

17 April 2020

## Accounting for COVID-19 related rent concessions applying IFRS 16 - Leases

### 1.0 Background

The Authority would like to draw your attention to the educational material published by the IASB on 10 April 2020, in relation to [IFRS 16 and COVID-19](#). The aim of this document is to focus on the impact of COVID-19 in the application of IFRS 16 – *Leases*.

The intention of the IASB is to provide interpretative guidance on accounting for rent concessions during an unprecedented global pandemic based on the current IFRS 16 requirements. The document is intended to ensure a consistent and robust application of IFRS 16 and does not change, remove, nor add to the requirements of the existing Standard.

As a result of COVID-19, several changes in lease payments have been noted and are expected to occur. This may include, *inter alia*, direct changes arising from amendments to the lease contract or indirect changes such as government measures. An entity should consider the lease contract as well as any applicable law or regulation, in accounting for a change in lease payments under IFRS 16. The Standard sets out specific requirements in this regard.

### 2.0 Summary

A summary of the contents of the document has been outlined as follows:

i. Assessing whether a change in payments is a lease modification

In applying IFRS 16, a *lease modification* is defined 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. If there has been no change in either the scope of or the consideration for a lease, then this will not constitute a lease modification. Conversely, should there have been a change in either of these two factors, an entity shall apply paragraph 2 of IFRS 16 and consider whether that change was part of the original terms and conditions of the lease. In this regard, a lessor shall apply paragraphs 79-80 or paragraph 87 of IFRS 16 and a lessee shall apply paragraphs 44-46 of IFRS 16.

ii. Changes in payments that are not lease modifications

A lessee shall apply paragraph 38 of IFRS 16 if a change in lease payment does not result from a lease modification. A lessor recognises lower income from leases to reflect the effect of the rent concession, in the case of an operating lease.

iii. Partial lease liability extinguishment

If the outcome of a change in lease payments involves the extinguishment of a partial lease liability of the lessee, the latter would apply paragraph 3.3.1 of IFRS 9 *Financial Instruments*.

iv. Impairment of assets

As a result of COVID-19, it is expected that certain assets are likely to be impaired. In determining the impairment of right-of-use assets (lessees) and items of property, plant and equipment subject to an operating lease (lessors), IAS 36 *Impairment of Assets* applies.

v. Disclosure

Disclosure requirements must also be adhered to and applied in accordance with IFRS 16 and other Standards, such as IAS 1 *Presentation of Financial Statements*.

For further guidance and examples kindly refer to the official document.

### 3.0 Contacts

Should you have any queries relating to the above, kindly contact the Authority on [transparency@mfsa.mt](mailto:transparency@mfsa.mt).