

16 May 2022

Mr. Bruce Mackenzie
Chair of the IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Tentative Agenda Decision Relating to
Lessor Forgiveness of Lease Payments
(IFRS 9 *Financial Instruments* and IFRS16 *Leases*)

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (“the Committee”)’s tentative agenda decision relating to “Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS16 *Leases*)” in the March 2022 IFRIC Update.

Lessor accounting

2. We do not support finalising this tentative agenda decision because, in our view, the principles and requirements of IFRS 9 and IFRS 16 do not provide an adequate basis for addressing this issue for the reasons set out below. We believe that the IASB should consider adding this issue on its agenda as a standard-setting project in accordance with paragraph 5.16 of the Due Process Handbook.
 - (a) With respect to lessor accounting for rent concessions, we believe it is unclear whether the requirements of IFRS 9 or IFRS 16 take precedence. This is because paragraph 2.1(b)(i) of IFRS 9 states that the derecognition requirements of IFRS 9 applies to operating lease receivables recognised, whereas paragraph 87 of IFRS 16 requires the lessor to consider the accrued lease payments relating to the original lease as part of the lease payments for the new lease in the lease modification. Therefore, while the tentative agenda decision states that, for forgiven lease payments that the lessor had included in operating lease

receivables, the derecognition requirements in IFRS 9 should be applied and thus the receivable should be derecognised, we believe that the lease modification requirements in IFRS 16 could be read to mean that those requirements apply to all forgiven lease payments because lease modifications are not qualified in any way.

- (b) The tentative agenda decision states that the forgiven lease payments are not "accrued lease payments relating to the original lease" as stated in paragraph 87 of IFRS 16. However, IFRS16 does not provide detailed guidance on accrued lease payments, and thus we believe that it is inappropriate to conclude that the forgiven lease payments are not "accrued lease payments". Accordingly, we believe that the forgiven lease payments for months 10 through 12 could be considered accrued lease payments of the original lease, and thus could be considered part of the lease payments for the new lease, by applying the requirements in paragraph 87 of IFRS 16 related to lease modifications.
 - (c) The tentative agenda decision apparently does not consider rent concessions to be lease incentives (that is, payments made by the lessor to the lessee that are associated with the lease, or the reimbursement or assumption by the lessor of costs of the lessee.). However, we believe that rent concessions could be interpreted as "assumptions by the lessor of costs of the lessee". Under such interpretation, we believe that rent concessions could be accounted for as a component of lease payments, given that lease incentives comprise lease payments.
3. Regarding the lessor accounting for rent concessions, some constituents in our jurisdiction support the analysis in the tentative agenda decision, while others argue that only IFRS 16 should be applied. Accordingly, we believe it is necessary to fully discuss the appropriate accounting treatment.
 4. In addition, some constituents in our jurisdiction have commented that it is unclear whether the term "forgiveness" used in the tentative agenda means full as well as partial forgiveness. Accordingly, we suggest that the agenda decision clarify that "forgiveness" means full as well as partial forgiveness of receivables.

Lessee accounting

5. We agree with the Committee's recommendation that the IASB consider undertaking

a narrow-scope standard-setting project to address the lessee's accounting for rent concessions described in the submission. Constituents in our jurisdiction have noted that there is more than one appropriate accounting treatment to account for the lessee's rent concessions described in the submission, and we believe it is necessary to fully discuss the appropriate accounting treatment.

6. We hope that our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink that reads "Y. Kawanishi". The signature is written in a cursive, flowing style.

Yasunobu Kawanishi

Chair

Accounting Standards Board of Japan