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Ref: DT/FRC

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Dear Sir

**FRED 76 - Draft 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**

Ernst & Young LLP welcomes the opportunity to comment on FRED 76 issued by the Financial Reporting Council ('the FRC').

We agree with the proposed amendments to FRS 102 and FRS 105, subject to the comments and suggestions set out below.

If you have any matters arising concerning the content of our response, please contact Danny Trotman on 020 7951 4079.

Yours faithfully

Danny Trotman  
Partner – UK Head of the Financial Reporting Group  
Ernst & Young LLP

## Responses to FRC questions

### FRED 76 Draft amendments to FRS 102 and FRS 105 – COVID-19-related rent concessions

#### Question 1

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

We agree with the proposed amendments to FRS 102 and FRS 105.

However, we believe the amendment should include guidance on exactly what is meant by “over the periods that the change in lease payments is intended to compensate” when discussing recognition of the rent concessions. For example, should the change in lease payments arising from the rent concessions be recognised over the concession period on a straight-line basis, or on a systematic basis if more representative (consistent with the treatment for government grants which is analogised to in paragraph 12 to the Basis for Conclusions)? In relation to the latter, additional guidance should be included to explain what is meant by a systematic basis. For example, ‘a systematic basis that reflects either: the time pattern of hardship of the lessee for which the concession is intended to compensate; or reflects the purpose of the concession.’. It may therefore also be necessary to disclose the basis upon which the concession has been recognised as a significant judgement or as an accounting policy under paragraph 8.6. We recommend the FRC considers including a reminder to this effect in the Basis for Conclusions accompanying the final amendment. We would suggest that illustrative examples of applying the amendments in practice are published, either as part of the final amendments or separately.

#### Question 2

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

We agree with the proposed effective date, although it does seem unusual to have an effective date so far in advance of the date the amendment will be published. We believe the FRC should as a matter of principle avoid introducing requirements that are retrospective in this way. An effective date of 1 January 2020 has the potential to cause some hardship for a minority of issuers with short accounting periods (who may need to prepare financial information on two bases, in case the amendment will not be finalised in time, or may fail to notice that the final amendments have been published). Notwithstanding this concern, an effective date of 1 January 2020 for the amendment does seem logical, given its relevance to this accounting period and the primary aim of consistency. We recommend that the final amendment be published as soon as possible.

#### 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?

We recommend several improvements to the disclosure requirements.

Paragraph 20.16(c) is ambiguous as to whether it is asking for the profit and loss effect in the period or the underlying changes in lease payments. We recommend that the wording in this paragraph be amended to clarify this.

No equivalent disclosure requirement to that in paragraph 20.16(c) exists for lessors. Paragraph 18 of the Basis for Conclusions that accompanies the draft amendment explains that paragraph 20.30(c) of FRS 102 requires lessors to provide a general description of their significant leasing arrangements and that information about rent concessions granted would be expected to be included within this disclosure. We are not convinced that lessors will necessarily make the link between the requirements of paragraph 20.30(c) and disclosure of the impact of rent concessions granted. We would therefore suggest an explicit disclosure requirement be included for lessors, similar to that included in paragraph 20.16(c) for lessees.

An exemption should be provided from the general requirement in paragraph 10.13(b) to disclose the impact of an amendment on the current period, given the FRC believes that it is unclear what FRS 102 required prior to this amendment, and in light of the equivalent IFRS reliefs granted.

We suggest that the Basis for Conclusions mirrors the comments on disclosing the cash flow impact (if not exempt) and the nature of the rent concession that are included in paragraph BC 205G of the IFRS 16 rent concessions amendment. In particular, rent concessions may well straddle a year end.

**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.

We have no comments on the costs and benefits identified in the Consultation stage impact assessment.