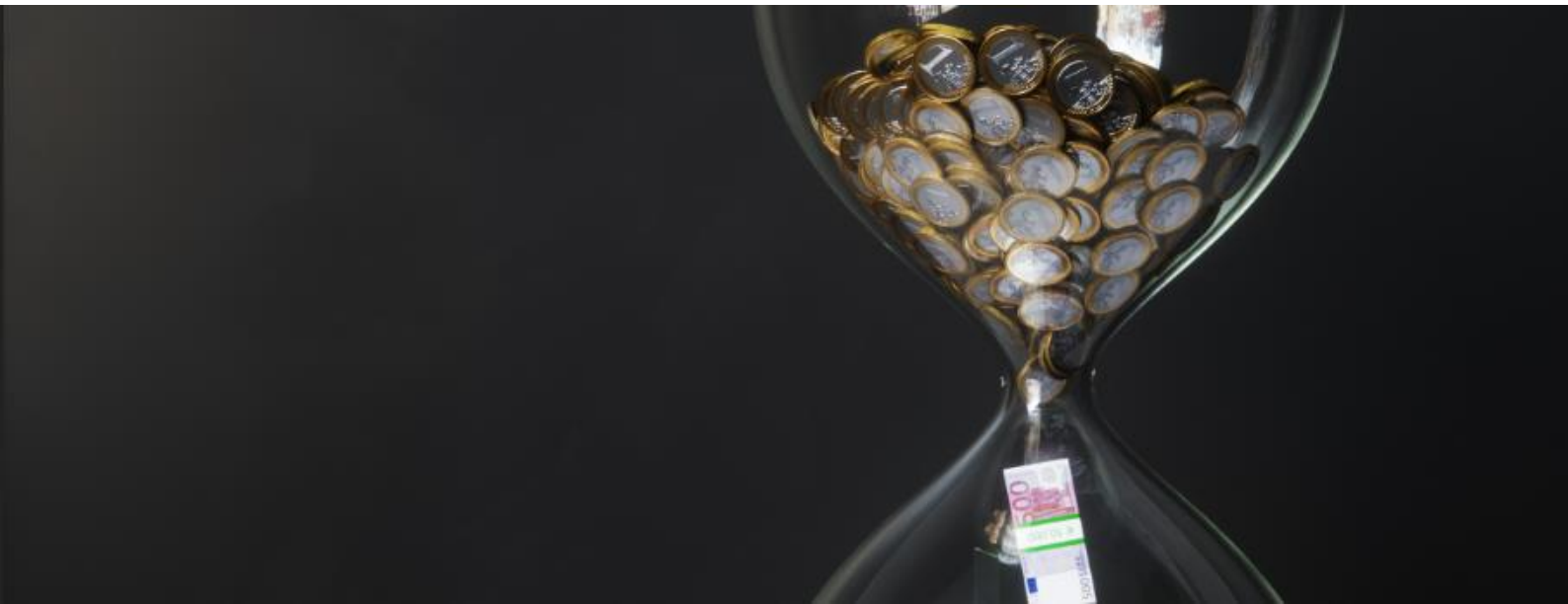
DR right-of-use assets	100	
CR lease liabilities		2*
CR retained earnings	98	

*The adjustment to lease liabilities results from IFRS 16.45(c) requiring a revised discount rate to be used when applying lease modification requirements, however, a revised discount rate is not required when the practical expedient is used. Therefore, the carrying amount of the lease liability differs as a result of difference in the discount rate depending on whether the rent concession is accounted as a lease modification or using the practical expedient and the corresponding difference in finance expense.

As the ineligible rent concessions were agreed to in 2020 and the event or condition that triggered those negative variable payments was in 2020, the effect of adopting the extension to the practical expedient is reflected as an adjustment to opening equity.

WHAT FURTHER RESOURCES EXIST?

- [Illustrative annual and interim financial statements](#), including illustrative disclosure of adopting the extension of the practical expedient (see 31 March 2021 illustrative interim financial statements)
- [IFR Bulletin 2020/11](#) - Accounting for Rent Concessions: Lessee FAQs
- [IFRS In Practice](#): IFRS 16



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