

# Rent concessions – Lessee relief extended

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**“This extension is a practical response to the ongoing disruption to economic activity being caused by the COVID-19 pandemic. Many lessees will welcome 12 more months of relief, but need to be aware of the potential transition issues relating to previously ineligible rent concessions.”**

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## One-year extension to practical expedient

### Highlights

- 12-month extension granted to 30 June 2022
- Effective date – 1 April 2021
- Transition challenges
- Find out more

A one-year extension to the **practical expedient** for COVID-19 related rent concessions under IFRS 16 Leases has been published by the International Accounting Standards Board (the Board). **COVID-19-Related Rent Concessions beyond 30 June 2021** (the 2021 amendment) is a response to the ongoing economic challenges resulting from the COVID-19 coronavirus pandemic. The extension is available for adoption immediately, subject to any local endorsement requirements.

### 12-month extension granted to 30 June 2022

In May 2020, the Board issued *COVID-19-Related Rent Concessions* (the 2020 amendments), which amended IFRS 16 *Leases*. The 2020 amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. Under that practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications, instead accounting for them in accordance with other applicable guidance.

The practical expedient introduced in the 2020 amendments only applies to rent concessions for which any reduction in lease payments affects solely payments originally due on or before 30 June 2021. If the Board had taken no further action, the practical expedient would have expired in a few months.

The economic challenges presented by the COVID-19 pandemic have persisted longer than anticipated. As a result, lessors and lessees are negotiating rent concessions that extend beyond 30 June 2021.

The Board has therefore extended the practical expedient by 12 months – i.e. permitting lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022.

## Effective date – 1 April 2021

The 2021 amendments are effective for annual reporting periods beginning on or after 1 April 2021. Lessees are permitted to apply it early, including in financial statements not authorised for issue. In effect, it is available to be applied now, subject to any local endorsement requirements.

The 2021 amendments are applied retrospectively with the cumulative effect of initially applying it being recognised in opening retained earnings. The disclosure requirements of Paragraph 28(f)<sup>1</sup> of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply on initial application.

## Transition challenges

The original version of the practical expedient was, and remains, optional. However, the 2021 amendments are, in effect, not optional. This is because a lessee that chose to apply the practical expedient introduced by the 2020 amendments has to consistently apply the extension to eligible contracts with similar characteristics and in similar circumstances.

This means that lessees will need to reverse previous lease modification accounting if a rent concession was ineligible for the original practical expedient under the 2020 amendments but becomes eligible as a result of the extension.

## Find out more

To find out more about the original practical expedient for rent concessions, read our **Leases – Rent concessions** (PDF 1.6 MB) publication. It contains practical guidance and examples illustrating how a company identifies rent concessions that qualify for the practical expedient – and how to account for them. It also discusses how both lessees and lessors account for rent concessions that are treated as lease modifications. Look out for an update to our guide, which provides practical guidance on the transition to the 2021 amendments.

For further information on the financial reporting implications of the COVID-19 pandemic, please go to our **COVID 19 | Financial reporting resource centre**, which is continually updated as significant accounting and reporting issues arise. We encourage you to bookmark this page and check back frequently for updates.

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1 Paragraph 28(f) of IAS 8 requires a company that initially applies a standard or amendment to disclose to the extent practicable, the effect of adopting the standard or amendments on each financial statement line item and on basic and diluted EPS, for the current period and each prior period presented.

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