



April 2021

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## FRED 78

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 beyond  
30 June 2021

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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.

### Draft amendments to FRS 102 and FRS 105

- (ii) In October 2020, FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* 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. The treatment was considered to reflect the economic substance of the intended benefit of these concessions and their temporary nature and improve the consistency of reporting for users of financial statements. Similar amendments were made to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*.
- (iii) Amongst other conditions, the requirements introduced by the amendments apply to concessions that result in a reduction to only lease payments originally due on or before 30 June 2021. This time condition was included to limit the requirements to those concessions where the treatment is expected to be reflective of the substance of the concession.
- (iv) This FRED proposes amendments to extend the requirements so that they apply to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions are met. Extending the existing time condition by 12 months is considered necessary to ensure that concessions with similar characteristics that occur in similar circumstances are accounted for consistently and in a way that best reflects their substance.
- (v) It is proposed that the amendments are effective for accounting periods beginning on or after 1 January 2021, with early application permitted.

## Invitation to comment

- 1 The FRC is requesting comments on FRED 78 by 11 May 2021. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of the draft standard. In particular, comments are sought in relation to the questions below.

### **Question 1**

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

### **Question 2**

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.

- 2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 15.

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

## Draft amendments to Section 1 *Scope*

- 1 The following paragraph sets out the draft amendments to Section 1 *Scope* (inserted text is underlined).
- 2 The sub-heading and paragraph 1.33 are inserted as follows:

### **COVID-19-related rent concessions beyond 30 June 2021**

- 1.33 In [month 2021] an amendment was made to paragraph 20.15D of this FRS. This amendment is effective for accounting periods beginning on or after 1 January 2021. Early application is permitted. If an entity applies this amendment to an accounting period beginning before 1 January 2021 it shall disclose that fact, unless it is a small entity, in which case it is encouraged to disclose that fact.

## **Draft amendment to Section 20 Leases**

- 3 The following paragraph sets out the draft amendment to Section 20 *Leases* (inserted text is underlined, deleted text is struck through).
- 4 Paragraph 20.15D is amended as follows:
  - 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~~2022; and
    - (c) there is no significant change to other terms and conditions of the lease.

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

## Draft amendments to Section 1 *Scope*

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

6 The sub-heading and paragraph 1.9 are inserted as follows:

### **COVID-19-related rent concessions beyond 30 June 2021**

1.9 In [month 2021] an amendment was made to paragraph 15.16B of this FRS. This amendment is effective for accounting periods beginning on or after 1 January 2021. Early application is permitted.

## **Draft amendment to Section 15 Leases**

- 7 The following paragraph sets out the draft amendment to Section 15 *Leases* (inserted text is underlined, deleted text is struck through).
- 8 Paragraph 15.16B is amended as follows:
  - 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~~2022; and
    - (c) there is no significant change to other terms and conditions of the lease.

## **Basis for Conclusions**

### **FRED 78 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 beyond 30 June 2021**

*This Basis for Conclusions accompanies, but is not part of, this Financial Reporting Exposure Draft and summarises the main issues considered by the Financial Reporting Council (FRC) in developing FRED 78 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 beyond 30 June 2021.*

*When these proposals are finalised, the Basis for Conclusions accompanying FRS 102 and FRS 105 will be updated.*

#### **Objective**

- 1 In developing financial reporting standards, the overriding objective of the FRC 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.
- 2 In achieving this objective, the FRC aims to provide succinct financial reporting standards that:
  - (a) have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
  - (b) balance improvement, through reflecting up-to-date thinking and developments in the way businesses operate and the transactions they undertake, with stability;
  - (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with proportionate and practical solutions, based on size, complexity, public interest and users' information needs;
  - (d) promote efficiency within groups; and
  - (e) are cost-effective to apply.

#### **COVID-19-related rent concessions beyond 30 June 2021**

- 3 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. The treatment was considered to reflect the economic substance of the intended benefit of these concessions and the circumstances in which they had been granted, where there had typically been a temporary reduction in the lessee's benefit from the use of the leased asset due to pandemic restrictions. As the accounting model for operating leases in FRS 102 is the same as FRS 105, similar amendments were made to FRS 105.
- 4 Amongst other conditions, the requirements introduced by the amendments apply to concessions that result in a reduction to only lease payments originally due on or before 30 June 2021. If reductions in lease payments extend beyond 30 June 2021, the concession in its entirety would not be within scope. This time condition was intended to limit the requirements to those concessions where the treatment is expected to be reflective of the substance of the concession and achieve consistency of reporting over

this period. It was also included to 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.

- 5 Many lessees continue to be granted rent concessions as a result of the COVID-19 pandemic. In general, these concessions are being granted under the same circumstances as those that existed when the requirements were originally developed. Although governments' plans to ease restrictions over the coming months are expected to change these circumstances, there is a risk that the existing time condition will not cover rent concessions that are similar in substance to those covered by the original requirements. Therefore, we believe it is necessary to extend the existing timeframe to ensure that concessions with similar characteristics that occur in similar circumstances are accounted for consistently and in a way that best reflects their substance.

### ***Proposed extension***

- 6 The proposed amendments extend the requirements so that they apply to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions are met. This allows for rent concessions being granted that reduce lease payments due after 30 June 2021 which are similar in substance to those concessions where the requirements currently apply.
- 7 The rationale explained in paragraph 4 of limiting the application of the requirements to a particular timeframe is still considered appropriate. The time condition remains necessary to reduce the risk that the requirements are interpreted differently and applied inconsistently.
- 8 When deciding how far to extend the existing time condition, the FRC considered the current situation and prospects faced by entities in the UK and Republic of Ireland, as well as other international developments that might impact these entities. The proposed timeframe is considered sufficient to cover those periods where concessions will be granted in circumstances similar to those that existed when the original amendments were developed. It is also intended to help avoid any further amendments being made to the condition, therefore providing certainty about the period over which the requirements apply. However, the requirements will continue to be kept under review in the light of future changes.
- 9 Consideration was also given to the risk of the treatment being applied too broadly as a result of extending the time condition. It was concluded that the frequency with which temporary COVID-19-related rent concessions are likely to be granted may decline in the future as pandemic restrictions are lifted, and that the other criteria for applying the requirements also mitigate this risk.

### ***Effective date***

- 10 The proposed effective date is accounting periods beginning on or after 1 January 2021, with early application permitted. The FRC expects to finalise these amendments in the first half of 2021. An entity will have the option to apply the amendments in financial statements that are not yet authorised for issue at the date the amendments are issued.
- 11 These timings mean it is possible that an entity could authorise financial statements for issue before these amendments are issued which reflect rent concessions that meet the specified conditions as a result of the amendments. Whilst such instances are expected to be rare, in the absence of specific transitional provisions, the existing requirements of FRS 102 and FRS 105 require entities to apply these amendments retrospectively. Retrospective application ensures that these concessions are accounted for consistently across those reporting periods when they are expected to most commonly occur. Although the potential difficulties of this approach are acknowledged, the required accounting is not considered unduly complex.
- 12 FRED 78 Draft amendments to FRS 102 and FRS 105 (April 2021)

## Consultation stage 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.

### Draft amendments to FRS 102 and FRS 105

- 2 These proposals will only affect entities that agree temporary rent concessions as a direct consequence of the COVID-19 pandemic which result in a reduction to lease payments originally due after 30 June 2021, but not beyond 30 June 2022; and meet the other conditions in FRS 102 and FRS 105 that require entities to recognise changes in operating lease payments on a systematic basis over the periods that the change is intended to compensate.
- 3 The proposals extend the time conditions that apply to the existing requirements in FRS 102 and FRS 105 which specify how changes in operating lease payments that arise from COVID-19-related rent concessions should be recognised. As the circumstances that existed when these requirements were originally developed may extend beyond June 2021, the proposed extension will allow concessions with similar characteristics that occur in similar circumstances to be accounted for consistently. This will improve the ability of users to compare the financial statements of different entities.
- 4 The proposals require entities to recognise those changes that reduce lease payments in this extended period, and meet the other specified conditions, 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.
- 5 These proposals introduce no other changes to the requirements of FRS 102 and FRS 105 for this transaction. For this reason, they are expected to be easy to apply and are not expected to increase the costs of preparing financial statements.

### Conclusion

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



This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

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

Comments may also be sent in hard copy to:

Easton Bilsborough  
Financial Reporting Council  
8<sup>th</sup> Floor  
125 London Wall  
London  
EC2Y 5AS

Comments should be despatched so as to be received no later than 11 May 2021. If you have sent a copy of your response electronically, there is no need to send an additional hard copy.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.

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