

ASC

ACCOUNTING STANDARDS COUNCIL
SINGAPORE

24 February 2021

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
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United Kingdom

(By online submission)

Dear Hans

RESPONSE TO EXPOSURE DRAFT ON COVID-19-RELATED RENT CONCESSIONS BEYOND 30 JUNE 2021 (PROPOSED AMENDMENT TO IFRS 16)

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on *Covid-19-Related Rent Concessions beyond 30 June 2021* (Proposed amendment to IFRS 16) (the ED) issued by the International Accounting Standards Board (the IASB or the Board) in February 2021.

We are supportive of the IASB's proposed amendment to extend the availability of the practical expedient in paragraph 46A of IFRS 16 *Leases* to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022. By extending the timeframe by one year, the practical expedient would continue to provide lessees with practical relief when it is still expected to be much needed, without being extended so far that the level of relief may no longer justify its consequences.

Our specific comments on the ED are as follows:

Question 1—Extended scope of the practical expedient (paragraph 46B(b) of the [Draft] amendment to IFRS 16)

The Board proposes to amend paragraph 46B(b) of IFRS 16 to extend the availability of the practical expedient in paragraph 46A 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 in paragraph 46B are met. Do you agree with this proposal? Why or why not?

We are supportive of the proposed amendment. In *Covid-19-Related Rent Concessions* (the 2020 amendment), the IASB limited application of the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due within a

particular timeframe. The proposed amendment seeks to simply extend the timeframe to provide relief to lessees when it remains needed most, taking into consideration the current stage of the pandemic.

Period of extension

In our view, an extension of the timeframe to 30 June 2022 has the potential to achieve a reasonable balance between: (i) extending the practical expedient sufficiently to meet its objective; and (ii) not extending the practical expedient beyond when it is needed most.

In the current stage of the pandemic, an extension of the timeframe by one year would provide relief to lessees when it is still expected to be much needed, while having the potential to avoid another urgent standard setting in the near future to further extend the timeframe. Importantly, it provides a degree of certainty about the period during which the practical expedient would be available.

If the practical expedient were to be applied beyond when it is needed most, it would be more difficult for the practical expedient to provide the level of relief that justifies its consequences. Firstly, an exemption from the lease modification accounting may result in carrying amounts of lease liabilities and right-of-use assets that do not reflect the effects of rent concessions, with corresponding implications for profit or loss. Secondly, an optional application reduces comparability across lessees, and also within a lessee that applies the practical expedient to some rent concessions, but not to other rent concessions that relate to lease contracts with dissimilar characteristics or in dissimilar circumstances.

In addition, as the timeframe extends further, the argument that a rent concession occurs as a direct consequence of the pandemic increasingly weakens. The issue increases when the pandemic affects different jurisdictions at different time and pace.

Question 2—Effective date and transition (paragraphs C1C, C20BA and C20BB of the [Draft] amendment to IFRS 16)

Paragraphs C1C, C20BA and C20BB of the draft amendment to IFRS 16 propose that a lessee applying the practical expedient in paragraph 46A would:

- (a) apply the amendment for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued;
- (b) apply the amendment retrospectively, recognising the cumulative effect of initially applying the 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; and
- (c) not be required to disclose the information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the reporting period in which the lessee first applies the amendment.

Do you agree with this proposal? Why or why not?

We are generally supportive of the proposed effective date and transition on the basis of the IASB's rationale.

In particular, we acknowledge that retrospective application of the proposed amendment would require a lessee to undo lease modification accounting for a rent concession that becomes eligible for the practical expedient, if the lessee has previously applied the practical expedient to rent concessions that relate to lease contracts with similar characteristics and in similar circumstances. That said, we do not expect the requirement to be unduly onerous because the lessee would already have the information necessary to undo lease modification accounting, and if appropriate, to account for the rent concession as if it is a variable lease payment applying the practical expedient.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project manager Siok Mun Leong at Leong_Siok_Mun@asc.gov.sg.

Yours faithfully

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Technical Director
Singapore Accounting Standards Council