



October 2020

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*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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October 2020

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*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

*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* amends accounting standards. It is issued by the Financial Reporting Council, as a prescribed body, for application in the United Kingdom and the Republic of Ireland.

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## Overview

- (i) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

### Amendments to FRS 102 and FRS 105

- (ii) Many lessees have been granted rent concessions as a result of the COVID-19 pandemic. These arrangements can include the forgiveness of a portion of or all lease payments for an agreed period (ie a temporary rent reduction or rent holiday).
- (iii) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* does not explicitly specify how to account for changes in lease payments that result from rent concessions. There were differences of opinion over how the requirements of FRS 102 should be applied to such changes, specifically those arising from forgiven payments in operating lease agreements. If this had led to differences in accounting treatment in relation to changes in lease payments that had arisen under similar circumstances it would have been unhelpful to users of financial statements.
- (iv) These amendments to Section 20 *Leases* of FRS 102 require entities to recognise changes in operating lease payments that arise from COVID-19-related rent concessions on a systematic basis over the periods that the change in lease payments is intended to compensate. The requirements apply only to temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic and within a limited timeframe. The treatment is intended to reflect the economic substance of the benefit of these concessions and their temporary nature and improve the consistency of reporting for users of financial statements. Similar amendments are made to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*.
- (v) The effective date for these amendments is accounting periods beginning on or after 1 January 2020, with early application permitted.

**Amendments to FRS 102 *The Financial Reporting Standard*  
applicable in the UK and Republic of Ireland**

## **Amendments to Section 1 Scope**

- 1 The following paragraphs set out the amendments to Section 1 *Scope* (inserted text is underlined).
- 2 The sub-heading and paragraph 1.24 are inserted as follows:

### **COVID-19-related rent concessions**

- 1.24 In October 2020 amendments were made to this FRS to insert or amend paragraphs 20.15C, 20.15D, 20.16 and 20.25B. These amendments are effective for accounting periods beginning on or after 1 January 2020. Early application is permitted. If an entity applies these amendments to an accounting period beginning before 1 January 2020 it shall disclose that fact, unless it is a small entity, in which case it is encouraged to disclose that fact.

## Amendments to Section 20 Leases

3 The following paragraphs set out the amendments to Section 20 *Leases* (inserted text is underlined, deleted text is struck through).

4 Paragraphs 20.15C to 20.15D are inserted as follows:

20.15C A lessee shall recognise any change in lease payments arising from rent concessions that meet the criteria in paragraph 20.15D on a systematic basis over the periods that the change in lease payments is intended to compensate.

20.15D An entity shall apply the requirements in paragraphs 20.15C and 20.25B to temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic if, and only if, all of the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change;

(b) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no significant change to other terms and conditions of the lease.

5 Paragraph 20.16 is amended as follows:

\* 20.16 A lessee shall make the following disclosures for operating leases:

~~\*~~ (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years; ~~and~~

~~\*~~ (b) lease payments recognised as an expense; and

(c) ~~deleted~~ the amount of the change in lease payments recognised in **profit or loss** in accordance with paragraph 20.15C.

6 In paragraph 20.19 the term 'profit or loss' is no longer shown in bold type.

7 Paragraph 20.25B is inserted as follows:

20.25B A lessor shall recognise any change in lease income arising from rent concessions that meet the criteria in paragraph 20.15D on a systematic basis over the periods that the change in lease payments is intended to compensate.

**Amendments to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime***

## **Amendments to Section 1 Scope**

8 The following paragraph sets out the amendments to Section 1 *Scope* (inserted text is underlined).

9 The sub-heading and paragraph 1.7 are inserted as follows:

### **COVID-19-related rent concessions**

1.7 In October 2020 amendments were made to this FRS to insert paragraphs 15.16A, 15.16B and 15.25A. These amendments are effective for accounting periods beginning on or after 1 January 2020. Early application is permitted.

## **Amendments to Section 15 Leases**

- 10 The following paragraphs set out the amendments to Section 15 *Leases* (inserted text is underlined).
- 11 Paragraphs 15.16A to 15.16B are inserted as follows:
- 15.16A A lessee shall recognise any change in lease payments arising from rent concessions that meet the criteria in paragraph 15.16B on a systematic basis over the periods that the change in lease payments is intended to compensate.
- 15.16B An entity shall apply the requirements in paragraphs 15.16A and 15.25A to temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic if, and only if, all of the following conditions are met:
- (a) the change in lease payments results in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change;
  - (b) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
  - (c) there is no significant change to other terms and conditions of the lease.
- 12 Paragraph 15.25A is inserted as follows:
- 15.25A A lessor shall recognise any change in lease income arising from rent concessions that meet the criteria in paragraph 15.16B on a systematic basis over the periods that the change in lease payments is intended to compensate.

## **Approval by the FRC**

*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* was approved for issue by the Financial Reporting Council on 7 October 2020.

## **Amendments to Basis for Conclusions *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland***

- 1 The following amendments are made to the Basis for Conclusions *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* (inserted text is underlined).
- 2 Paragraphs B20.6 to B20.11 and the sub-heading before them are inserted as follows:

### **COVID-19-related rent concessions**

- B20.6 In October 2020, FRS 102 was amended to require entities to recognise changes in operating lease payments that occur as a direct consequence of the COVID-19 pandemic, and meet specified conditions, on a systematic basis over the periods that the change in lease payments is intended to compensate.
- B20.7 This was to address concerns about how the relevant requirements of FRS 102 should be applied to temporary rent concessions granted in response to the COVID-19 pandemic. Specifically, there were differences of opinion over how the previous requirements of FRS 102 should be applied to forgiven payments in operating lease agreements. If this had led to different accounting treatments for changes in lease payments that had arisen under similar circumstances it would have been unhelpful to users of financial statements.
- B20.8 Although concerns about the treatment of forgiven lease payments were raised predominantly from the perspective of lessees, because of the similarities between the relevant recognition requirements of FRS 102, the accounting by both lessees and lessors was addressed.
- B20.9 The amendments were intended to reflect the particular circumstances that had resulted in these changes in lease payments occurring, where there had typically been a temporary reduction in the lessee's benefit from the use of the leased asset. Requiring entities to recognise the impact of changes in lease payments over the periods that the change is intended to compensate was considered to generally reflect the economic substance of the intended benefit of these concessions and their temporary nature, and provide more relevant information for users. The requirements were based on the accrual model for government grants as set out in Section 24 *Government Grants*.
- B20.10 The criteria for applying the requirements were intended to restrict the treatment to those concessions when it was generally considered to be reflective of the substance of the concession. This minimises the risk of the requirements being applied when it may be more appropriate to recognise changes in lease payments on another basis. The requirements apply only to rent concessions that occur as a direct consequence of the COVID-19 pandemic and:
- (a) result in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change. Deferred lease payments do not change the consideration for the lease but change only the timing of individual payments. The requirements therefore do not apply to changes in lease payments that result from rent deferrals. These changes are accounted for under the existing requirements of FRS 102, which are considered to provide useful information to users of financial statements.
  - (b) result in a reduction to only lease payments originally due on or before 30 June 2021. A related increase in lease payments that extends beyond 30 June 2021 would not prevent a rent concession from meeting this condition. In contrast, if reductions in lease payments extend beyond 30 June 2021, the rent concession in its entirety would not be within scope.

The economic effects of the COVID-19 pandemic could continue for some time. If the requirements were not limited to a particular timeframe, an entity could conclude that many future changes in lease payments are a consequence of the COVID-19 pandemic. The chosen timeframe was intended to limit the requirements to apply to those concessions where the treatment is expected to be reflective of the substance of the concession and achieve consistency over this period.

(c) introduce no significant change to other terms and conditions of the lease. A concession that incorporates significant changes to a lease agreement which are unrelated to the COVID-19 pandemic, but negotiated at the same time as those related changes, would not meet this condition.

B20.11 FRS 102 already requires lessees to disclose operating lease payments recognised as an expense. Therefore, to ensure that the impact of any temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic is distinguishable from any other changes in lease payments, paragraph 20.16(c) requires lessees to disclose the amount of the change in lease payments recognised in profit or loss in accordance with paragraph 20.15C. Paragraph 20.30(c) requires lessors to provide a general description of their significant leasing arrangements. Information about rent concessions granted would be expected to be included within this disclosure. Given this existing requirement and the current level of disclosure required for revenue in FRS 102, no additional disclosures have been required of lessors.

3 Table 1 *Exposure drafts and consultation documents* is amended as follows (new exposure drafts are inserted in numerical order):

<b>Exposure draft</b>	<b>Date of issue</b>	<b>Finalised as</b>	<b>Date of issue</b>	<b>Mandatory effective date</b>
FRED 76	<u>Jul 2020</u>	<u>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</u>	<u>Oct 2020</u>	<u>1 Jan 2020</u>

## **Amendments to Basis for Conclusions *FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime***

- 4 The following amendments are made to the Basis for Conclusions *FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime* (inserted text is underlined).
- 5 Paragraphs 48 to 52 and the sub-heading before them are inserted as follows:

### **Amendments to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* – COVID-19-related rent concessions**

- 48 In October 2020, FRS 105 was amended to require entities to recognise changes in operating lease payments that occur as a direct consequence of the COVID-19 pandemic, and meet specified conditions, on a systematic basis over the periods that the change in lease payments is intended to compensate.
- 49 This was to address concerns about how the relevant requirements of FRS 105 should be applied to temporary rent concessions granted in response to the COVID-19 pandemic. Specifically, there were differences of opinion over how the previous requirements of FRS 105 should be applied to forgiven payments in operating lease agreements. If this had led to different accounting treatments for changes in lease payments that had arisen under similar circumstances it would have been unhelpful to users of financial statements.
- 50 Although concerns about the treatment of forgiven lease payments were raised predominantly from the perspective of lessees, because of the similarities between the relevant recognition requirements of FRS 105, the accounting by both lessees and lessors was addressed.
- 51 The amendments were intended to reflect the particular circumstances that had resulted in these changes in lease payments occurring, where there had typically been a temporary reduction in the lessee's benefit from the use of the leased asset. Requiring entities to recognise the impact of changes in lease payments over the periods that the change is intended to compensate was considered to generally reflect the economic substance of the intended benefit of these concessions and their temporary nature, and provide more relevant information for users. The requirements were based on the recognition requirements in Section 19 *Government Grants*.
- 52 The criteria for applying the requirements were intended to restrict the treatment to those concessions when it was generally considered to be reflective of the substance of the concession. This minimises the risk of the requirements being applied when it may be more appropriate to recognise changes in lease payments on another basis. The requirements apply only to rent concessions that occur as a direct consequence of the COVID-19 pandemic and:
  - (a) result in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change. Deferred lease payments do not change the consideration for the lease but change only the timing of individual payments. The requirements therefore do not apply to changes in lease payments that result from rent deferrals. These changes are accounted for under the existing requirements of FRS 105, which are considered to provide useful information to users of financial statements.
  - (b) result in a reduction to only lease payments originally due on or before 30 June 2021. A related increase in lease payments that extends beyond 30 June 2021 would not prevent a rent concession from meeting this condition. In contrast, if reductions in lease payments extend beyond 30 June 2021, the rent concession in its entirety would not be within scope.

The economic effects of the COVID-19 pandemic could continue for some time. If the requirements were not limited to a particular timeframe, an entity could conclude that many future changes in lease payments are a consequence of the COVID-19 pandemic. The chosen timeframe was intended to limit the requirements to apply to those concessions where the treatment is expected to be reflective of the substance of the concession and achieve consistency over this period.

(c) introduce no significant change to other terms and conditions of the lease. A concession that incorporates significant changes to a lease agreement which are unrelated to the COVID-19 pandemic, but negotiated at the same time as those related changes, would not meet this condition.

6 Table 1 *Exposure drafts and consultation documents* is amended as follows (new exposure drafts are inserted in numerical order):

Exposure draft		Date of issue	Finalised as	Date of issue
FRED 76	<u>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</u>	July 2020	<u>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</u>	Oct 2020



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