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Dear Mr Hoogervorst

**Re.: IASB Exposure Draft ED/2020/2 'Covid-19-Related Rent Concessions'**

The IDW appreciates the opportunity to comment on the IASB's Exposure Draft 2020/2 'Covid-19-Related Rent Concessions'.

We welcome the Board's decision to propose practical relief to lessees at a time when many of them are preparing their first annual financial statements applying IFRS 16 and are faced with unprecedented challenges as a result of the world-wide covid-19 pandemic. We believe that the present proposals can help achieve the IASB's objective of providing practical relief to lessees, whilst enabling them to continue to present useful information on their leases to users of financial statements.

The IDW agrees with the proposal in general, and we also agree that the scope of the practical expedient should be tightly limited. However, as explained in full in our response to question 1, we believe that it would be more sensible for the relief to focus on the point in time when a lessor grants a rent concession and for what reason (i.e. a direct consequence of the covid-19 pandemic).

In addition, we recommend the Board examine whether and how lessors could also be granted relief, as, in our view, they are also facing considerable burdens because of the covid-19 pandemic.

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Daniela Kelm, RA LL.M.;  
Melanie Sack, WP StB

We would like to comment on the specific proposals as follows:

### **Question 1**

#### **Practical expedient (paragraphs 46A and 46B of the [Draft] amendment to IFRS 16)**

*Paragraph 46A of the draft amendment to IFRS 16 proposes, as a practical expedient, that a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election would account for any change in lease payments resulting from the covid-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.*

*Paragraph 46B of the draft amendment to IFRS 16 proposes that the practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:*

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;*
- (b) any reduction in lease payments affects only payments originally due in 2020; and*
- (c) there is no substantive change to other terms and conditions of the lease.*

*Do you agree that this practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements? Why or why not? If you disagree with the proposal, please explain what you propose and why.*

We agree that, generally, this practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements.

Further, we appreciate that the scope of the relief must be limited, i.e. that it applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic.

However, in respect of the condition set out in paragraph 46B(b), the IDW believes that it is more reasonable not to focus on the due date of the lease payments, but on the point in time when the rent concession is granted. From the lessors' perspective, there is not only a risk under the current circumstances of default of some lease payments (e.g. because of lessees' temporary liquidity bottlenecks), but also that the lessee may become insolvent. Lessors pursue

their own economic interests and do not waive payments voluntarily. In our view, in many cases they are accepting rent concessions at present only because of the current exceptional circumstances. Consequently, we think that when reduced lease payments are due should not matter, but when concessions are granted and for what reason.

We believe this approach is preferable since the peak of the covid-19 pandemic has been/will be reached at different times in different countries around the world. Furthermore, the possibility of a 'second wave' later on cannot be excluded. In this case, it would be relatively easy to extend the practical relief, if necessary.

In addition, with respect to paragraph 46B(c), we think that it would be helpful for the Board to more clarify what it intends 'substantive change to other terms and conditions' to mean in practice.

## **Question 2**

### ***Effective date and transition (paragraphs C1A and C20A of the [Draft] amendment to IFRS 16)***

*Paragraphs C1A and C20A of the draft amendment to IFRS 16 propose that a lessee would apply the amendment:*

- (a) for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued; and*
- (b) 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.*

*Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose and why.*

We agree with the proposed effective date and the requirements for transition.

## **Other Comments**

### ***Lessor accounting***

We suggest the Board also consider possible relief options for lessors. Although lessors continue to apply essentially the same rules as before the introduction of IFRS 16, they are also required to assess the effects of rental concessions

granted voluntarily or on the basis of government requirements resulting from the covid-19 pandemic on their lease contracts and report accordingly in their financial statements.

From our point of view merely stating that leasing is their core business and therefore a more in-depth examination of their potential challenges by the Board is not necessary, oversimplifies the issue. When considering in detail how, for example, a waiver of lease payments in the case of a finance lease must be accounted for, preparers face questions regarding the interaction of IFRS 16 and IFRS 9.

We appreciate that further discussion concerning lessor's challenges and the accounting consequences of rent concessions arising from the covid-19 pandemic will take time. Nevertheless, we believe that such a discussion would be useful. In order not to delay the completion of the proposed relief for lessees, we recommend that the Board consider possible relief for lessors in the short term, but as part of a separate project.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Bernd Stibi  
Technical Director  
Reporting

Kerstin Kliner  
Technical Manager  
International Accounting