



July 2020

---

## 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

The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2020  
The Financial Reporting Council Limited is a company limited by guarantee.  
Registered in England number 2486368. Registered Office:  
8th Floor, 125 London Wall, London EC2Y 5AS

This Financial Reporting Exposure Draft contains material in which the IFRS Foundation holds copyright and which has been reproduced with its permission. The copyright notice is reproduced on page 16.



July 2020

---

## 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



# Contents

	Page
<b>Overview</b>	3
<b>Invitation to comment</b>	4
<b>Draft amendments to FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i></b>	5
Section 1 <i>Scope</i>	6
Section 20 <i>Leases</i>	7
<b>Draft amendments to FRS 105 <i>The Financial Reporting Standard applicable to the Micro-entities Regime</i></b>	8
Section 1 <i>Scope</i>	9
Section 15 <i>Leases</i>	10
<b>Basis for Conclusions</b>	
<b>FRED 76 <i>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</i></b>	11
<b>Consultation stage impact assessment</b>	14



## 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) 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 are different views about how the requirements of FRS 102 shall be applied to such changes, specifically those arising from forgiven payments in operating lease agreements. This has the potential for entities to account differently for changes in lease payments that have arisen under similar circumstances, which could be unhelpful to users of financial statements.
- (iv) This FRED proposes amendments to Section 20 *Leases* of FRS 102 to require entities to recognise changes in operating lease payments that arise from COVID-19-related rent concessions 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 also proposed to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*.
- (v) It is proposed that the amendments are effective for accounting periods beginning on or after 1 January 2020, with early application permitted.

## Invitation to comment

- 1 The FRC is requesting comments on FRED 76 by 1 September 2020. 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**

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

### **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?

### **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.

- 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 1.28 are inserted as follows:

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

1.28 In [month 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.

## Draft amendments to Section 20 Leases

3 The following paragraphs set out the draft 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 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~~ changes in lease payments recognised in accordance with paragraph 20.15C.

6 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 over the periods that the change in lease payments is intended to compensate.

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

## **Draft amendments to Section 1 *Scope***

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

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

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

1.7 In [month 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.

## Draft amendments to Section 15 *Leases*

- 9 The following paragraphs set out the draft amendments to Section 15 *Leases* (inserted text is underlined).
- 10 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 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.
- 11 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 over the periods that the change in lease payments is intended to compensate.

## **Basis for Conclusions**

### **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**

*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 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.*

*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**

- 3 Many lessees have been granted rent concessions as a result of the COVID-19 pandemic. The nature of these concessions differs and depends on the arrangements agreed between the lessee and lessor. These arrangements may include the forgiveness of a portion of or all lease payments for an agreed period (ie a temporary rent reduction or rent holiday).
- 4 FRS 102 does not explicitly specify how to account for changes in lease payments that result from rent concessions. The FRC has been made aware of different views about how the requirements of FRS 102 shall be applied to such changes, specifically those arising from forgiven payments in operating lease agreements. This is understood to be the type of lease for which COVID-19-related rent concessions are commonly provided.
- 5 These differing views have the potential to lead to inconsistencies in practice, with entities accounting for changes in lease payments that have arisen under similar circumstances differently. This would reduce comparability between entities which would be unhelpful to users of financial statements. The need for comparability is significant due to the particular

circumstances that have resulted in these changes in lease payments occurring, which means the issue is of general applicability.

- 6 After considering the requirements of FRS 102, the FRC concluded that consistency could only be achieved by establishing a clear and unambiguous treatment for this transaction. This FRED proposes amendments to Section 20 *Leases* to require entities to recognise changes in operating lease payments that arise from COVID-19-related rent concessions over the periods that the change in lease payments is intended to compensate.

### **Scope of draft amendments**

- 7 The proposed amendments apply to the recognition of lease payments and lease income from operating lease agreements. 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 has been addressed.
- 8 As the accounting model for operating leases in FRS 102 is the same as FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*, similar amendments to FRS 105 are proposed.
- 9 No amendments are proposed for changes in lease payments for finance leases, to which the requirements of Section 11 *Basic Financial Instruments* and Section 20 *Leases* of FRS 102 apply.

### **Information relevant for users**

- 10 The proposed amendments apply only to temporary rent concessions that arise as a direct consequence of the COVID-19 pandemic. In these circumstances, there is typically a temporary reduction in the lessee's ability to benefit from the use of the leased asset.
- 11 In developing the proposals, the FRC considered what information users of financial statements might find relevant in assessing the performance of entities under these circumstances. Requiring entities to recognise the impact of any 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 will provide more relevant information for users.
- 12 The proposed requirements are also likely to align with the treatment of support schemes made available in response to the COVID-19 pandemic that are accounted for in accordance with Section 24 *Government Grants* of FRS 102. In general, the impact of these various schemes will be recognised in the periods that they are intended to benefit, rather than carried forward into future reporting periods.

### **Proposed criteria**

- 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. 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.
- 14 The expected length of the COVID-19 pandemic is currently unknown and negotiations between lessors and lessees are at different stages of maturity. However, we believe the proposed timeframe is sufficient in order to achieve consistency over the relevant period.

- 15 The proposed amendments apply only to changes in lease payments that result in a revision to the 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 proposed requirements would therefore not apply to changes in lease payments that result from rent deferrals. These changes continue to be accounted for under the existing requirements of FRS 102, which are considered to provide useful information to users of financial statements.
- 16 The proposed amendments also apply only to rent concessions that introduce no significant change to other terms and conditions of the lease. Therefore, 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.

### ***Disclosures***

- 17 FRS 102 already requires lessees to disclose operating lease payments recognised as an expense. 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, it is proposed that the amount of any changes recognised in accordance with paragraph 20.15C is disclosed.
- 18 Paragraph 20.30(c) of FRS 102 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 for lessors are proposed.

### ***Effective date***

- 19 The FRC understands that the earliest rent concessions occurring as a direct consequence of the COVID-19 pandemic were granted for lease payments due in or after March 2020. These timings mean the issue is expected to be material for accounting periods ending after 31 March 2020.
- 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 accounting periods ending after 31 March 2020 that are not yet authorised for issue at the date the amendments are issued.

## 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 an overall reduction in the total consideration for an operating lease.
- 3 The proposals introduce requirements for recognising any changes in operating lease payments that arise from COVID-19-related rent concessions. In the absence of a specific requirement, the proposals intend to establish a clear and unambiguous treatment for this transaction, which relieves preparers from developing an accounting policy based on the existing requirements and guidance in FRS 102 and FRS 105. This will save time in the production of the financial statements and remove any potential uncertainty about how the existing requirements of these FRSs apply.
- 4 These proposals will also help to establish greater consistency in how these changes in lease payments are being accounted for. This will improve the ability of users to compare the financial statements of different entities that agree rent concessions in similar circumstances.
- 5 The proposed treatment requires entities to recognise any changes in lease payments 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.
- 6 The proposed treatment is also expected to be easy to apply, as it requires no new information, nor any complex calculations. Therefore, these proposals are not expected to increase the cost of preparing financial statements.

### Conclusion

- 7 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 1 September 2020. 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.



## COPYRIGHT NOTICE

IFRS<sup>®</sup> Standards together with their accompanying documents are issued by the International Accounting Standards Board:

7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.  
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411  
Email: [info@ifrs.org](mailto:info@ifrs.org) Web: [www.ifrs.org](http://www.ifrs.org)

Copyright © 2020 IFRS Foundation

The International Accounting Standards Board, the IFRS Foundation, the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

IFRS Standards (which include IAS<sup>®</sup> Standards and IFRIC<sup>®</sup> and SIC<sup>®</sup> Interpretations) are copyright of the IFRS Foundation. The authoritative text of IFRS Standards is that issued by the International Accounting Standards Board in the English language. Copies may be obtained from the IFRS Foundation Publications Department. Please address publication and copyright matters to:

IFRS Foundation Publications Department  
7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.  
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749  
Email: [publications@ifrs.org](mailto:publications@ifrs.org) Web: [www.ifrs.org](http://www.ifrs.org)

All rights reserved. No part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without prior permission in writing from the IFRS Foundation.



The IFRS Foundation logo, the IASB logo, the IFRS for SMEs logo, the “Hexagon Device”, “IFRS Foundation”, “eIFRS”, “IAS”, “IASB”, “IASB Foundation”, “IASCF”, “IFRS for SMEs”, “IASs”, “IFRS”, “IFRSs”, “International Accounting Standards” and “International Financial Reporting Standards” are Trade Marks of the IFRS Foundation.





Further copies, £15.00 (post-free) can be obtained from

**FRC Publications**

Lexis House  
30 Farringdon Street  
London  
EC4A 4HH

Tel: **0845 370 1234**

Email: [customer.services@lexisnexis.co.uk](mailto:customer.services@lexisnexis.co.uk)

Or order online at: [www.frcpublications.com](http://www.frcpublications.com)

ISBN 978-0-7545-5801-9

