Buenos Aires, Argentina, May 23, 2022

IFRS Foundation
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REF: IFRS IC Tentative Agenda Decisions reached in the March 15 and 16, 2022 meetings

Dear Board Members,

The "Group of Latin American Standards Setters"[1] (GLASS) appreciates the opportunity to comment on the Tentative Agenda Decisions (TAD) reached by the IFRS IC during its meeting on March 15 and 16, 2022, which included the following topic:

- **Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)**

This response summarizes the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process

The discussions regarding the Tentative Agenda Decision (TAD) of IFRS IC were held within a specified Permanent Technical Commission (PTC) created in December 2020. All GLASS country-members had the opportunity to appoint at least one member to participate in this PTC. Each standard setter represented in GLASS has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for GLASS discussion process.

GLASS discussed the different points of view included in the summary through emails exchanged among its members. In those emails GLASS developed a final document on the basis of the consensual responses and the technical points of view of its members. Finally, the GLASS document was submitted to and approved by the GLASS Board.

Comments

In relation to the request received by the Committee on the form of application of IFRS 9 *Financial Instruments* and IFRS 16 *Leases* by a lessor in the accounting for a particular rent concession, GLASS agrees that, in the case presented, both standards are applicable and therefore the entity must determine the form of interaction between the two standards to ensure adequate compliance with the applicable requirements.

The fact pattern

In the case presented to the Committee, a lessor that has classified the contract as an operating lease in the terms of IFRS 16 and grants the lessee a partial forgiveness of the lease payments contemplated under that contract.

Therefore, the lessor legally releases the lessee from its obligation to make certain specifically identified lease payments, some of which are amounts contractually due but unpaid (which the lessor had recognized as an operating lease receivable) and some of which are amounts that are not yet due contractually, with this

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts, Requests for Information and Discussion Papers issued by the IASB and Tentative Agenda Decisions issued by the IFRS IC. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Vice Chairman), Chile (Board), Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board).

modification of the contract being the only one that occurred, and the parties are not considering making other changes.

GLASS agrees with the analysis made by the Committee in relation to the fact that the forgiveness of unpaid balances owed by the lessee, recorded by the entity as an account receivable for services rendered, should be treated separately from the forgiveness of the remaining payments that, according to the modified contract, should be recognized in the future.

Account receivable recognized prior to the granting of a reduction on the rent

In accordance with its classification as an operating lease in the terms of IFRS 16, the lessor must recognize, in accordance with paragraph 81 of the standard, which is transcribed below, an account receivable as a counterpart to the recognized income.

"81. A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished."

On the other hand, paragraph 2.1(b)(i) of IFRS 9 establishes that *"operating lease receivables recognized by a lessor are subject to the derecognition and impairment requirements of this Standard"*.

Therefore, a lessor is required to additionally apply the impairment requirements of IFRS 9 to an operating lease receivable from the date it recognizes that receivable.

On the other hand, IFRS 9, in its Appendix A, defines credit loss as "the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive. (ie. all cash shortfalls) ...".

Paragraph 5.5.17 of IFRS 9 states that "an entity shall measure expected credit losses … in a way that reflects (a) an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions".

Consequently, in the fact pattern described in the request, the lessor must apply the impairment requirements of IFRS 9 to the operating lease receivable. The lessor must estimate the expected credit losses on the operating lease receivable by measuring any credit losses to reflect "all cash shortfalls".

These shortfalls are the difference between all contractual cash flows due to the lessor under the lease and all related cash flows expected to be received, determined using 'reasonable and supportable information' about 'past events, current conditions and forecasts'. of future economic conditions.

GLASS concurs with the Committee's conclusion that, in the period before the rent concession is granted, a lessor should measure the expected credit losses on the operating lease receivable in a manner that reflects an unbiased and likely amount determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including consideration of its expectations of forgiving certain lease payments recognized as part of that receivable.

Recognition of the effect of the reduction granted to the lessee on the lease payments

The forgiveness by the lessor of part of the amounts owed by the lessee previously recognized as a receivable for operating leases, implies a reduction of these amounts that must be considered in relation to the derecognition criteria of IFRS 9.

Paragraph 2.1(b)(i) of IFRS 9 establishes that operating lease receivables recognized by a lessor are subject to the derecognition requirements of IFRS 9. Therefore, by granting the reduction of part of the lease amount, the lessor should consider whether the derecognition requirements in paragraph 3.2.3 of IFRS 9 are met.

In the forgiveness described in the request, the lessor <u>legally releases</u> the lessee from its obligation to make certain specifically identified lease payments, some of which the lessor had recognized as forming part of the operating lease receivable.

Therefore, by granting the lessor the forgiveness of part of the rent to the lessee, its contractual rights over the respective cash flows of the operating lease receivable expire and it has waived its contractual rights over said specifically identified cash flows. In that case, the lessor must conclude that the requirements of paragraph 3.2.3(a) of IFRS 9 have been met.

Therefore, on the date the rent reduction is granted, the lessor must derecognize such amounts from the operating lease receivable (and the associated expected credit loss provision) and recognize any difference as a loss in the income statement.

Application of the lease modification requirements of IFRS 16 to future lease payments

The rent reduction described in the request received by the Committee meets the definition of a lease modification under the terms of IFRS 16.

The rent reduction granted is "a change in … the consideration for a lease, that was not part of the original terms and conditions ...". Therefore, the lessor must apply paragraph 87 of IFRS 16 and account for the modified lease as a new lease from the date the rent reduction is granted.

When accounting for the modified lease as a new lease, the lessor must apply paragraph 81 of IFRS 16 and recognize in the future as income the lease payments to be made by the lessee during the term of the lease (including advance or accrued payments related to the original lease) either on a straight-line or another systematic basis.

GLASS agrees with the opinion of the Committee, which concluded that the lessor must account for the forgiveness granted on the rent described in the request by applying:

1. the derecognition requirements in IFRS 9 for forgiven lease payments that the lessor had included in an operating lease receivable on the date the rent reduction is granted; and
2. the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor had not included in an operating lease receivable.

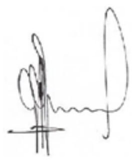
GLASS shares the Committee's reasoning in concluding that the principles and requirements of IFRS Standards provide an adequate basis for a lessor to determine how to apply the expected credit loss model in IFRS 9 to an operating lease receivable and to account for the forgiveness of rent described in the request.

GLASS also agrees that it is not necessary for the topic to be included as an agenda item for the IASB and that it is appropriate to specify through the Agenda Decision (AD) procedure a response on the reasoning to be used, and therefore the description of the proper application of the accounting treatment that should be given to the subject.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,



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