



Meeting with Leases Advisory Panel (via Teleconference)

Extract of minutes

Date: 29 April 2020

Time: 2:30 p.m to 4:30 p.m

Members presented:

Ms Anntice Lai, Baker Tilly

Ms. Bow Kotanut, BlackRock Asset Management North Asia Ltd

Ms. Catherine Tang, KPMG

Ms. Catherine Yuen, Ernst & Young

Mr. Gordon Lee, Deloitte

Mr. Ian Farrar, PricewaterhouseCoopers

Ms. Lillian Chan, Deloitte

Ms. Lisa Zhang, PricewaterhouseCoopers

Ms. Shelley So, PricewaterhouseCoopers

Mr. Tony Pang, KPMG

Staff in attendance:

Ms. Michelle Fisher, Deputy Director, Standard Setting

Mr. Norman Chan, Associate Director, Standard Setting

Ms. Joni Kan, Associate Director, Standard Setting

Apologies:

Mr. Byron Khoo, Ernst & Young

Ms. Candy Fong, Foremost Advisers Ltd

Mr. Choy Kai Shing, Daido Group Limited

Mr. Gary Stevenson, RSM Hong Kong

Ms. Kelly Kong, Jardine Matheson & Co., Limited

Comments on the IASB's Exposure Draft ED/2020/2 Covid-19-Related Rent

Concessions: Proposed amendment to IFRS 16 (ED)

1. All Panel members agreed that the proposed amendments would be helpful to the lessee. However, they suggested that a similar practical expedient should also be available to the lessor as the lessor may also face a large volume of leases modifications with different lessees.



2. One Panel member indicated that there are arrangements under which the parties agree to change the fixed rental payments to full variable lease payments for particular months. If the lessor can apply a similar practical relief as the lessee, the overall accounting impact will have a lower lease income recognised during the current period and provide more relevant financial information to the users.
3. One Panel member suggested that the lease payments identified in proposed paragraph 46B should be changed from “payments originally due in 2020” to “payments originally *for/related to 2020*”, in order to scope in lease payments prepaid by the lessee (eg payments made in 2019 that relate to the right to use the asset in 2020).
4. One Panel member indicated that the proposed amendments to IFRS 16 are not clear whether the "change in lease payment" should be considered based on the present value or the nominal value of the total consideration. For example, the deferral of lease payments (with same total nominal consideration) is not regarded as a lease modification in the educational guidance from IASB, but it appears in BC 7(b) of the ED as one of the example to apply the practical expedient. Accordingly, it is unclear whether a deferred payment arrangement (eg one not directly related to Covid-19) is accounted for as a lease modification.
5. One Panel member suggested to include BC 7 of the proposed amendment in the main body of the final amendments to help understanding of the types of changes envisaged by the IASB where the entity could apply the practical expedient.
6. A few panel members indicated their concerns on how to prove that the rent concessions are occurring as a “direct consequence of the covid-19 pandemic”. They indicated this may be difficult to prove in practice and may be difficult to differentiate from rent concessions due to the economic downturn and/or social events in Hong Kong. For example, would the amended agreement need to state that the change is a "direct consequence of the covid-19 pandemic"?
7. Some panel members raised concerns about the interaction with IFRS 9 and the timing of derecognition of the lease liability for the forgiveness of lease payments as discussed in the IASB's educational guidance. This is because paragraph 3.3.1 of IFRS 9 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 lessor agreed the rent concessions with the lessee). However, according to paragraph 38 of IFRS 16, variable lease payments are generally recognised in profit or loss in the period which the event or condition that



triggers those payments occurs (which some Panel members interpret as should be recognised over the affected period, rather than recognised immediately). Panel members recommended the IASB clarify the appropriate timing for the recognition.

8. Some Panel members noted the need for guidance from the IASB on:
 - a. Applying the exemption consistently to leases based on similar characteristics and in similar circumstances (BC4 of the ED)
 - b. What is meant by 'no **substantive** change to other terms and conditions of the lease (para 46B(c) of the ED), eg if there is a three month rent holiday in 2020 together with a lease term extension of three months (ie added to the end of the lease) – is the extension a substantive change?
9. A few panel members noted the importance of the HKICPA publishing equivalent amendments to HKFRS 16 as soon as possible after the IASB publishes its amendments to IFRS 16 as some local stakeholders already indicate their interest to apply the proposed practical expedient. They also suggested the HKICPA should publish information on its website now to let stakeholders know the HKICPA's intentions/timeline for publishing equivalent amendments to HKFRS 16.