May 8, 2020

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

Re: Covid-19-Related Rent Concessions, Proposed amendment to IFRS 16

Submitted via commentletters@ifrs.org

Dear Sirs and Madams:

This letter is being submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the International Accounting Standards Board's (IASB or "the Board") proposed amendments to IFRS 16 *Covid-19-Related Rent Concessions* ("the amendments" or "the Proposal").

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. CCR is a technical committee of FEI comprised of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing approximately $10.8 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

Due to the Covid-19 pandemic and related business disruptions, CCR companies are offering and receiving rent concessions on a significant number of leases across the globe. We commend the efforts of the IASB to provide lessees with practical relief during this unprecedented time. We support the proposed practical expedient for lessees in Paragraph 46A and the conditions listed in Paragraph 46B. However, we recommend that the IASB extend similar relief to lessors. Without a practical expedient for Covid-19 related rent concessions, lessors will experience a significant operational burden accounting for rent concessions during a time where companies are experiencing numerous other operational challenges due to the pandemic.

Furthermore, CCR companies have significant multinational operations and are therefore required to comply with both U.S. Generally Accepting Accounting Principles (U.S. GAAP) and international reporting requirements. The

Financial Accounting Standards Board (FASB) has provided lease accounting relief for impacts of Covid-19 for both lessees and lessors under U.S. GAAP. We believe that if consistent application of lease accounting guidance is not achieved for lessors, entities with significant multinational operations will experience substantial challenges maintain systems and processes to comply with both U.S. and international reporting requirements.

Lessor Accounting

CCR appreciates the discussion in BC3 regarding why the IASB did not address lessor accounting in the proposal. However, we believe that lessors are, in fact, facing the same practical challenges as lessees for Covid-19 related rent concessions as discussed below.

Lease Modification Determination

Without a practical expedient for lessors to account for Covid-19 related rent concessions as variable rent, lessors will be required to evaluate each individual lease with a rent concession to determine the appropriate accounting treatment under IFRS 16. Multinational companies do not typically have standard lessor lease agreements across the globe and as such, the contract language may be different for each lease where a rent concession is provided. Just as lessees have nonstandard contracts, there is a natural negotiation between the two parties resulting in lessors also not having standard contracts. Further compounding the impact is that one retail location, for example, can have a significant number of tenants. Therefore, the number of leases for a lessor to evaluate is often multiples of the number of contracts a lessee has to evaluate. Analyzing each lease individually is an extremely burdensome exercise for lessors.

Disconnected Economic Impact

Under the current proposal, the impact to the statement of profit or loss for rent concessions for lessors will be disconnected from the lessee economic impact and the overall business. For lessees that elect the practical expedient, the economic impact is recorded in the current period. However, for fixed rent agreements without a Force Majeure clause that is applicable, lessors would be required to recalculate the straight-line rental income over the remaining contract term. This is especially a concern for sublessors that provide rent concessions to the sublessee provided on the head lease. In cases where the concessions received have been passed on to tenants, the lease expense reduction could be separated from the lessor income reduction over several years. In addition, the period of loss for the company is in the current period which makes it difficult for users of the financial statements to assess and analyze the impacts and expected trends for those companies affected. We believe that having a favorable impact from lessee concessions being recorded in the current period, but potentially recording lessor reductions in income over the remaining lease term, which could be over many years, would not result in a fair and accurate presentation of the impact of the pandemic in the financial statements.

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Reclassification Complexity

For finance leases, if a rent concession is not contemplated in the original lease and the lessor determines that a rent concession is required to be accounted for as a lease modification, IFRS 16 requires the lessor to assess whether the classification of the lease would have been different had the concession been in effect at inception of the lease. For a finance lease that changes classification to an operating lease, lessors are required to reclassify the net investment to property and account for the operating lease. For those that do not change classification, with a likely non-substantial change in cash flows, lessors are required to remeasure the lease. We anticipate that evaluation of classification and the resultant accounting for each lease will be very time consuming and will also involve a complicated process in lease systems for all impacted leases. Current lease systems are not set up to efficiently process large volumes of lease modifications. It is much simpler to not process a billing or to process an offset to counter the lease income in the impacted periods which allows the existing lease schedule to be maintained.

Conclusion

CCR appreciates the efforts of the IASB to provide lessees with practical relief during the Covid-19 pandemic and agree that the proposed amendments provide such relief. However, given the operational challenges and economic impact of accounting for modifications for lessors under IFRS 16, we recommend that the Board provide relief to lessors similar to the relief for lessors provided by the FASB under U.S. GAAP. We believe this can be achieved by applying Paragraphs 46A, 46B and 60A to lessors.

Sincerely,

Prat Bhatt

Prat Bhatt
Chairman, Committee on Corporate Reporting
Financial Executives International