



The Japanese Institute of
Certified Public Accountants
4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264 JAPAN
Phone: +81-3-3515-1128 Fax: +81-3-5226-3355
e-mail: kigyokaikei@jicpa.or.jp
<http://www.hp.jicpa.or.jp/english/>

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International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Exposure Draft *Covid-19-Related Rent Concessions (Proposed amendments to IFRS 16)*

To the Board Members:

The Japanese Institute of Certified Public Accountants (“we” and “our”) appreciates the efforts of the International Accounting Standards Board to expeditiously respond to covid-19 accounting issues, and welcomes the opportunity to comment on the Exposure Draft *Covid-19-Related Rent Concessions (Proposed amendments to IFRS 16)* (“ED”).

We support the IASB’s timely response to address accounting issues related to rent concessions as a result of covid-19 pandemic. We generally support the proposal to provide lessees with an optional exemption for a limited period of time.

That said, we recommend further consideration be given in certain areas to simplify and clarify the exemption so that it is appropriately applied to those who are in need of relief.

1. We recommend that the scope of the exemption be reconsidered by reviewing the requirement set out in paragraph 46B(b) of the ED, which stipulates that the exemption affects only lease payments originally due in 2020. Given that the outbreak of covid-19 is disrupting countries and jurisdictions in different ways and also companies are reporting under different accounting periods, the need for

applying the exemption could also be different among constituents. Instead of limiting the relief to lease payments originally due in 2020, we believe it would be more practical, for example, if the relief could be applied over one year from the effective date of the amendment.

2. The accounting for applying the exemption should be explicitly stated in the body of the standard, instead of including it in the Basis for Conclusions. Although paragraphs BC7 and BC9 provide possible accounting treatments applying the exemption, it is not clear whether such accounting treatments are applicable in any given circumstances and the current description in those paragraphs also lacks specific details. We recommend the accounting treatment be clearly set forth in the body of the standard for application purposes.

Further, when rent concession accounted for as a variable lease payment under the exemption reduces lease liability, paragraph BC9 seems to imply that the effects of forgiveness of lease payments are entirely recognised in profit or loss at the time an agreement is made on the forgiveness. However, when the payments subject to the rent concession are treated as fixed payments prior to the concession and are already included in the cost of right-of-use assets at initial recognition, we believe it would be appropriate in some circumstances to adjust the carrying amount of the right-of-use assets. We do not think that the accounting treatment intended by the exemption is clear enough in the ED: whether it is to account for the effect of rent concession entirely through the adjustment of lease liabilities without changing the right-of-use assets, or to recognise the effect in profit or loss over the period of rent concession instead of a one-time recognition at the time an agreement is made on forgiveness. In either case, we suggest a clarification regarding the possible accounting treatment of the exemption should be made in the amended standard. In addition, a requirement for the presentation in profit or loss should be included in the amended standard, stating whether amounts should be deducted from expenses or presented as income, such other income.

3. We believe lessors should also be able to benefit from the exemption. Since the application of IFRS 16 effective in 2019, more lessors have been required to classify a sublease portion of property lease as a finance lease when compared to IAS 17. That said, it could be burdensome too for lessors to comply with the requirement to assess whether rent concessions are lease modifications for a large volume of contracts. Furthermore, inconsistency may arise between the head lease and sublease when accounting for the sublease.
4. We suggest that the requirements for the exemption should be put together and set

forth in one place as Appendix E rather than scattering them over IFRS 16. This is because the exemption is considered to be a one-time relief due to covid-19 pandemic, which is not supposed to change IFRS 16 requirements fundamentally or permanently. This approach of using an Appendix is already seen in other IFRSs, including the amendment of IFRS 1.

Yours faithfully,

Takako Fujimoto

Executive Board Member — Business Accounting Standards and Practice/Corporate Disclosure

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