

The amendment is effective for financial periods beginning on or after 1 June 2020. Earlier application is permitted, including financial statements not yet authorised for issue at 28 May 2020. The amendment is also available for interim reports.

## Introduction

The Covid-19 pandemic and the lockdown may have a significant impact on the ability of lessees to meet their lease obligations in paying rent. However, it may happen that the landlord has offered a “rent-holiday” of a few months. With the recent amendment, lessees now have a choice to either consider whether such a rent concession represents a “lease modification” or apply the practical expedient and elect not to consider whether the rent concession is a lease modification.

## Assessing whether a change in payments is a lease modification

IFRS 16 defines a lease modification as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. In determining whether there has been a change in the scope of the lease, you have to consider whether there has been a change in the right of use conveyed to the lessee by the contract. For example, adding or terminating the right to use one or more underlying assets, or as in this situation extending or shortening the contractual lease term. It is crucial to note that a rent holiday in isolation is not a change in the scope of a lease.

In assessing whether there has been a change in the amount of the lease payments, one must consider the overall impact of any change in the lease payments. For example, if the lessee does not make lease payments for a three-month rent holiday, the lease payments after the three-month period would probably be increased by the landlord. This means that the consideration that the lessee would pay over the term of the lease would not change and would not represent a lease modification.

## Applying the practical expedient (elect not to assess whether rent concession is a lease modification)

A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

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:

- 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;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- there is no substantive change to other terms and conditions of the lease.

## Disclosure requirements when applying the practical expedient

The lessee shall disclose:

- that it has applied the practical expedient to all rent concessions that meet the conditions as above or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient; and
- the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient

## Decision-Tree when opting NOT to apply the practical expedient

