INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA

Our Ref: STA/001

06 May 2020

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sir/Madam

EXPOSURE DRAFT ED/2020/2 COVID-19-RELATED RENT CONCESSIONS

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to respond to this Exposure Draft.

With exceptions, ICPAU is supportive of the Board's proposal to add a practical expedient to IFRS 16: *Leases* to provide lessees with practical relief during the covid-19 pandemic. Our comments on and responses to the questions in the Exposure Draft are provided in detail in **Appendix 1**. We hope that you find them helpful.

In case of any queries relating to this comment letter, please contact the undersigned at clutimba@icpau.co.ug

Yours faithfully,

CPA Charles Lutimba
MANAGER STANDARDS AND TECHNICAL SUPPORT
For: **SECRETARY/CEO**

Encl (ICPAU's Comments on and Responses to ED/2020/2 Covid-19-Related Rent Concessions)

NNN/…….

Appendix 1

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.

<u>Our Response</u>

Yes, we agree with the proposals - that providing a practical expedient would provide lessees with much needed practical relief while enabling them to continue providing useful information about their leases to users of financial statements. This is because there might be challenges in assessing whether rent concessions are lease modifications especially with the current Covid-19 pandemic, yet the concessions are in principle some sort of relief from part of the liability without necessarily affecting the remaining liability, lease term or the right of use asset.

However, we make the following observations:

(a) Although in BC5 the Board indicates that it was mindful of the risk of the practical expedient being applied too broadly, which could result in unintended consequences, we do not agree with some of the proposals in Paragraph 46B to limit the scope of the practical expedient so that it applies only to rent concessions that occur as a direct consequence of the covid-19 pandemic.

In its reasons for publishing the exposure draft, the Board indicates that applying the accounting requirements in IFRS 16 Leases that specify the accounting for changes in lease payments, including rent concessions, to a potentially large volume of covid-19-related rent concessions could be practically difficult, especially in the light of the many challenges stakeholders face during the pandemic. It is clearly put that pandemics, not just covid-19, present numerous financial reporting challenges including assessing whether rent concessions are lease modifications and, for those that are, applying the required accounting. Whereas we are faced with covid-19 today, we may be faced with another, potentially worse, pandemic in future. It would be counterproductive if the Board had to provide a new practical expedient every time the world experienced a pandemic. The amendments should have been construed in manner that does not give outright relief for a specified event by name. But the amendments should be construed in manner that may be more appropriate to respond to other similar unpredictable events for example a natural catastrophe like earth quakes, floods etc. which may call for a rent concession. We therefore advise that the Board removes the restriction of the amendments to Covid-19 as there would be similar pandemics that may require similar expedients in future.

(b) The phrase 'substantially the same as' as used in subparagraph (a) of paragraph 46B should be deleted. Our understanding of the motive of this amendment is to cater for rent concessions arising as a result of the current COVID 19 pandemic. However, where the revised consideration for the lease is required to be substantially the same as, the consideration for the lease immediately preceding the change, it practically implies that there has been no lease modification for the lessee and hence the lessee may continue recognizing the Right of Use asset and lease liability as per the initial contract.

(c) In respect to the phrase as used in subparagraph (b) of paragraph 46B that is "rent concession would meet this condition if it results in reduced lease payments in 2020 and increased lease payments that extend beyond 2020," it seems to envision an automatic scenario that the rent concession should result into a reduced lease payment in 2020 AND increased lease payments that extend beyond 2020. The two must be satisfied. However, we believe that there would be scenarios in some jurisdictions where rent concessions will be associated with reduced lease payments say in 2020 and without a corresponding increase in lease payments that extend beyond 2020, as some lessors may honestly grant concessions presently without intentions to increase payments thereafter. We thus propose to replace the 'and' with 'and /or' for the phrase to read as - "rent concession would meet this condition if it results in reduced lease payments in the year a pandemic arises and /or increased lease payments that extend beyond that year"

Appendix 1

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.

Our Response

We agree with the proposals in Paragraphs C1A and C20A of the draft amendment to be applied for annual reporting periods beginning on or after 1 June 2020 including provisions for early adoption. This would be timely for Covid-19 and for future pandemics that call for the expedient.

We agree with the Board that restatement of comparative information would provide little benefit while potentially being too costly for lessees. Therefore, we agree with the proposal to require lessees to recognise 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. This would be very helpful for the reporting entities because it would reduce the burden on the lessee in implementing the new standard.