

The 14-day consultation period for IASB's² [proposed amendment](#) to IFRS³ 16 ends this Friday, 8 May.

The focus is on tenants – with the idea being to provide them with practical relief during the current crisis, while still enabling them to continue providing useful information about their leases to those needing accurate information from their financial statements. However, in the drive to help tenants in what is an indisputably challenging climate, have landlords been left behind?

IFRS 16 (Standard) sets out how tenants should account for changes to lease payments, including rent concessions (extending to temporary rent reductions and rent holidays). The Standard currently requires tenants to assess individual leases to determine whether the concessions should be considered lease modifications, and, if they are, the lease liability must be re-measured, using a “revised discount rate”.

The problem is immediately apparent: in context of a potentially large volume of COVID-19-related rent concessions, this exercise could prove particularly challenging, not least because stakeholders will be managing any number of other difficulties presented by COVID-19.

What Is Proposed?

The proposed amendment would exempt tenants from having to consider whether COVID-19-related rent concessions are lease modifications. This move would alleviate problems arising from applying IFRS 16 to large volumes of rent concessions. The amendment specifically:

- ...“permits lessees, as a practical expedient, not to assess whether particular COVID-19-related rent concessions are lease modifications. Instead, lessees that apply the practical expedient would account for those rent concessions as if they were not lease modifications...”
- ...“requires lessees that apply the practical expedient to disclose that fact”⁴

The change would apply to COVID-19-related rent concessions reducing lease payments due in 2020.



The Concession Is for Tenants, So Why Should Landlords be Interested?

This is clearly good news for tenants in an otherwise challenging landscape. However, IASB is not currently extending the same option to landlords. If, as a UK landlord, you consider that the current accounting treatment is disproportionately burdensome, it is worth taking advantage of the remaining consultation time to put together a response.

Under IFRS 16, landlords account for their right to receive rents under leases as financial assets. It would be prudent to give landlords the ability to write down these assets as a result of COVID-19 rent concessions.

A reduction in the value of the financial asset and the associated loss may better represent the underlying commercial reality. Separately the landlord's ability to recognise losses for tax purposes is heavily governed by the accounting treatment. The recognition of an accounting loss caused by the write down in the landlord's rights may be beneficial from a tax angle. For example, a corporate landlord could carry the loss back to a previous accounting period (subject to statutory rules), thereby generating a tax refund claim and creating valuable cash.

The time to act is now. You can respond to the consultation [here](#).

Contacts



Tim Jarvis
Partner, Leeds
T +44 113 284 7214
E timothy.jarvis@squirepb.com



Sally Coleman
Professional Support Lawyer,
Birmingham
T +44 121 222 3136
E sally.coleman@squirepb.com

¹ [IASB's consultation](#)

² International Accounting Standards Board.

³ International Financial Reporting Standards.

⁴ [IFRS news: amendment to leases Standard to help companies with COVID-19 related rent concessions](#)