Financial Reporting Council

October 2020

Impact Assessment and Feedback Statement

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*

COVID-19-related rent concessions

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Contents

Overview

(i) In October 2020, FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* were amended by *Amendments to FRS 102 and FRS 105 – COVID-19-related rent concessions*. This Impact Assessment and Feedback Statement accompanies those amendments, which are in relation to temporary rent concessions granted in response to the COVID-19 pandemic.

(ii) The Impact Assessment and Feedback Statement:

(a) sets out the Impact Assessment for these amendments, after taking account of respondents' comments on the Consultation stage impact assessment; and

(b) summarises the 13 responses received to FRED 76 *Draft amendments to FRS 102 and FRS 105 – COVID-19-related rent concessions* and the FRC's response to them.

Impact Assessment

Introduction

1 The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.

Amendments to FRS 102 and FRS 105

2 These amendments will only affect entities that agree temporary rent concessions as a direct consequence of the COVID-19 pandemic which result in an overall reduction in the total consideration for an operating lease.

3 The amendments introduce requirements for recognising any changes in operating lease payments that arise from COVID-19-related rent concessions. In the absence of a specific requirement, the amendments intend to establish a clear and unambiguous treatment for this transaction, which relieves preparers from developing an accounting policy based on the existing requirements and guidance in FRS 102 and FRS 105. This will save time in the production of the financial statements and remove any potential uncertainty about how the existing requirements of these FRSs apply.

4 These amendments will also help to establish greater consistency in how these changes in lease payments are being accounted for. This will improve the ability of users to compare the financial statements of different entities that agree rent concessions in similar circumstances.

5 The treatment requires entities to recognise any changes in lease payments on a systematic basis over the periods that the change is intended to compensate, rather than the impact of the change being extended into future periods. This is considered to more accurately reflect the temporary nature of these concessions and provide more useful information to users.

6 The treatment is also expected to be easy to apply, as it requires no new information, nor any complex calculations. Therefore, these amendments are not expected to increase the cost of preparing financial statements.

7 Some entities that apply FRS 102 are subsidiaries within a group that applies IFRS in its group financial statements. There are no similar, detailed requirements in IFRS to those introduced by the amendments. Therefore, the accounting policies used in a subsidiary's financial statements prepared in accordance with FRS 102 may differ from those used in the group financial statements prepared under IFRS. In these instances, the amendments have the potential to increase the complexity of the group's consolidation process. However, any additional costs for these entities are not considered to be at a level where they would outweigh the benefits of the amendments for all entities that might apply the amendments.

Conclusion

8 Overall, the FRC believes that the amendments to FRS 102 and FRS 105 will have a positive impact on the relevance and consistency of reporting by entities.

Feedback Statement

9 The purpose of this Feedback Statement is to summarise the comments received in response to FRED 76 *Draft amendments to FRS 102 and FRS 105 – COVID-19-related rent concessions*. FRED 76 was issued in July 2020 and the comment period closed on 1 September 2020.

10 The table below shows the number of respondents and analyses them by category.

Table 1: Respondents by category

	No. of respondents
Accountancy firms	8
Accounting professional bodies	4
Representative bodies of preparers	1
	13

11 FRED 76 posed four questions, and the feedback and FRC response to them are summarised below.

Question 1

> Do you agree with the proposed amendments to FRS 102 and FRS 105? If not, why not?

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed	6
Agreed with reservations	6
Disagreed	1
	13

12 The majority of respondents agreed with the proposals. Many noted that the amendments would provide clarity and help achieve greater consistency and comparability in reporting. Many also noted that the proposed accounting treatment would provide useful information to users of financial statements.

13 Of those respondents that agreed but with reservations, half recommended that the proposed requirements should be optional, rather than mandatory. The other respondents with reservations made the following points:

(a) the proposed timeframe should be extended to minimise the risk of changes in operating lease payments that have arisen under similar circumstances being accounted for differently;

(b) the proposed requirements should be generally applicable to changes in operating lease payments that arise in other situations; and

(c) the requirements are not clear enough, with suggestions for improved drafting, additional guidance and illustrative examples.

14 The respondent that disagreed with the proposals considered that the accounting treatment for the transaction specified by the amendments could be inferred from the

existing requirements of FRS 102 and FRS 105, which they believe require changes in operating lease payments to be recognised over the remaining lease term on a straight-line basis. They suggested that any uncertainty about how the existing requirements of these FRSs apply to these transactions could be addressed without introducing new requirements.

15 Respondents raised some other matters, such as suggestions for improving the clarity of the criteria for applying the requirements (eg application of the proposed time condition).

FRC response

16 After considering all the comments made, the FRC has amended FRS 102 and FRS 105 as proposed, subject to a number of drafting changes.

17 The requirements aim to establish a consistent accounting treatment for temporary changes in operating lease payments that have arisen in particular circumstances (ie as a direct consequence of the COVID-19 pandemic) when there had typically been a temporary reduction in the lessee's benefit from the use of the leased asset. The requirements are considered to generally reflect the economic substance of the intended benefit of these rent concessions and their temporary nature. In addition, providing entities with the option to do so would also go against the FRC's original aim of establishing a consistent accounting treatment for these transactions.

18 Similarly, extending the timeframe risks the requirements being applied when the treatment is not reflective of the substance of the concession. The FRC believes the time condition will help ensure that the requirements are not applied to longer-term concessions when it may be more appropriate to recognise the impact of those changes in lease payments on another basis.

Question 2

> Do you agree with the proposed effective date for these amendments? If not, what difficulties do you foresee?

Table 3: Respondents' views on Question 2

	No. of respondents
Agreed	9
Disagreed	3
	12
Did not comment	1
	13

19 The majority of respondents agreed with the proposed effective date of accounting periods beginning on or after 1 January 2020, with early application permitted.

20 Those respondents that disagreed with the proposed effective date identified the following difficulties:

(a) the proposed effective date will not achieve consistency in reporting; application should be required for accounting periods ending on or after the date the amendments are approved for issue;

(b) entities that have already accounted for those temporary rent concessions which meet the specified conditions on another basis will have to change the treatment; the requirements should be optional to reduce this difficulty; and

(c) entities that authorise financial statements for issue before the amendments are issued will be required to apply the requirements retrospectively.

21 Three respondents that agreed with the proposed effective date also commented on the potential difficulties for entities with reporting periods beginning on or after 1 January 2020 that authorise financial statements for issue before the amendments are issued. Of those respondents that raised this difficulty, the majority noted that this would arise rarely in practice.

FRC response

22 The amendments have been issued with the same effective date as was proposed.

23 The FRC understands that the earliest rent concessions occurring as a direct consequence of the COVID-19 pandemic were granted were for lease payments due in or after March 2020. These timings mean that the amendments will be effective for reporting periods when these temporary concessions are expected to most commonly occur. It also provides entities with the option to apply the amendments in financial statements for periods beginning before 1 January 2020 that are not yet authorised for issue at the date the amendments were issued.

24 The FRC acknowledges that there may be potential difficulties for entities with short reporting periods that authorised financial statements for issue before the amendments were issued. However, feedback indicates that these instances are expected to be rare.

Question 3

The proposed amendments to FRS 102 require a lessee to disclose those changes in lease payments recognised in accordance with paragraph 20.15C. The Basis for Conclusions describes the reasons for this proposal and the existing disclosures required by FRS 102 relevant to this transaction.

Do you consider that these disclosure requirements are sufficient to meet the needs of users?

Table 4: Respondents' views on Question 3

	No. of respondents
Agreed	7
Disagreed	3
	10
Did not comment	3
	13

25 The majority of respondents agreed that the disclosure requirements were sufficient to meet the needs of users.

26 Those that disagreed mainly recommended that the proposed requirement for lessees to disclose those changes in lease payments recognised in accordance with paragraph 20.15C should also be required of lessors.

27 Respondents raised some other matters, including suggestions for improving the clarity of the proposed disclosure requirement and additional disclosures related to the requirements. Examples of these additional disclosures included:

(a) information about the nature and the cash flow effects of those temporary COVID-19-related rent concessions that meet the specified conditions; and

(b) information about COVID-19-related rent concessions that do not meet the specified conditions.

FRC response

28 After considering all the comments made, the FRC has finalised the disclosure requirement as proposed, subject to a minor drafting change. The FRC continues to expect paragraph 20.30(c) of FRS 102 to require lessors to disclose information about rent concessions granted, if material.

29 The FRC acknowledges that the additional disclosures suggested may provide useful information to users. However, these would require entities to provide an enhanced level of disclosure about a specific transaction, which is not considered to be consistent with the existing lease disclosure requirements of FRS 102.

Question 4

In relation to the Consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views.

Table 5: Respondents' views on Question 4

	No. of respondents
Agreed	4
Disagreed	2
Did not comment[1]	7
	13

30 Of those respondents commenting, the majority agreed with the Consultation stage impact assessment, ie that consistency of reporting between entities and requirements that establish a clear and unambiguous treatment were beneficial, and that no new information or any complex calculation are required as a result of the proposals themselves.

31 Those respondents that disagreed considered that the accounting treatment for the transaction specified by the amendments could be inferred by the existing requirements of FRS 102 and FRS 105, which they believed require changes in operating lease payments to be recognised over the remaining lease term on a straight-line basis. The proposals were considered to result in additional costs for entities that may have already accounted for temporary rent concessions on this basis.

32 Both respondents also noted that as there are no similar, detailed requirements in IFRS to those introduced by the amendments, the accounting policies used in a subsidiary's financial statements prepared in accordance with FRS 102 may differ from those used in the group financial statements prepared under IFRS. This difference was considered to increase the complexity of the group's consolidation process in such instances. The

[1] Includes those respondents that stated that they had no comments in relation to Question 4 and those that did not address Question 4.

difference was identified by several other respondents. Of those respondents that raised the issue, one respondent expected that it would arise rarely in practice.

FRC response

33 These comments have been taken into account in finalising the Impact Assessment. Overall, the FRC believes that the amendments to FRS 102 and FRS 105 will have a positive impact on the relevance and consistency of reporting by entities.

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