

1 September 2020

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By email: [ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk)

Dear Mr Bilborough

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

Deloitte LLP welcomes the opportunity to comment on FRED 76 Draft amendments to FRS 102 and FRS 105 – COVID-19-related rent concessions. Our responses to the specific questions raised in FRED 76 are in Appendix 1 to this letter.

We are broadly supportive of the proposed amendments, although we have some minor comments. We also have some detailed drafting suggestions, which are set out in Appendix 2 to this letter. We encourage the FRC to finalise these amendments as soon as possible to enable businesses to take prompt advantage of the relief provided.

If you have any questions, please contact Robert Carroll on 020 7303 2458 or [rcarroll@deloitte.co.uk](mailto:rcarroll@deloitte.co.uk).

Yours sincerely

Veronica Poole  
UK National Head of Accounting and Corporate Reporting  
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## Appendix 1 – Responses to specific questions

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

We broadly agree with the approach proposed and believe that the requirement to recognise the reduction in lease payments over the period that the change is intended to compensate appropriately reflects the economic substance of such arrangements and their temporary nature. We consider that the proposed amendment will provide practical relief while enabling preparers to continue providing useful information about their leases to users of financial statements. We particularly welcome the extension of the relief to lessors.

We note that the FRC has decided to make the proposed accounting treatment mandatory rather than optional. Subject to our comments below regarding the proposed effective date (see Q2), we support this approach as it will promote comparability, not only across FRS 102 preparers but also for those applying FRS 105, under which standard no accounting policy choices are available.

We concur with the proposal to scope in only those arrangements where payments would originally have fallen due on or before 30 June 2021 as this is consistent with the amendments to IFRS 16 Leases. However, we recommend that the Basis for Conclusions should clearly explain how this requirement works in practice, similar to the IASB's Basis for Conclusions included with the amendments to IFRS 16 – see Appendix 2 for detailed drafting suggestions. It may also be helpful to include examples to illustrate arrangements in which the relief would and would not be available.

One issue arising in practice is the situation where a lessee has ceased making or reduced its rental payments before the reporting date but has not formally agreed a rent concession with the lessor until after the reporting date. In such cases, typically the agreement of the rent concession would be treated as a non-adjusting event after the end of the reporting period, in accordance with Section 32 of FRS 102 (and Section 26 of FRS 105). We recommend that the FRC clarifies, either in Section 20 itself or in the Basis for Conclusions, that rent concessions should not be recognised until they have been formally agreed with the counterparty. In cases where formal agreement is obtained after the period that the change in lease payments is intended to benefit, we believe that the most appropriate accounting treatment for the lessee in such scenarios would be to recognise the change in lease payments immediately once formal agreement is obtained.

Finally, it may be helpful to explain, in paragraph 9 of the Basis for Conclusions, how Sections 11 and 20 should be applied in determining the accounting treatment for similar modifications to finance lease liabilities.

### 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. It is conceivable that a company which has a short accounting period or is required to prepare interim financial statements could be required to comply at short notice. However, assuming that the FRC finalises the amendment promptly, we believe that this situation is likely to be relatively rare. We consider that the proposed effective date offers the benefit of increasing the number of companies applying the same accounting treatment and therefore enhances comparability and consistency.

### 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?

Yes, we consider that the existing disclosure requirements for lessors are adequate, although we believe it is helpful that the Basis for Conclusions signposts preparers to these requirements in the context of this amendment.

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.

In our view the amendments proposed are appropriate and offer a straightforward solution which will promote consistency and comparability in financial statements. We have no further comments on the impact assessment.

## Appendix 2 – Detailed drafting suggestions

Reference	Proposed drafting (additions in bold)
Basis for Conclusions para 13	The proposed amendments are restricted to temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic, when any reduction in lease payments affects only payments originally due on or before 30 June 2021. If reductions in lease payments extend beyond 30 June 2021, the rent concession in its entirety will not be within the scope of the amendments. This time condition is necessary to minimise the risk of the treatment being applied too broadly, which could result in unintended consequences. It also avoids future changes in lease payments that are assessed as being the result of the COVID-19 pandemic being accounted for under the proposed requirements, when an alternative treatment may be more appropriate.
Basis for Conclusions para 20	The proposed effective date is accounting periods beginning on or after 1 January 2020, with early application permitted. The FRC expects to finalise these amendments in 2020.  This would provide an entity with the option to apply the amendments for annual accounting periods ending after 31 March 2020 that are not yet authorised for issue at the date the amendments are issued.