



IFRS 16 Leases update

Recently, many lessors have granted rent concessions to their lessees. Both lessors and lessee are facing challenges in accounting for these concessions. IASB has responded to clarify these issues. We have summarized here, the potential effect on the carrying value of Right of Use Assets under IFRS 16.

IFRS 16 Leases – IASB's response to Covid-19-related rent concessions

What are rent concessions?

Rent concessions may be **rent deferrals** or **rent holidays**.

What are the challenges in accounting for rent deferrals or rent holidays?

- It's difficult to determine whether the **rent concessions** are **lease modifications** or not. If there is a **modification of lease** then the lease liability has to be revised, with a corresponding adjustment to right of use asset.
- Also, a revised Incremental borrowing rate needs to be calculated. This creates operational challenges for many lessees. Moreover, if the incremental borrowing rate has reduced, then the lease liability can increase. This will have a corresponding increase in ROU and may lead to impairment issues.
- Lessees in retail, hospitality and leisure sectors are mostly impacted as they have a high number of leases.

What is the latest update from IASB?

- The IASB issued Covid-19-Related Rent Concessions as an amendment to IFRS 16. According to this amendment, lessees may elect not to assess whether certain Covid-19-related rent concessions are lease modifications. The lessees are permitted to account for these rent concessions as if they were **not** lease modifications.
- There are certain criteria's for rent concessions. These criteria should be met in order to be subject to this practical expedient.
- No changes to lessor accounting.

What are the criteria to qualify for above modification?

- The rent concession should be a direct consequence of Covid-19 related
- The revised consideration should be substantially the same as, or less than, the consideration, immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- There is no substantive change to other terms and conditions of the lease.

What is the effective date?

Lessees shall apply the amendment for annual reporting periods beginning on or after 1 June 2020 (available for interim reports as well), with earlier application permitted (including in financial statements not yet authorized for issue at 28 May 2020).

What is the transition impact?

The amendment is to be applied retrospectively, with the cumulative effect of initially applying the amendment recognized as an adjustment to the opening balance of retained earnings (or other component of equity) at the beginning of the annual reporting period in which the amendment is first applied.

What are the disclosure requirements?

- Its required to disclose that the practical expedient has been applied to all rent concessions meeting the criteria or, if not applied to all, information about the contracts to which it has been applied; and
- The amount recognized in income statement to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient.
- In the reporting period in which a lessee first applies the amendment, it is not required to disclose the quantitative information required by paragraph 28(f) of IAS 8.

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