

May 8, 2020

International Accounting Standards Board

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

RE: Exposure Draft – Covid-19-Related Rent Concessions

Dear all,

The “Group of Latin American Accounting Standard Setters”¹ – GLASS welcomes the opportunity to comment on issues that we recommend for consideration in the Exposure Draft – Covid-19-Related Rent Concessions.

Due process

To gather these comments, GLASS created a Technical Working Group (TWG) with representatives from several member countries, to obtain comments on the diverse issues that we believe should be analyzed.

Overall Comments

Overall, we disagree with some of the IASB's proposals. In particular:

- (1) We suggest that, in case of maintaining the practical solution proposal, it is carried out for general cases that produce a similar effect to that of COVID-19 and not establish such a specific exception.
- (2) We believe the exception should be extended to lessors who have similar problems as lessees in terms of difficulties in applying IFRS 16.
- (3) We suggest not limiting the application of the practical expedient only to reductions of lease payments originally due in 2020.
- (4) We put forward our concern about the existence of practical expedients in various standards which, being optional, makes comparability difficult.
- (5) We consider that in order to facilitate comparability of the financial statements of lessees, additional information should be disclosed that allows this objective to be achieved.
- (6) We have several other minor suggestions.

¹ The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile (Board), Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board).



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Specific Comments

Attached please find our comments on the issues that came to our attention, as well as our responses to the specific questions raised by the Board.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jorge Gil", with a stylized flourish at the end.

Jorge José Gil
Chairman
Group of Latin American
Accounting Standard Setters (GLASS)

GLASS Comments on issues to be considered in the Exposure Draft – Covid-19-Related Rent Concessions

GLASS has analyzed in detail the proposals of the IASB included in the Exposure Draft – Covid-19-Related Rent Concessions (the ED).

Our concerns are related to various aspects as follows:

- a) The ED proposes: Is it necessary to permit lessees, as a practical expedient, not to assess whether Covid-19-related rent concessions are lease modifications as defined in IFRS 16, *Leases*?
- b) We question whether the practical expedient should only consider the case of Covid-19 or if it should be available to all types of events that cause similar effects on lessees (and eventually lessors).
- c) We question whether the proposed change should be optional based on the resulting difficulties with respect to the comparability of financial statements between lessees that apply the practical expedient and those that do not.
- d) We question what information of entities that apply this practical solution should be disclosed to facilitate comparability.
- e) We question what is the most appropriate effective date and if early application should be allowed.

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.



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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.

Our comments:

1. We believe that a specific exception in the case of Covid-19 is not adequate. Instead, we believe that the standard should establish a general exception in those cases where the resulting effect is a common element. In this case, the resulting effect analyzed to establish the exception is the difficulty of the lessee in applying the general requirements of IFRS 16. Therefore, we propose that the exception be more conceptually based and not based on specific rules for Covid-19.

In summary, the practical expedient should be established for events of similar importance and with similar effects, based on a cause-effect relationship duly established and properly disclosed by the entity.

Some countries suggest clarifying the concept of a "direct consequence of the Covid-19 pandemic" given that the pandemic generated indirect consequences, such as the oil crisis on leasing contracts in the sector.

2. Some countries expressed conceptual concern about the existence of optional practical expedients in individual standards. This practice generates difficulties with comparability.
3. The IASB explains why it proposes the exception only for lessees and not for lessors. We believe that many lessors will have less difficulty applying the general requirements than lessees, but there will be lessors who have the same difficulties. Therefore, we propose that since it is an optional exception, it also apply to lessors who have difficulties in applying the general requirements.

One country agrees with the solution proposed by the IASB because: (1) lessors are not expected to have the same practical problems as lessees, (2) for many lessors, leasing is an essential part of the business, and (3) the consequences for users of a lessor's financial statements are different from those of a lessee.

4. Limitation of the exception to cases in which the rent reduction refers to payments corresponding to the year 2020.

We believe that the economic effects of Covid-19 may extend to years after 2020 and that the same practical difficulties limited to the rent reductions of 2020 will be repeated.

Therefore, we propose that the practical expedient not be limited to 2020 rent payments, but rather be based on the requirement that it be an effect of Covid-19 and the existence of practical difficulties in applying the general requirements of IFRS 16.

A minority position agrees with all three conditions, including the limitation only to reductions of rent payments originally due in 2020. This is because it believes that post-2020 changes are likely to be the result of a reassessment by tenants of their long-term leasing needs. Additionally, it believes that limiting the scope of the practical expedient only to lease payments originally due in 2020 prevents major lease restructurings with potentially significant effects from escaping the accounting for lease modifications established in IFRS 16. It believes it would be totally inappropriate to recognize major lease restructurings in profit and loss without the corresponding adjustments to the related right-of-use assets. Accordingly, it believes that major lease restructurings should follow the lease modification accounting established in IFRS 16.

5. Improve comparability. The IASB indicates that to improve comparability that is difficult with this optional practical expedient, entities must disclose that the exception has been applied. We understand that with this information alone, the negative impact on comparability will not be avoided. Instead, we believe that the following additional information should be disclosed:
- (i) The nature of the concessions received by the lessee;
 - (ii) How the practical exemption was applied; and
 - (iii) The items in the financial statements affected by the concession and the related amounts.

One country believes only item (i) above necessary.

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.



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Our comments:

Overall, we agree with the proposals in paragraphs C1A and C20A, with the following comments:

- a) Some countries suggest that the mandatory application correspond to financial statements beginning after January 1, 2020.
 - b) We believe it is necessary to clarify that it not only refers to the annual periods, but to the financial statements of interim periods as well.
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