Hong Kong Institute of
Certified Public Accountants
香港會計師公會

MEMBERS' HANDBOOK

Update No. 258

(Issued 9 April 2021)

This Update relates to the issuance of *Covid-19-Related Rent Concessions beyond 30 June 2021* (2021 Amendment to HKFRS 16 *Leases*) and the consequential amendments arising from the *Covid-19-Related Rent Concessions* (2020 Amendment to HKFRS 16). The consequential amendments arising from the 2020 Amendment to HKFRS 16 were previously set out in the Appendix to HKFRS 16, but are now incorporated into the text of the Standard.

The 2021 Amendment to HKFRS 16 extends the availability of the practical expedient in paragraph 46A of HKFRS 16 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 for applying the practical expedient are met.

The 2021 Amendment to HKFRS 16 is effective for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements – interim or annual – not authorised for issue at 9 April 2021.

Document Reference and Title	***Instructions***
VOLUME II	
Contents of Volume II	Discard existing pages i and ii, and replace with revised pages i and ii.
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)	
HKFRS 16 *Leases*	Replace the cover page and pages 2, 4, 16, 37, 40 and 42-45 with revised cover page and revised pages 2, 4, 16, 37, 40 and 42-45. Insert page 13A after page 13, page 16A after page 16 and page 37A after page 37.
HKFRS 16 *Leases* (Basis for Conclusions)	Replace the cover page and pages 2, 7, 36, 46, 47, 54 and 70-74 with revised cover page and revised pages 2, 7, 36, 46, 47, 54 and 70-74. Insert pages 47A-47B after page 47 and page 54A after page 54.

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HKFRS 16
Revised ~~October 2020~~April 2021

Hong Kong Financial Reporting Standard 16

Leases

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46A As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.

46B The practical expedient in paragraph 46A 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 on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

(c) there is no substantive change to other terms and conditions of the lease.

60 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.

<u>60A If a lessee applies the practical expedient in paragraph 46A, the lessee shall disclose:</u>

<u>(a) that it has applied the practical expedient to all rent concessions that meet the conditions in paragraph 46B or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient (see paragraph 2); and</u>

<u>(b) the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in paragraph 46A.</u>

Lessor

Classification of leases (paragraphs B53–B58)

61 A lessor shall classify each of its leases as either an *operating lease or a finance lease*.

62 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

63 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the *fair value* at the date the option becomes exercisable for it to be reasonably certain, at the *inception date*, that the option will be exercised;

(c) the lease term is for the major part of the *economic life* of the underlying asset even if title is not transferred;

(d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and

(e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

64 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

65 The examples and indicators in paragraphs 63–64 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. For example, this may be the case if ownership of the underlying asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are variable lease payments, as a result of which the lessor does not transfer substantially all such risks and rewards.

66 Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

Appendix C
Effective date and transition

This appendix is an integral part of the Standard and has the same authority as the other parts of the Standard.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply HKFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of this Standard. If an entity applies this Standard earlier, it shall disclose that fact.

C1A *Covid-19-Related Rent Concessions*, issued in June 2020, added paragraphs 46A, 46B, 60A, C20A and C20B. A lessee shall apply that amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not authorised for issue at 4 June 2020.

Transition

C2 For the purposes of the requirements in paragraphs C1–C19, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

Definition of a lease

C3 As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:

(a) to apply this Standard to contracts that were previously identified as leases applying HKAS 17 *Leases* and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*. The entity shall apply the transition requirements in paragraphs C5–C18 to those leases.

(b) not to apply this Standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4.

C4 If an entity chooses the practical expedient in paragraph C3, it shall disclose that fact and apply the practical expedient to all of its contracts. As a result, the entity shall apply the requirements in paragraphs 9–11 only to contracts entered into (or changed) on or after the date of initial application.

Lessees

C5 A lessee shall apply this Standard to its leases either:

(a) retrospectively to each prior reporting period presented applying HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application in accordance with paragraphs C7–C13.

C6 A lessee shall apply the election described in paragraph C5 consistently to all of its leases in which it is a lessee.

C7 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall not restate comparative information. Instead, the lessee shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

Leases previously classified as operating leases

C8 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall:

Sale and leaseback transactions before the date of initial application

C16 An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in HKFRS 15 to be accounted for as a sale.

C17 If a sale and leaseback transaction was accounted for as a sale and a finance lease applying HKAS 17, the seller-lessee shall:

(a) account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application; and

(b) continue to amortise any gain on sale over the lease term.

C18 If a sale and leaseback transaction was accounted for as a sale and operating lease applying HKAS 17, the seller-lessee shall:

(a) account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application; and

(b) adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognised in the statement of financial position immediately before the date of initial application.

Amounts previously recognised in respect of business combinations

C19 If a lessee previously recognised an asset or a liability applying HKFRS 3 *Business Combinations* relating to favourable or unfavourable terms of an operating lease acquired as part of a business combination, the lessee shall derecognise that asset or liability and adjust the carrying amount of the right-of-use asset by a corresponding amount at the date of initial application.

References to HKFRS 9

C20 If an entity applies this Standard but does not yet apply HKFRS 9 *Financial Instruments*, any reference in this Standard to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement*.

Covid-19-related rent concessions for lessees

C20A A lessee shall apply *Covid-19-Related Rent Concessions* (see paragraph C1A) retrospectively, recognising the cumulative effect of initially applying that 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.

C20B In the reporting period in which a lessee first applies *Covid-19-Related Rent Concessions*, a lessee is not required to disclose the information required by paragraph 28(f) of HKAS 8.

Withdrawal of other Standards

C21 This Standard supersedes the following Standards and Interpretations:

(a) HKAS 17 *Leases*;

(b) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*;

(c) HK(SIC)-Int 15 *Operating Leases—Incentives*; and

(d) HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Appendix ~~F~~E
Amendment to HKFRS 16 *Leases*

The following sets out amendments required for this Standard resulting from amendments to HKFRS 16 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted.

Paragraphs 104–106 and paragraphs C1B and C20C–C20D are added. A heading is added before paragraph 104 and a subheading is added before paragraph C20C. For ease of reading these paragraphs have not been underlined.

Temporary exception arising from interest rate benchmark reform

104 A lessee shall apply paragraphs 105–106 to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform (see paragraphs 5.4.6 and 5.4.8 of HKFRS 9). These paragraphs apply only to such lease modifications. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2 of HKFRS 9.

105 As a practical expedient, a lessee shall apply paragraph 42 to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

(a) the modification is necessary as a direct consequence of interest rate benchmark reform; and

(b) the new basis for determining the lease payments is economically equivalent to the previous basis (ie the basis immediately preceding the modification).

106 However, if lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, a lessee shall apply the applicable requirements in this Standard to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

...

Effective date

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C1B *Interest Rate Benchmark Reform—Phase 2*, which amended HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, issued in October 2020, added paragraphs 104–106 and C20C–C20D. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Transition

...

Interest Rate Benchmark Reform—Phase 2

C20C An entity shall apply these amendments retrospectively in accordance with HKAS 8, except as specified in paragraph C20D.

C20D An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Appendix F
Covid-19-Related Rent Concessions beyond 30 June 2021
Amendment to HKFRS 16 *Leases*

The following sets out amendments required for this Standard resulting from an amendment to HKFRS 16 that is already effective. The amendments set out below will be incorporated into the text of this Standard in due course and this appendix will be deleted.

Paragraph 46B has been amended. Paragraphs C1C and C20BA–C20BC have been added. New text is underlined and deleted text is struck through.

Lessee

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Measurement

...

Subsequent measurement

...

Lease modifications

...

46B The practical expedient in paragraph 46A 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 on or before 30 June 2022~~2021~~ (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2022~~2021~~ and increased lease payments that extend beyond 30 June 2022~~2021~~); and

(c) there is no substantive change to other terms and conditions of the lease.

…

Appendix C
Effective date and transition

Effective date

…

C1C *Covid-19-Related Rent Concessions beyond 30 June 2021*, issued in April 2021, amended paragraph 46B and added paragraphs C20BA–C20BC. A lessee shall apply that amendment for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not authorised for issue at 9 April 2021.

Transition

...

Covid-19-related rent concessions for lessees

...

C20BA A lessee shall apply *Covid-19-Related Rent Concessions beyond 30 June 2021* (see paragraph C1C) retrospectively, recognising the cumulative effect of initially applying that 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.

C20BB In the reporting period in which a lessee first applies *Covid-19-Related Rent Concessions beyond 30 June 2021*, a lessee is not required to disclose the information required by paragraph 28(f) of HKAS 8.

C20BC Applying paragraph 2 of this Standard, a lessee shall apply the practical expedient in paragraph 46A consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the lessee applying *Covid-19-Related Rent Concessions* (see paragraph C1A) or *Covid-19-Related Rent Concessions beyond 30 June 2021* (see paragraph C1C).

HKFRS 16 BC

Revised ~~October 2020~~April 2021

Basis for Conclusions on
Hong Kong Financial Reporting Standard 16

Leases

CPA

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~~C~~B AMENDMENTS TO THE BASIS FOR CONCLUSIONS ON IFRS 16 *LEASES*

C *COVID-19-RELATED RENT CONCESSIONS BEYOND 30 JUNE 2021* AMENDMENT TO THE BASIS FOR CONCLUSIONS ON IFRS 16 *LEASES*

Measurement: lessee (paragraphs 23–46B)

Measurement bases of the right-of-use asset and the lease liability

BC145 The IASB decided to require a cost measurement basis for the right-of-use asset and lease liability, with cost measured by reference to the present value of the lease payments. The IASB concluded that this approach will provide useful information to users of financial statements. This is because it is consistent with the approach used to measure other similar assets and liabilities and thus is expected to result in more comparable information than other approaches. The IASB also concluded that using a cost measurement basis will be less costly for preparers than other approaches.

BC146 The IASB considered whether to refer to other Standards rather than specify in IFRS 16 the initial and subsequent measurement of the right-of-use asset and lease liability. The IASB did not adopt an approach that would refer to other Standards because:

(a) the approach would have been inconsistent with the IASB's decision not to apply a components approach to lease accounting (see paragraph BC153). For example, if a lessee were to account for all of the features of a lease applying other Standards, the requirements on financial instruments may have routinely required options in a lease to be accounted for separately.

(b) the approach could have been complex to apply, particularly when a lease contains relatively common features such as extension options, variable lease payments and residual value guarantees.

Initial measurement of the right-of-use asset (paragraphs 23–25)

BC147 The IASB decided that a lessee should measure the right-of-use asset at cost, defined as:

(a) the present value of the lease payments;

(b) any initial direct costs incurred by the lessee (see paragraphs BC149–BC151); and

(c) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

BC148 The IASB considered whether a lessee should initially measure the right-of-use asset at fair value, which may provide more relevant information about the economic benefits to be derived from use of the underlying asset. However, initial measurement of a right-of-use asset at cost is consistent with the measurement of many other non-financial assets, such as assets within the scope of IAS 16 and IAS 38. Measuring right-of-use assets on a basis similar to that used to measure the underlying asset maintains the comparability of amounts reported for leased and owned assets, which contributes to the usefulness of the information provided to users of financial statements. Furthermore, measuring the right-of-use asset at cost is less complex and less costly for entities than measuring that asset at fair value, because there often is not an active market for right-of-use assets. The IASB thinks that, for many leases, a cost measurement basis will also provide a reasonable approximation of the fair value of the right-of-use asset at the commencement date.

Initial direct costs (paragraph 24(c))

BC149 IFRS 16 requires a lessee to include initial direct costs in the initial measurement of the right-of-use asset and depreciate those costs over the lease term. Including initial direct costs in the measurement of the right-of-use asset is consistent with the treatment of costs associated with acquiring other non-financial assets (for example, property, plant and equipment and intangible assets).

BC150 The IASB decided that lessees and lessors should apply the same definition of initial direct costs. This decision was made primarily to reduce complexity in applying IFRS 16. As described in economic exposure in profit or loss. This is because an entity would recognise any change in the foreign currency risk for the derivatives in profit or loss, whereas it would recognise the corresponding change in lease liabilities in the balance sheet—thus introducing volatility as a result of reducing exposure to foreign currency risk. This mismatch could distort the reported economic position of the lessee.

(d) in the IASB's view, subsequent changes to a foreign exchange rate should not have any effect on the cost of a non-monetary item. Consequently, it would be inappropriate to include such changes in the remeasurement of the right-of-use asset.

BC199 Although this approach could result in volatility in profit or loss from the recognition of foreign currency exchange differences, an entity would disclose those changes separately as foreign currency exchange gains or losses. Accordingly, it would be clear to users of financial statements that the gain or loss results solely from movements in foreign exchange rates. Because this approach is consistent with the requirements for foreign currency exchange differences in IAS 21, the IASB concluded that it was not necessary to include any specific requirements in IFRS 16.

Lease modifications (paragraphs 44–46B)

BC200 IAS 17 did not address the accounting for lease modifications. The IASB decided that it would be useful to include a general framework for accounting for lease modifications in IFRS 16 because modifications occur frequently for many types of leases.

BC201 The IASB decided to define a lease modification as a change in the scope of a lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term), or the consideration for a lease, that was not part of the original terms and conditions of the lease. In defining lease modifications, the IASB differentiated between scenarios resulting in the remeasurement of existing lease assets and lease liabilities that are not lease modifications (for example, a change in lease term resulting from the exercise of an option to extend the lease when that option was not included in the original lease term) and those resulting in a lease modification (for example, a change in the lease term resulting from changes to the terms and conditions of the original lease).

BC202 The IASB decided that an entity should further distinguish between those lease modifications that, in substance, represent the creation of a new lease that is separate from the original lease and those that, in substance, represent a change in the scope of, or the consideration paid for, the existing lease. Consequently, IFRS 16 requires a lessee to account for a lease modification as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration paid for the lease increases by an amount commensurate with the stand-alone price for the increase in scope.

BC203 For those lease modifications that do not result in a separate lease, the IASB decided that a lessee should remeasure the existing lease liability using a discount rate determined at the effective date of the modification. The IASB decided that:

(a) for lease modifications that decrease the scope of a lease, a lessee should decrease the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognise a corresponding gain or loss. In the IASB's view, this gain or loss appropriately reflects the economic effect of the partial or full termination of the existing lease resulting from the decrease in scope.

(b) for all other lease modifications, a lessee should make a corresponding adjustment to the carrying amount of the right-of-use asset. In these cases, the original lease is not terminated because there is no decrease in scope. The lessee continues to have the right to use the underlying asset identified in the original lease. For lease modifications that increase the scope of a lease, the adjustment to the carrying amount of the right-of-use asset effectively represents the cost of the additional right of use acquired as a result of the modification. For lease modifications that change the consideration paid for a lease, the adjustment to the carrying amount of the right-of-use asset effectively represents a change in the cost of the right-of-use asset as a result of the modification. The use of a revised discount rate in remeasuring the lease liability reflects that, in modifying the lease, there is a change in the interest rate implicit in the lease (which the discount rate is intended to approximate).

BC204 The IASB concluded that this approach results in accounting outcomes that faithfully represent the substance of a lease modification and will closely align gain or loss recognition with a corresponding change in the lessee's rights and obligations under the lease. This is because a lease gives rise to both a right-of-use asset and a lease liability. Accordingly, a lease modification can result in a change to the lessee's rights (ie a change to the right-of-use asset), a change to the lease liability, or both.

BC205 The IASB considered requiring a lessee to distinguish between changes to a lease that are substantial and those that are not substantial, in a manner similar to that required for contract modifications relating to financial liabilities within the scope of IFRS 9. This approach would require a lessee to account for the lease modification as (a) a new lease, when the change represents a substantial modification; or (b) a continuation of the original lease, when the change does not represent a substantial modification. However, the IASB did not adopt this approach because, as a result of the link to the right-of-use asset, it could result in outcomes that would not faithfully represent the differing nature of each of those changes. For example, there are scenarios in which this approach would result in the extinguishment of the original lease (and the recognition of a corresponding gain or loss in profit or loss) when the lessee continues to have all of the rights it had in the original lease after the modification.

Covid-19-related rent concessions

BC205A In May 2020 the Board provided a practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the covid-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. The Board provided the practical expedient in response to information about the effects of the covid-19 pandemic.

BC205B The Board was informed that many lessors are providing rent concessions to lessees as a result of the pandemic. The Board learned that lessees could find it challenging to assess whether a potentially large volume of covid-19-related rent concessions are lease modifications and, for those that are, to apply the required accounting in IFRS 16, especially in the light of the many challenges lessees face during the pandemic. Further, those challenges arising during the pandemic add to the work undertaken by lessees in implementing the new lessee accounting model in IFRS 16. The Board concluded that the practical expedient would provide relief to lessees, while enabling lessees to continue providing useful information about their leases to users of financial statements (see paragraph BC205F). To provide the relief when needed most, the Board enabled immediate application of the amendment in any financial statements—interim or annual—not authorised for issue at the date the amendment was issued.

BC205C The Board decided to permit, but not require, a lessee to apply the practical expedient. Some lessees (for example, those with systems to address changes in lease payments) may prefer to apply, or have already applied, the requirements in paragraphs 36–46 of IFRS 16 to all changes in lease contracts. A lessee that chooses to apply the practical expedient would be required by paragraph 2 of IFRS 16 to apply it consistently to all lease contracts with similar characteristics and in similar circumstances.

BC205D The Board considered the risk of the practical expedient being applied too broadly, which could result in unintended consequences. The Board therefore limited the scope of the practical expedient so that it applies only to rent concessions that occur as a direct consequence of the covid-19 pandemic and:

(a) result in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change. The Board was of the view that a rent concession that increases total payments for the lease should not be considered a direct consequence of the covid-19 pandemic, except to the extent the increase reflects only the time value of money.

(b) reduce only lease payments originally due on or before 30 June 2021. The Board noted that a related increase in lease payments that extends beyond 30 June 2021 would not prevent a rent concession from meeting this condition. In contrast, if reductions in lease payments extend beyond 30 June 2021, the rent concession in its entirety would not be within the scope of the practical expedient. In developing this condition, the Board observed that the economic effects of the covid-19 pandemic could continue for some time. If the practical expedient were not limited to a particular time frame, a lessee could conclude that many future changes in lease payments would be a consequence of the covid-19 pandemic. Limiting the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2021 provides relief to lessees when they are expected to need it most, while being responsive to concerns from users of financial statements about comparability if lessees were to apply the practical expedient beyond when it is needed. The Board also expected the condition in paragraph 46B(b) to be easy to apply, and to help lessees in identifying rent concessions occurring as a direct consequence of the covid-19 pandemic.

(c) introduce no substantive change to other terms and conditions of the lease, considering both qualitative and quantitative factors. Consequently, if a modification to a lease incorporates other substantive changes—beyond a rent concession occurring as a direct consequence of the covid-19 pandemic—the modification in its entirety does not qualify for the practical expedient. The Board noted that, for example, a three-month rent holiday before 30 June 2021 followed by three additional months of substantially equivalent payments at the end of the lease would not constitute a substantive change to other terms and conditions of the lease.

BC205E The Board developed the practical expedient to relieve lessees from assessing whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and from applying the lease modification requirements to those concessions. The practical expedient does not otherwise interpret or change any requirements in IFRS 16. The Board observed therefore that a lessee would account for the lease liability and right-of-use asset applying the requirements in IFRS 16, which, for example, incorporate requirements in IAS 16 *Property, Plant and Equipment*. With this in mind, the Board considered how a lessee applying the practical expedient would account for three types of change in lease payments:

(a) a lessee applying the practical expedient would generally account for a forgiveness or waiver of lease payments as a variable lease payment applying paragraph 38 of IFRS 16. The lessee would also make a corresponding adjustment to the lease liability—in effect, derecognising the part of the lease liability that has been forgiven or waived.

(b) a change in lease payments that reduces payments in one period but proportionally increases payments in another does not extinguish the lessee's lease liability or change the consideration for the lease—instead, it changes only the timing of individual payments. In this case, applying paragraph 36 of IFRS 16, a lessee would continue to both recognise interest on the lease liability and reduce that liability to reflect lease payments made to the lessor.

(c) some covid-19-related rent concessions reduce lease payments, incorporating both a forgiveness or waiver of payments and a change in the timing of payments.

BC205F The Board was of the view that the information provided by a lessee that applies the practical expedient would be useful to users of financial statements, noting that the lease liability recognised would reflect the present value of future lease payments owed to the lessor. Users of financial statements supported a lessee recognising in profit or loss at the time of the covid-19 pandemic the effects of a rent concession occurring as a direct consequence of the pandemic. Nonetheless, the Board acknowledged concerns from users of financial statements that the practical expedient, because it is optional, could affect comparability between lessees that apply the practical expedient and those that do not—disclosure of the effects of applying the practical expedient is therefore important to meet users' information needs. Consequently, the Board decided to require a lessee applying the practical expedient to some or all eligible contracts to disclose that fact, as well as the amount recognised in profit or loss to reflect changes in lease payments that arise from rent concessions to which the practical expedient is applied (paragraph 60A of IFRS 16).

BC205G Users of financial statements also highlighted the importance of cash flow information about covid-19-related rent concessions. The main effect on cash flows would be the reduction or absence of cash outflows for leases during the period of the rent concession. For a concession that adjusts the carrying amount of the lease liability, a lessee would disclose this effect as a non-cash change in lease liabilities applying paragraph 44A of IAS 7 *Statement of Cash Flows*. The Board noted that cash flow effects, and other information about, for example, the nature of rent concessions, would be relevant regardless of whether a lessee applies the practical expedient. The Board expected paragraphs 51 and 59 of IFRS 16 to require a lessee to disclose such information, if material.

Presentation: lessee (paragraphs 47–50)

Statement of financial position (paragraphs 47–48)

BC206 The IASB decided that, if not presented separately in the balance sheet, right-of-use assets should be included within the same line item as similar owned assets. The IASB concluded that, if right-of-use assets are not presented as a line item, presenting similar leased and owned assets together would provide more useful information to users of financial statements than other approaches. This is because a lessee often uses owned assets and leased assets for the same purpose and derives similar economic benefits from the use of owned assets and leased assets.

BC207 However, the IASB noted that there are differences between a right-of-use asset and an owned asset, and that users of financial statements may want to know the carrying amount of each separately. For example, right-of-use assets may be viewed as being (a) less risky than owned assets, because a right-of-use asset may not embed residual asset risk; or (b) more risky than owned assets, because the lessee may need to replace the right-of-use asset at the end of the lease term, but may not be able to secure a similar rate for the replacement lease. Accordingly, IFRS 16 requires a lessee to provide information about the carrying amount of right-of-use assets separately from assets that are owned, either in the balance sheet or in the notes.

BC208 Similarly, the IASB decided that a lessee should present lease liabilities separately from other liabilities, either in the balance sheet or in the notes. In reaching this decision, the IASB noted that leasing is an important activity for many lessees. Although a lease liability shares many common characteristics with other financial liabilities, a lease liability is contractually related to a corresponding asset and often has features, such as options and variable lease payments, that differ from those typically found in other liabilities. Thus, presenting lease liabilities separately from other financial liabilities (along with the disclosure requirements discussed in paragraphs BC212–BC230) provides users of financial statements with information that is useful in understanding an entity’s obligations arising from lease arrangements. The IASB also noted that paragraph 55 of IAS 1 requires a lessee to further disaggregate line items in the balance sheet if such presentation is relevant to an understanding of the lessee’s financial position.

Statement of profit or loss and other comprehensive income (paragraph 49)

BC209 The IASB decided that a lessee should present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset in the income statement. The IASB concluded that a lessee would provide more useful information to users of financial statements by presenting interest on the lease liability together with interest on other financial liabilities and

Lease modifications (paragraphs 79–80 and 87)

BC238 IFRS 16 requires a lessor—like a lessee—to account for a modification to a finance lease as a separate lease if:

(a) the modification increases the scope of the lease by adding the right for the lessee to use one or more underlying assets; and

(b) the consideration received for the lease increases by an amount commensurate with the stand-alone price for the increase in scope.

This is because, in the IASB's view, such a modification in substance represents the creation of a new lease that is separate from the original lease. This requirement is substantially aligned with equivalent requirements in IFRS 15 that require a seller to account for modifications that add distinct goods or services as separate contracts if those additional goods or services are priced commensurately with their stand-alone selling price.

BC239 For modifications to a finance lease that are not accounted for as a separate lease, IFRS 16 requires a lessor to account for the modification applying IFRS 9 (unless the lease modification would have been classified as an operating lease if the modification had been in effect at the inception date). The IASB expects that this approach will not result in any substantive change to previous lessor accounting for modifications of finance leases. This is because, although IAS 17 did not include requirements relating to lease modifications, the IASB understands that a lessor generally applied an approach that was consistent with the requirements in IFRS 9 (or the equivalent requirements in IAS 39 *Financial Instruments: Recognition and Measurement*) to the net investment in a finance lease.

BC240 IFRS 16 requires a lessor to account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. This approach is consistent with the approach required by IFRS 15 if, at the time of a contract modification (that is accounted for as a separate contract), the remaining goods or services to be transferred are distinct from the goods or services already transferred. It is also expected that this approach will not result in any substantive change to previous lessor accounting.

Covid-19-related rent concessions

BC240A In 2020, when the Board provided lessees with a practical expedient for rent concessions occurring as a direct consequence of the covid-19 pandemic (see paragraphs BC205A–BC205G), the Board considered whether to provide similar practical relief for lessors. Lessors informed the Board that, like lessees, they face many practical challenges associated with large volumes of covid-19-related rent concessions. Having considered the feedback, the Board decided not to provide a practical expedient for lessors for the following reasons:

(a) IFRS 16 does not specify how a lessor accounts for a change in lease payments that is not a lease modification—this is a consequence of the Board's decision to substantially carry forward the lessor accounting requirements in IAS 17 when it developed IFRS 16 (see paragraphs BC57–BC66). Consequently, to ensure consistency in financial reporting, a practical expedient for lessors would have to include new recognition and measurement requirements. Such requirements might not effectively address all of the practical challenges identified by lessors, and might have unintended consequences. Such requirements would also take time to develop, preventing a practical expedient from being provided in time to be useful.

(b) Any practical expedient would adversely affect the comparability of, and interaction between, the lessor accounting requirements in IFRS 16 and related requirements in other Standards, thus impairing the quality of information provided to users of financial statements. For example, the lessor accounting requirements in IFRS 16 interact with:

(i) IFRS 9 for finance leases. A lessor applies IFRS 9 in accounting for particular finance lease modifications and, therefore, the accounting for those modifications is aligned with the accounting for modifications to similar financial assets within the scope of IFRS 9.

(ii) IFRS 15 for operating leases. The application of IFRS 16 to operating lease modifications results in outcomes similar to those that result from the application of IFRS 15 to particular service contracts, and the definitions of a modification in IFRS 16 and IFRS 15 are similar.

(c) Although acknowledging the practical challenges lessors face during the pandemic, the Board noted that, unlike lessees, lessors have not recently implemented a new accounting model for their leases.

(d) The Board was of the view that accounting for covid-19-related rent concessions using the existing lessor accounting requirements provides useful information to users of financial statements.

Lessor: classification of leases—leases of land and buildings (2003 and 2009 amendments to IAS 17) (paragraphs B55–B57)

Land element in long-term leases

BCZ241 In 2009, the IASB amended the IAS 17 requirements for classification of the land element in long-term leases. IAS 17 had previously stated that a lease of land with an indefinite economic life would normally be classified as an operating lease. However, in 2009, the IASB removed that statement from IAS 17, having concluded that it might lead to a classification of land that does not reflect the substance of the transaction.

BCZ242 In reaching this conclusion the IASB had considered the example of a 999-year lease of land and buildings. It had noted that, for such a lease, significant risks and rewards associated with the land during the lease term would have been transferred by the lessor despite there being no transfer of title.

BCZ243 The IASB had also noted that the lessor in leases of this type will typically be in a position economically similar to an entity that sold the land and buildings. The present value of the residual value of the property in a lease with a term of several decades would be negligible. The IASB had concluded that the accounting for the land element as a finance lease in such circumstances would be consistent with the economic position of the lessor.

BCZ244 The IASB replaced the previous guidance with a statement (now in paragraph B55 of IFRS 16) that, in determining whether the land element is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life.

Appendix ~~C~~B
Amendment to the Basis for Conclusions on IFRS 16 *Leases*

This appendix contains amendments to the Basis for Conclusions on IFRS 16 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted.

Paragraphs BC267A–BC267J are added. A heading is added before paragraph BC267A. For ease of reading new text is not underlined.

Temporary exception arising from interest rate benchmark reform

BC267A In April 2020 the Board published the Exposure Draft *Interest Rate Benchmark Reform—Phase 2* (2020 Exposure Draft), which proposed amendments to specific requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address issues that might affect financial reporting during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate. The term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2 of IFRS 9 (the reform). The Board issued the final amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in August 2020 (Phase 2 amendments). Paragraphs BC5.287–BC5.293 of the Basis for Conclusions on IFRS 9 and paragraphs BC289–BC295 of the Basis for Conclusions on IAS 39 discuss the background to these amendments.

BC267B In developing the Phase 2 amendments, the Board also considered the potential effects of the reform on the financial statements of an entity applying the requirements of IFRS Standards, other than IFRS 9 and IAS 39. The Board specifically considered the potential effects arising in the context of IFRS 16.

BC267C Some leases include lease payments that are referenced to an interest rate benchmark that is subject to the reform as described in paragraph 6.8.2 of IFRS 9. IFRS 16 requires a lessee to include variable lease payments referenced to an interest rate benchmark in the measurement of the lease liability.

BC267D Applying IFRS 16, modifying a lease contract to change the basis for determining the variable lease payments meets the definition of a lease modification because a change in the calculation of the lease payments would change the original terms and conditions determining the consideration for the lease.

BC267E IFRS 16 requires that an entity accounts for a lease modification by remeasuring the lease liability by discounting the revised lease payments using a revised discount rate. That revised discount rate would be determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

BC267F However, in the Board's view, reassessing the lessee's entire incremental borrowing rate when the modification is limited to what is required by the reform (ie when the conditions in paragraph 105 of IFRS 16 are met) would not reflect the economic effects of the modified lease. Such a requirement might also impose additional cost on preparers, particularly when leases that are referenced to a benchmark rate that is subject to the reform are expected to be amended at different times. This is because preparers would have to determine a new incremental borrowing rate at the effective date of each such lease modification.

BC267G For the reasons set out in paragraph BC5.306 of the Basis for Conclusions to IFRS 9, the Board provided a practical expedient to account for a lease modification required by the reform applying paragraph 42 of IFRS 16. This practical expedient requires remeasurement of the lease liability using a discount rate that reflects the change to the basis for determining the variable lease payments as required by the reform. This practical expedient would apply to all lease modifications that change the basis for determining future lease payments that are required as a result of the reform (see paragraphs 5.4.6 and 5.4.8 of IFRS 9). For this purpose, consistent with the amendments to IFRS 9, a lease modification required by the reform is a lease modification that satisfies two conditions—the modification is necessary as a direct consequence of the reform and the new basis for determining the lease payments is economically equivalent to the previous basis (ie the basis immediately preceding the modification).

BC267H The practical expedient provided for lease modifications applies only to the lease modifications required by the reform. If lease modifications in addition to those required by the reform are made, an entity is required to apply the requirements in IFRS 16 to account for all modifications made at the same time, including those required by the reform.

BC267I In contrast to the amendments for financial assets and financial liabilities in IFRS 9 (see paragraph 5.4.9 of IFRS 9), the Board decided not to specify the order of accounting for lease modifications required by the reform and other lease modifications. This is because the accounting outcome would not differ regardless of the order in which an entity accounts for lease modifications required by the reform and other lease modifications.

BC267J The Board also considered that, from the perspective of a lessor, lease payments included in the measurement of the net investment in a finance lease may include variable lease payments that are referenced to an interest rate benchmark. The Board decided not to amend the requirements for accounting for modifications to lease contracts from the lessor's perspective. The Board did not make such amendments because, for finance leases, a lessor is required to apply the requirements in IFRS 9 to a lease modification, so the amendments in paragraphs 5.4.5–5.4.9 of IFRS 9 would apply when those modifications are required by the reform. For operating leases, the Board decided that applying the requirements in IFRS 16 for lessors will provide useful information about the modification in terms and conditions required by the reform in the light of the mechanics of the operating lease accounting model.

Appendix C
Covid-19-Related Rent Concessions Beyond 30 June 2021
Amendment to the Basis for Conclusions on IFRS 16 *Leases*

This appendix contains amendments to the Basis for Conclusions on IFRS 16 that are already effective and the Dissenting Opinion. The amendments set out below will be incorporated into the text of this Basis for Conclusions in due course and this appendix will be deleted.

Paragraphs BC205D has been amended. Paragraphs BC205H–BC205J and their related heading have been added. Dissenting opinion has been added. New text is underlined and deleted text is struck through.

Measurement: lessee (paragraphs 23–46B)

...

Lease modifications (paragraphs 44–46B)

...

Covid-19-related rent concessions

...

BC205D The Board considered the risk of the practical expedient being applied too broadly, which could result in unintended consequences. The Board therefore limited the scope of the practical expedient so that it applies only to rent concessions that occur as a direct consequence of the covid-19 pandemic and:

(a) result in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change. The Board was of the view that a rent concession that increases total payments for the lease should not be considered a direct consequence of the covid-19 pandemic, except to the extent the increase reflects only the time value of money.

(b) reduce only lease payments originally due on or before 30 June 2022~~2021~~.[1] The Board noted that a related increase in lease payments that extends beyond 30 June 2022~~2021~~ would not prevent a rent concession from meeting this condition. In contrast, if reductions in lease payments extend beyond 30 June 2022~~2021~~, the rent concession in its entirety would not be within the scope of the practical expedient. In developing this condition, the Board observed that the economic effects of the covid-19 pandemic could continue for some time. If the practical expedient were not limited to a particular time frame, a lessee could conclude that many future changes in lease payments would be a consequence of the covid-19 pandemic. Limiting the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022~~2021~~ provides relief to lessees when they are expected to need it most, while being responsive to concerns from users of financial statements about comparability if lessees were to apply the practical expedient beyond when it is needed. The Board also expected the condition in paragraph 46B(b) to be easy to apply, and to help lessees in identifying rent concessions occurring as a direct consequence of the covid-19 pandemic.

[1] In March 2021 the Board issued *Covid-19-Related Rent Concessions beyond 30 June 2021*, which amended the date in paragraph 46B(b) of IFRS 16 from 30 June 2021 to 30 June 2022 (see paragraphs BC205H–BC205J).

(c) introduce no substantive change to other terms and conditions of the lease, considering both qualitative and quantitative factors. Consequently, if a modification to a lease incorporates other substantive changes—beyond a rent concession occurring as a direct consequence of the covid-19 pandemic—the modification in its entirety does not qualify for the practical expedient. The Board noted that, for example, a three-month rent holiday before 30 June 2022~~2021~~ followed by three additional months of substantially equivalent payments at the end of the lease would not constitute a substantive change to other terms and conditions of the lease.

...

Covid-19-related rent concessions beyond 30 June 2021

BC205H In March 2021 the Board issued *Covid-19-Related Rent Concessions beyond 30 June 2021* (the 2021 amendment), which extended the availability of the practical expedient in paragraph 46A of IFRS 16 by one year. The 2021 amendment resulted in the practical expedient applying 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 for applying the practical expedient are met.

BC205I The Board extended the availability of the practical expedient in response to stakeholder feedback about covid-19-related rent concessions being granted at the time of the 2021 amendment. The Board was informed that lessees continue to face challenges accounting for rent concessions, especially in the light of the many other challenges lessees face during the pandemic. Almost all stakeholders—including almost all users of financial statements—that provided feedback on the 2021 amendment supported extending the availability of the practical expedient. Users of financial statements agreed that the ongoing severity of the pandemic had not been envisaged when the Board originally developed the practical expedient in May 2020; they nonetheless highlighted the continued importance of limiting the availability of the practical expedient so that it can be used only when it is needed most. The Board acknowledged that lessees were no longer applying IFRS 16 for the first time, but concluded that, in all other respects, extending the scope of the practical expedient would be consistent with the Board's objectives when it originally developed the practical expedient in May 2020 (see paragraph BC205B).

BC205J The Board amended only the date within the condition in paragraph 46B(b)— it introduced neither a new practical expedient nor a new option to apply (or not apply) the practical expedient. In response to stakeholder feedback, the Board decided to highlight—in paragraph C20BC of IFRS 16—the relevance of paragraph 2 of IFRS 16 when first applying the 2021 amendment. Applying paragraph 2, a lessee that had already applied the practical expedient in paragraph 46A would be required to apply the extended scope of the practical expedient to eligible contracts with similar characteristics and in similar circumstances. Similarly, the 2021 amendment did not allow a lessee to elect to apply the practical expedient if the lessee did not apply the practical expedient to eligible rent concessions with similar characteristics and in similar circumstances, including those that reduce only lease payments due on or before 30 June 2021. At the time the Board issued the 2021 amendment, a lessee may not have established an accounting policy on applying (or not applying) the practical expedient to eligible rent concessions. Such a lessee could still decide to apply the practical expedient, however that lessee would be required to do so retrospectively and to apply it consistently to contracts with similar characteristics and in similar circumstances.

Dissenting opinion

Dissent of Nick Anderson and Zachary Gast from *Covid-19-Related Rent Concessions beyond 30 June 2021*

DO1 Messrs Anderson and Gast voted against the publication of *Covid-19-Related Rent Concessions beyond 30 June 2021*. They are concerned that an extension to the period during which the practical expedient is available will further impede comparability between lessees that apply the practical expedient and those that do not. They note that support from users of financial statements for *Covid-19-Related Rent Concessions* (the 2020 amendment) was predicated on limiting the practical expedient to a specific time frame that the amendment will extend by 12 months. They also note that one key reason the Board developed the 2020 amendment was because, at that time, lessees were applying IFRS 16 for the first time and that this is no longer the case.