

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
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25 February 2021

Dear Mr Hoogervorst

Invitation to Comment: Exposure Draft ED/2021/2 *Covid-19-Related Rent Concessions beyond 30 June 2021 (Proposed Amendment to IFRS 16)*

Following the UK's exit from the European Union, the Department for Business, Energy and Industrial Strategy (BEIS) is setting up the UK Endorsement Board (UKEB) to fulfil statutory functions of influencing the development and subsequent adoption of International Accounting Standards for use in the UK. The UKEB secretariat has begun influencing activities in preparation for the delegation of those statutory functions to the UKEB. This letter forms part of those influencing activities and is intended to contribute to the International Accounting Standards Board's (IASB) due process. The views expressed by the UKEB secretariat in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards to be provided to the Secretary of State or the UKEB, once powers have been delegated.

We welcome the opportunity to contribute to the debate on this topic. We support the IASB's proposed amendment. The UK and the rest of the world continues to face the health and economic challenges arising from the pandemic. This has been recognised by governments and other organisations who have continued to extend reliefs they first introduced in 2020. We therefore agree with the IASB's decision to extend the eligible date of the May 2020 reliefs to assist lessees to 30 June 2022.

For detailed responses to the questions in the IASB's Exposure Draft (ED) please see appendix 1.

If you have any questions about this response, please contact the project team at Contact@endorsement-board.uk.

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix 1 Questions on ED/2021/2 *Covid-19-Related Rent Concessions beyond 30 June 2021 (Proposed Amendment to IFRS 16)*

Appendix I: Questions on ED/2020/4 *Lease Liability in a Sale and Leaseback (Proposed Amendment to IFRS 16)*

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?

- A1 We support the proposed amendment. The UK and the rest of the world continues to face the health and economic challenges arising from the pandemic. This has been recognised by governments and other organisations who have continued to extend reliefs they first introduced in 2020. We therefore agree with the IASB’s decision to extend the eligible date of the May 2020 reliefs to 30 June 2022.

Providing relief to lessees at the height of the pandemic when they are expected to need it most.

- A2 The original amendment of May 2020 acknowledged the many challenges lessees faced during the pandemic and the intention was to provide relief to lessees when it was needed most.
- A3 Since the original amendment was issued the coronavirus pandemic has continued globally, with conditions worse today than in May 2020. For example, UK government statistics at 31 January 2021 show infection rates, hospitalization rates and death rates that are noticeably higher than in May 2020 and at the time of writing the UK remains in lockdown. The extent of the impact of the pandemic on the health and economic outcomes mean that pandemic programs and reliefs have been extended. For example, UK reliefs for financial reporting which were provided in 2020, such as the extension to account filing deadlines, have now been extended for a further year into 2021.
- A4 BC205D of the original amendment notes 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”*. We agree with the concerns raised in BC205D, and for these reasons feel it is correct that the proposed relief is not available

indefinitely. However, we are currently at the peak of the pandemic, and consider an extension to be reasonable to ensure that reliefs designed for this period continue to be made available.

- A5 Two further themes emerged in UK stakeholder feedback.
- a. There were a range of views expressed by UK stakeholders in relation to the 30 June 2022 extension date. A sizable majority of respondents supported the extension to this date. A number of others, spread across the preparer, user and accounting firm communities, highlighted that a fixed date could be problematic and requested that provisions for further extensions in the future should be considered if circumstances warrant. Some stakeholders went so far as to propose the use of alternate metrics for end date (for example vaccination rates). Underlying these recommendations was the belief that the behaviour of the pandemic may be unpredictable, and that we may not yet have seen the full extent of Covid-19 on rent concessions as UK government relief schemes/protections are still in place, providing some shelter to lessees.
 - b. A number of stakeholders noted it would be helpful if preparers could reconsider the previous decision to use or not use the practical expedient based on the May 2020 relief. The extension of the relief to 30 June 2022 represents a new fact pattern, and a change in facts may change the decision. They also acknowledged the relatively late adoption date in the European Union of the May 2020 amendment, which would have affected some preparers' ability to use the relief. Any such change would currently be prohibited by BC 8 of the exposure draft.
- A6 We support the proposed extension to 30 June 2022. Based on the facts known today, this appears a reasonable estimate. We include the above commentary relating to the end date for the relief to highlight the need to retain a flexible approach toward the further extension of this relief should the facts support it. We understand that the IASB's priority with this amendment is to provide urgent relief to preparers during the peak of the pandemic, preferably in time for use by companies with 31 March 2021 year end dates. Should there be an opportunity to reconsider the restrictions on application described in BC 8-9 without compromising this timeline we would encourage the IASB to do so.

Usefulness of the information provided

- A7 The practical expedient creates challenges for the users of financial reporting, by reducing comparability between lessees who chose to use the relief and those who do not.
- A8 However, we also observe that the extension of the eligible payment date from 30 June 2021 to 30 June 2022 improves consistency of accounting treatment during the height of the pandemic for companies that have applied the practical expedient. The disclosure requirements, while not perfect, provide useful information on the leases. Recognising the effect of the rent concession in profit or loss contributes to visibility of the impact of the

pandemic on the business, and recognises the effect of lease concessions received as a result of Covid-19 in the periods most affected by Covid-19.

- A9 On balance we consider the need for relief at the height of the pandemic to be more critical than the short-term challenges to reporting, most of which already exist due to the May 2020 amendment.

The implementation of IFRS16

- A10 Part of the rationale for the May 2020 amendment was to acknowledge the work required by lessees in implementing the new lessee accounting model in IFRS16. First time implementations have now been completed making this a less important factor. However, we feel the other considerations explained above are sufficient to support the proposed extension to 30 June 2022, irrespective of the implementation status of IFRS16.

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:
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| <ul style="list-style-type: none">(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; Paragraphs C1C, C20BA and C20BB of the draft amendment to IFRS 16 propose that a lessee applying the practical expedient in paragraph 46A would:(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 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> in the reporting period in which the lessee first applies the amendment. |
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Do you agree with this proposal? Why or why not?
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- A11 We agree with the proposals above. They are consistent with the May 2020 amendment. As the amendment is designed to provide urgent relief it is appropriate for it to be immediately available.