

May 7th 2020

International Accounting Standards Board

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United Kingdom

Dear IASB members,

Exposure Draft ED/2020/2 – Covid-19-Related Rent Concessions – Proposed amendment to IFRS 16

The Israel Accounting Standard Board welcomes the opportunity to comment on the IASB's Exposure Draft, ED/2020/2, *Covid-19-Related Rent Concessions – Proposed amendment to IFRS 16*. This letter sets out the views that were raised by the Israel Accounting Standards Board members.

Please find below our detailed comment for question 1 raised in the ED:

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 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. We believe that this is an appropriate response to the current conditions.

However, we believe that the scope of the proposed practical expedient should be expanded and that the accounting treatment should be clarified as further explained below.

1. Scope - Lessors

We believe that the scope of the proposed amendment should also provide a similar practical expedient for lessors. Paragraph BC3 states that "The proposal does not address lessor accounting because lessors are not expected to face the same practical challenges as lessees in accounting for covid-19-related rent concessions." In our opinion, some lessors will face similar practical challenges since lessors are also required, according to IFRS 16, to assess whether a covid-19-related rent concession is a lease modification. Also, according to paragraph 87 of IFRS 16, a lessor is required to account for a lease modification to an operating lease as a new lease from the effective date of the modification. If the lease classification remains unchanged (operating lease), the resulting accounting would be to recognise the remaining lease payments from the operating lease as income on either a straight-line basis or another systematic basis (ie to recognise the reduction in the lease payments over the remaining lease period). The resulting accounting in the lessor's financial statements does not match the accounting in the lessee's financial statements. We believe that such a result would not provide useful information to users of the financial statements of lessors about their leases.

2. Accounting treatment

Proposed paragraph 46A states that "A lessee that makes this election shall 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 this Standard if the change were not a lease modification." In paragraph BC 7 to the ED, the IASB further explains the accounting treatment required:

- a. a forgiveness or waiver of lease payments should be treated as a variable lease payment applying paragraph 38 of IFRS 16.
- b. A change in lease payments that reduces payments in one period but proportionally increases payments in another should be treated by continuing to reduce the lease liability for payments made to the lessor applying paragraph 36(b) of IFRS 16.

We believe that the references made to paragraphs in IFRS 16 should be accompanied with additional guidance, otherwise, the current guidance is not clear enough and could lead to diversity in practice.

The specific reference to paragraph 38(b) lacks clarity in respect of the timing of recognition of forgiveness or waiver of lease payments. Paragraph 38(b) requires recognition of variable lease payments "in the period in which the event or condition that triggers those payments occurs". Assume a lessor grants a lessee a waiver on March 31st 2020 for the lease payments for April-May 2020 (that was originally due on April 1st and May 1st, respectively) and the lessee prepares interim financial statements as at March 31st 2020. We believe that the waiver for the lease payments of April 2020 and May 2020 should be recognised in April 2020 and May 2020 respectively, rather than on March 31st 2020, as might be understood from paragraph 38(b). We suggest that the Board will clarify the timing of recognition of such forgiveness or waiver.

In addition, the specific reference to paragraph 36(b) with no reference to the need to remeasure the lease liability as a consequence of the change in the lease payments' timing is unclear. We believe that the lease liability should be remeasured to reflect the change in the lease payments' timing without revising the discount rate.

Therefore, we believe that if the Board would prescribe clearly the accounting required for the two specified covid-19 rent-related concessions, rather than referring to specific paragraphs in IFRS 16, it would be more useful to preparers and would decrease the diversity in practice.

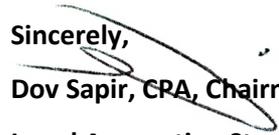
3. Scope – other types of concessions

Another common concession as a result of the covid-19 pandemic is a change from fix lease payments to variable lease payments. Some of these changes are for a specified period while others are for the remaining lease term. There are also changes from fix payments to a combination of fix and variable payments. We believe that such concessions give rise to the same practical challenges for both lessors and lessees as for those concessions described in the proposed amendment. According to the current

drafting it is not clear whether such concessions are within the scope of the amendment since these concessions might not meet the criteria in the proposed paragraph 46A(c). We believe that the Board should clarify which changes to the other terms and conditions of the lease meet the criteria in the proposed paragraph 46A(c) and also address these types of concessions.

We appreciate the opportunity to provide our comments.

Sincerely,


Dov Sapir, CPA, Chairman

Israel Accounting Standards Board