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**Sent electronically through the IASB Website ([www.ifrs.org](http://www.ifrs.org))**

8 May 2020

Mr Hans Hoogervorst  
International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Hans,

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

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 comments on this Exposure Draft (ED).

The HKICPA appreciates the IASB's responsive action to address the practical challenges faced by lessees during the covid-19 pandemic and supports the IASB's proposed amendment to IFRS 16 *Leases*. We understand the importance of issuing the amendment to IFRS 16 immediately and, therefore, acknowledge the difficulties that the IASB would have in making significant changes to the proposals at this stage. Nevertheless, we have a few suggestions to further improve the proposals and address the practical challenges faced by preparers.

Our responses to the questions raised in the ED are set out below:

**Question 1 – Practical expedient**

The HKICPA agrees that the practical expedient would provide practical relief to lessees while enabling them to continue providing useful information about their leases to users of financial statements.

However, we would also like to draw your attention to the following issues that are not dealt with in the ED or require clarification:

*Differentiating the impact of the covid-19 pandemic from other negative events*

The HKICPA understands that in some cases it will be practically difficult to differentiate whether the rent concession is occurring as a direct consequence of the covid-19 pandemic or is occurring due to the combination of the covid-19 pandemic and other situations.

In 2019 in Hong Kong, many lessors provided rent concessions to lessees as a result of the general economic downturn due to the US-China trade war and social unrest events, for example in response to shopping mall closures due to local protests. In 2020, lessors are continuing to provide rent concessions for the compound effect of such events, together with the impact of the covid-19 pandemic, to ease the operational stress of



lessees. The proposed paragraphs 46B(a) to (c) limit the scope of the practical expedient to avoid it being applied too broadly. Nevertheless, we suggest removing the word "direct" in the proposed paragraph 46B so that the practical expedient applies to "rent concessions occurring as a consequence of the covid-19 pandemic" to allow lessees to apply the practical expedient to rent concessions occurring as a consequence of a combination of events, including the covid-19 pandemic.

#### *Timing of lease payments*

The HKICPA observes that it is not uncommon for lessees to prepay lease payments as required under the lease contract. To cater for the scenario where a lessor provides a rebate for rent paid in 2019 that relates to the right to use the asset in 2020, we suggest changing the wording in proposed paragraph 46B(b) from "payments originally due in 2020" to "payments originally *for/related to* 2020".

#### *Lessor accounting*

The HKICPA has received feedback from local stakeholders that it is important to provide similar practical relief for lessors. We acknowledge the IASB's reasoning for not addressing lessor accounting in paragraph BC3 of the ED. However, stakeholders have told us that lessors also face similar difficulties to lessees in assessing whether a potentially large volume of covid-19-related rent concessions are lease modifications, particularly when they have to do this repeatedly for numerous lessees across different jurisdictions. Some lessors may also incur significant time and effort to assess the implications of the laws and regulations in several jurisdictions. We also consider that it may be helpful for users of financial statements to see a consistent application for both lessors and lessees, whereby the effect of covid-19-related rent concessions is reflected in the current period rather than over the remaining lease term.

#### *Further guidance*

We would also like to highlight a few areas where our stakeholders have told us further clarification would be helpful in the final amendments:

- *Meaning of "substantive" in the proposed paragraph 46B(c).* Stakeholders have concerns about how to judge whether there is a substantive change to other terms and conditions without further guidance or clarification, such as whether the change would be considered relative to other terms and conditions of the lease. For example, considering the example in paragraph BC5(c) of the ED, would a three-month extension to the lease term be considered substantive if the remaining lease term is short (eg, 2 months), but not if it is long (eg, several years)?
- *Different types of changes in lease payments.* It would be helpful to move paragraph BC7 of the ED into the main body of the amendments to help to clarify the accounting treatment for covid-19-related rent concessions when applying the practical expedient.
- *Deferral of lease payments.* It would be helpful for the IASB to clarify explicitly whether the time value of money should be taken into consideration in assessing whether there is a change in consideration for a lease.

#### **Question 2 – Effective date**

The HKICPA supports the proposed effective date, transition requirements and permitted earlier application of the amendments in view of the urgency of the relief.

## **Other comments - Interaction of the proposals with the IASB's educational material**

During our discussions with stakeholders, we noted the following area of confusion regarding application of IFRS 16 that has arisen as a result of the interaction of the proposed amendment to IFRS 16 and the IASB's educational material<sup>1</sup> issued in April 2020.

### *Timing of recognition of forgiveness/waiver of lease payments.*

Applying paragraph 38(b) of IFRS 16, variable lease payments not included in the measurement of the lease liability are recognised in the period in which the event or condition that triggers those payments occurs. We have observed diversity in interpretation of this paragraph amongst stakeholders regarding the timing of recognition of a forgiveness or waiver of lease payments. Some stakeholders interpret paragraph 38(b) of IFRS 16 as requiring recognition in the period in which the forgiveness or waiver is agreed by the parties to the lease. However, other stakeholders interpret this paragraph as requiring recognition over the affected period, ie, over the periods in which the rent is forgiven. Stakeholders further note that the IASB's educational material refers to paragraph 3.3.1 of IFRS 9, which requires an entity to derecognise part of the lease liability when, and only when, it is extinguished (ie, recognised in profit or loss immediately when the rent concession is agreed). Stakeholders expressed concerns that the application and interaction of paragraph 38(b) of IFRS 16 and paragraph 3.3.1 of IFRS 9 may require further clarification in the educational material to avoid diversity in practice regarding the timing of recognition of a forgiveness or waiver of lease payments.

### **Work undertaken by HKICPA in forming its views:**

The HKICPA:

- (a) issued an Invitation to Comment on the ED to our stakeholders;
- (b) sought input from its Leases Advisory Panel comprising technical and industry experts and auditors from accounting firms; and
- (c) developed its views through its Financial Reporting Standards Committee, having reflected on its stakeholders' feedback. The Committee comprises academics, preparer representatives from various industry sectors, investors, regulators, and 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 or Norman Chan, Associate Director of the Standard Setting Department ([Normanchan@hki CPA.org.hk](mailto:Normanchan@hki CPA.org.hk)).

Yours sincerely,



Michelle Fisher  
Deputy Director, Standard Setting Department

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<sup>1</sup> <https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-16/ifrs-16-rent-concession-educational-material.pdf?la=en>