

25 May 2022

Mr. Bruce Mackenzie

Chair of the IFRS Interpretation Committee  
International Accounting Standards Board  
Columbus Building, 7 Westferry Circus,  
Canary Wharf, London E14 4HD  
United Kingdom***Re: Tentative Agenda Decision and comments letters: Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)***

Dear Mr. Mackenzie,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IFRS Interpretations Committee's ("the Committee") tentative agenda decision relating to "Lessor Forgiveness of Lease Payments – IFRS 9 and IFRS 16").

We have reviewed the fact pattern described in the submission and the Committee's conclusion outlined in the tentative agenda decision issued in March 2022. Our comments are as follows:

**Applying the expected credit loss model in IFRS 9 to forgiveness of lease payments already due and payable under the lease**

IFRS 9 paragraph 2.1 (b) excludes from the scope of IFRS 9 "*rights and obligations under leases to which IFRS 16 Leases applies. However (i) finance lease receivables (i.e., net investments in finance leases) and operating lease receivables recognised by a lessor are subject to the derecognition and impairment requirements of this Standard.*"

IFRS 16 paragraph 87 states that "*A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.*" This would appear to remove any existing outstanding lease payments from the scope of IFRS 9, since they would be part of the new lease.

The apparent inconsistency between the two Accounting Standards in respect of lessor forgiveness of lease payments already due has resulted in divergent views in applying the Standards in practice. This is considered in the tentative agenda decision.

In our view, IFRS 9 and IFRS 16 do not provide an explicit and adequate basis for addressing the issues that are set out in the tentative agenda decision, considering the following factors:

- The Basis for Conclusion of IFRS 9 BC5.82 states that the purpose of the expected credit loss model is to reflect the changes in credit risks that would affect the likelihood of the collection of future contractual cash flows separately from the effects of other changes, such as changes in market interest rates. However, a rent concession may not necessarily be a direct or indirect consequence of a deterioration in the lessee's creditworthiness. In our view, the expectation of rent concession or lease payment forgiveness should not be reflected in the expected credit loss model in circumstances where the arrangement is not the result of an increase of the credit risk associated with the lessee.
- Similarly, there may be situations where a rent concession in respect of rental payments already due is granted as part of the negotiation for a new lease term, meaning that in effect the rent concession is in

substance a lease incentive. In such circumstances it would appear contrary to the principles of IFRS 16 to recognise the impact immediately in profit or loss as a credit loss.

**Applying the lease modification requirements in IFRS 16 to future lease payments under the lease**

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 of the lease.” A rent concession would therefore meet the definition of a lease modification in IFRS 16.

In accordance with IFRS 16 paragraph 87, the Standard requires a lessor to consider any prepaid or accrued lease payments relating to the original lease as part of the lease payment for the new lease. In our view, IFRS 16 does not provide explicit guidance to define the term “accrued lease payments”, and to clarify whether this includes amounts already due and payable. The Committee observed that lease payments due from the lessee that the lessor has recognised as an operating lease receivable are not accrued lease payments. We are unclear on the basis for this observation.

Lease payments would be initially recognised as part of the operating lease receivable based on original terms of the lease; if the payments are subsequently forgiven during the lease term, they could be treated as accrued lease payments. The forgiveness amount would therefore fall within the scope of IFRS 16 paragraph 87 and be recognised as part of the lease payments for the new lease.

In our view, IFRS 9 and IFRS 16 do not provide an explicit and adequate basis for addressing the issues that are set out in the tentative agenda decision. Accordingly, we do not support the decision to finalise this tentative agenda decision as written and suggest that a recommendation to amend the existing Standards by the Committee may be preferable.

We would be pleased to respond to any comments the Board or its staff may have about our response. If you have any questions or comments, please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842)..

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Marion Hannon'.

Marion Hannon  
Global Leader, Quality & Risk  
RSM International

**We have no other comments.**  
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