



**Our Ref.: C/FRSC**

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

23 May 2022

Bruce Mackenzie  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Bruce,

**Tentative agenda decision – Lessor Forgiveness of Lease Payments**

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 views on this tentative agenda decision (TAD).

The HKICPA appreciates the effort of the IFRS Interpretations Committee (IFRS IC) to address the application of the requirements in IFRS 9 *Financial Instruments* and IFRS 16 *Leases* in accounting for the lessor forgiveness of lease payments as described in the submission. However, the HKICPA shares similar views with our respondents that applying the impairment and derecognition requirements under IFRS 9 to the operating lease receivable in the given fact pattern as the TAD suggested would only be one of the acceptable approaches, and that the application of the modification requirements under IFRS 16 should also be acceptable under the current IFRS Standards. Our comments and recommendations are as follows.

**Applying the expected credit loss model (ECL) in IFRS 9 to the operating lease receivable**

Our respondents expressed mixed views as to whether the anticipation of forgiving lease payments due should always be factored into the measurement of ECL of the lease receivable regardless of any changes to the lessee's credit risk. On the one hand, IFRS 9 defines a credit loss as "the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls) ...". Some respondents interpreted this as a requirement to include all cash shortfalls in ECL measurement irrespective whether they are due to credit-related reasons or not. On the other hand, the objective and the underlying concept of the ECL model in IFRS 9 (e.g. significant increase in credit risk, loss given default) is to reflect the changes in credit risks since the initial recognition of the financial instruments (IFRS 9 BC 5.82-83). This may imply that the measurement of ECL should be driven by credit-related factors. Given the above, we consider both approaches, i.e. including all cash shortfalls or only those credit-related cash shortfalls into the measurement of ECL, could be acceptable under the existing IFRS Standards.

The HKICPA notes that lease concessions are becoming more common in recent years as a result of the global COVID-19 pandemic and/or changes in local market conditions. Lease concessions may or may not be offered for credit-related reasons, and these situations may not have been considered by the IASB when it developed IFRS 16. The HKICPA considers that lease concessions that are offered for commercial reasons (e.g. goodwill gesture) other than the lessee's credit risk could be similar to price concessions in IFRS 15

*Revenue from Contracts with Customers*, in which case price concessions to trade receivables could be treated as a reduction of revenue instead of ECL. As explained in IFRS 15 BC 194, when the IASB developed IFRS 15, it decided not to develop detailed requirements for differentiating between a price concession and impairment losses due to the difficulties in determining whether the entity has explicitly offered a price concession or whether the entity has chosen to accept the risk of default by the customer. We consider that the same challenge would also exist in differentiating between a lease concession and impairment losses.

In light of the above, the HKICPA recommends the IASB clarify through proper standard-setting activities whether ECL measurement should cover all losses or only those relating to a change in credit risk when the IASB carry out the post-implementation review of the impairment requirements of IFRS 9.

#### *Applying the derecognition requirements in IFRS 9 to the operating lease receivable*

The HKICPA notes that based on a literal reading of the requirements in IFRS 9, operating lease receivables are subject to the derecognition requirements under IFRS 9. However, we consider that the forgiveness of the lease receivable is provided by the lessor to the lessee as part of a wider modification of the lease, and therefore it is also acceptable that both the operating lease receivables and future lease payments forgiven be accounted for holistically under IFRS 16.

The HKICPA notes that the forgiven amount recognised as an operating lease receivable does not meet the definition of a lease incentive under IFRS 16, and IFRS 16 does not define accrued lease payments. However, we consider that the substance of lease receivables forgiven could be similar to lease incentives (i.e. an incentive to enter into the modified lease), or be considered broadly as accrued lease payments under IFRS 16.87.

We also share a similar concern raised by our respondents about the potential structuring opportunity under the IFRS 9 derecognition approach. For example, forgiveness of lease payments due from the past is recognised in profit or loss immediately in the current year based on the derecognition requirements in IFRS 9 when this could in certain fact patterns be clearly linked to an equal and offsetting increase in future lease payments next year.

For these reasons, the HKICPA recommends the IFRS IC consider acknowledging that it is acceptable to apply either the derecognition requirements in IFRS 9 or the modification requirements in IFRS 16 to operating lease receivable in the finalised agenda decision. If the IFRS IC were to conclude that only the IFRS 9 derecognition approach is acceptable in the given fact pattern, we recommend the IFRS IC and IASB follow the due process for standard setting and consider publishing an Interpretation. We also suggest that the IFRS IC and IASB explain clearly why the operating lease receivables are not accrued lease payments or provide the definition of accrued lease payments in the standard.

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

In response to this TAD, the HKICPA:

- a) issued an Invitation to Comment on the TAD to its members and other stakeholders;
- b) sought input from its Financial Instruments Advisory Panel and Leases Advisory Panel, which are mainly comprised of technical and industry experts from accounting firms; and
- c) developed its views through its Financial Reporting Standards Committee, which comprises preparer representatives from various industry sectors, regulators, as well as 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 ([ceciliakwei@hki CPA.org.hk](mailto:ceciliakwei@hki CPA.org.hk)) or Eky Liu ([eky@hki CPA.org.hk](mailto:eky@hki CPA.org.hk)), Deputy Director of the Standard Setting Department.

Sincerely,

A handwritten signature in black ink that reads 'Cecilia Kwei'. The signature is written in a cursive, flowing style.

Cecilia Kwei  
Director, Standard Setting Department