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For the attention of: Easton Bilborough

28 August 2020

Dear Easton

**FRED 76: Draft amendments to FRS 102 COVID-19-related rent concessions**

We welcome the opportunity to comment on FRED 76: Draft amendments to FRS 102 COVID-19-related rent concessions (the 'FRED'). We have set out our detailed responses to the questions raised in the FRED in Appendix 1 to this letter.

In summary whilst we support the principal of the amendment as an accounting policy we consider that it would be more appropriate to make this change optional, rather in the way the IFRS 16 Amendment provides a practical expedient. Accordingly, we consider that lessees and lessors should be allowed a policy choice which would also allow them to spread the effect of rent concession over the lease term, as we believe they would otherwise have done under FRS 102. Our reasoning behind this suggestion is set out in our response to Question 1 below.

Please contact Andrew Marshall on 0207 311 6456 should you wish to discuss any of our comments further.

Yours sincerely

KPMG LLP

## Appendix 1 – Responses to FRC questions

### Question 1

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

We support the FRC's wish to put in place guidance on how to account for Covid-19-related rent concessions. The proposed amendment reflects an appropriate approach to account for those concessions. However, we do question why the FRC felt it was appropriate to mandate only one approach to account for these concessions. Rather we would suggest that lessors and lessees of operating leases are allowed an accounting policy choice to either:

- recognise the effect of the rent concessions over the periods affected, as set out in this amendment; or
- spread the effect of the rent concessions over the remaining lease term (which we believe is the accounting that FRS 102 as currently written would expect).

This accounting policy choice would take into account the following:

- Lessors or lessees may have already concluded on how to account for Covid-19 rent concessions under existing FRS 102 guidance and so it would appear ineffective to now request them to account for these concessions in an alternative manner;
- Allowing one approach and no transitional relief would require certain entities to recognise prior year adjustments if the approach taken in accounts completed prior to the adoption of the amendment did not follow the required approach;
- It seems inconsistent to require lessors and lessees to account for Covid-19 rent concessions differently to rent concessions agreed for different reasons;
- Requiring lessors to follow your proposed treatment would result in the FRS 102 treatment being inconsistent to the IFRS treatment, despite lessor accounting being generally consistent between FRS 102 and IFRS.

Whilst we understand a desire for consistency and comparability in approach we would expect disclosure of the rent concessions obtained along with disclosure of the accounting policy applied would allow readers to address the inconsistency. We do note that accounting policy choices are available within FRS 102 in areas such as borrowings costs and government grant accounting.

**Question 2**

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

We would note that an effective date of accounting periods beginning on or after 1 January 2020 for a mandated change in accounting would result in companies having to change the accounting for transactions that have already been completed which we would generally discourage. An accounting policy choice as noted above would seek to minimise that issue.

**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 support the proposals regarding disclosures for these items within the scope of the amendment. Entities should disclose the effect of the Covid-19 rent concessions although further disclosures would be unnecessary.

We also feel that there will be many scenarios which will see a change in arrangements between landlord and tenant as a result of Covid-19 which will not fall within the scope of this amendment and we would suggest that disclosure of those arrangements should be provided where material.

**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.

As noted above we do believe the impact assessment should consider further whether entities may be accounting for Covid-19 rent concessions under existing FRS 102 guidance already and what effect the proposed amendment would have on those entities.

Also the inconsistency the amendment would cause for lessors between IFRS and FRS 102 accounting should be considered further.