

# Disclosure Guide for entities early adopting the MFRS 16 rent concession amendment




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## About this Disclosure Guide

The new amendment to MFRS 16 COVID-19-Related rent concessions ('the MFRS 16 amendment'), effective for annual reporting periods beginning on or after 1 June 2020 grants an optional practical expedient for lessees (but not lessors) to account for a COVID-19-related rent concession in the same way as they would if they were not lease modifications. You can refer to our June 2020 publication [Snapshot: Amendments to MFRS 16 on COVID-19-Related Rent Concessions](#) for the write-up of the amendments and the potential impacts.

This Disclosure Guide includes an illustrative disclosure of a reporting entity which is a Group early adopting the MFRS 16 amendment for the first time in its annual financial statements ended 31 December 2020; with the date of initial application of 1 January 2020.

## Tips to using this Disclosure Guide

- (i) **Black** fonts indicate where specific disclosures are typically located in financial statements.
- (ii) **Orange** fonts provide specific guidelines on the disclosure requirements. Preparers are encouraged to refer to the specific requirements in MFRS 16 when drafting the disclosures. References to MFRS 16 requirements are provided in the reference column on the left.
- (iii) Icons in  **orange** box indicates some useful tips for preparers to consider while drafting the relevant disclosures.
- (iv) Examples of disclosures are shaded in **grey**.

This disclosure guide is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

The illustrative disclosures in this disclosure guide should not be considered the only acceptable form of presentation. Alternative presentations to those proposed in this disclosure guide may be equally acceptable so long as they meet the objective of disclosure requirements prescribed in MFRS 16.

# STRUCTURE OF THIS DISCLOSURE GUIDE

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# Key disclosure requirements

MFRS  
108.28(a), (b)

## Notes to the financial statements

### 1. BASIS OF PREPARATION (extract)

#### 1.1 New and amended standards adopted by the Group

- To disclose the fact about the adoption of new accounting policies upon early adoption of the MFRS 16 amendment and make reference to the note disclosing the impacts of the change.

#### Example

The Group has early adopted the MFRS 16 amendment for the first time in its annual financial statements ended 31 December 2020; with the date of initial application of 1 January 2020 **[GN1]**. The detailed impacts of the changes in accounting policies on COVID-19-related rent concessions are disclosed in **Note 2**.

MFRS 16.C1A




#### Key consideration **[GN1]**

The MFRS 16 amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including those financial statements not authorised for issue at 28 May 2020.

The MFRS 16 amendment is applied retrospectively. The retrospective application may benefit lessees that authorise annual or interim financial statements for issue after receiving COVID-19-related rent concessions but before the amendment was issued on 28 May 2020. For example, a lessee that does not apply the practical expedient in its 31 March 2020 financial statements would be able to apply the amendment retrospectively to particular COVID-19-related rent concessions that affect payments due before 31 March 2020 in its 31 March 2021 financial statements, thus accounting for similar COVID-19-related rent concessions consistently.

## Key disclosure requirements (continued)

	<b>Notes to the financial statements (continued)</b>
	<b>2. CHANGES IN ACCOUNTING POLICIES UPON EARLY ADOPTION OF THE MFRS 16 AMENDMENT</b>
MFRS 108.28(c)	<ul style="list-style-type: none"><li>● To disclose the effects of the change in accounting policy e.g. explain how rent concessions were accounted for previously in the comparative periods and how the adoption of the MFRS 16 amendment has changed those accounting.</li></ul>
MFRS 108.28(d)	<ul style="list-style-type: none"><li>● To disclose the transition method that an entity has adopted.</li></ul>
MFRS 16.C20A	<p><b>Example - The Group as a lessee</b></p> <p>During the financial year, the Group changed its accounting policies on COVID-19-related rent concession upon early adoption of the MFRS 16 amendment.</p> <p>In accordance with the transitional provisions provided in the MFRS 16 amendment, the comparative information for 2019 was not restated and continued to be reported under the previous accounting policies in accordance with the lease modification principles in MFRS 16. <b>[GN2]</b></p> <div> <b>Key consideration [GN2]</b></div> <p>In accordance with the transitional provisions provided in the MFRS 16 amendment, the comparative information is not restated. The cumulative effect of initially applying the MFRS 16 amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.</p> <p>As the MFRS 16 amendment does not apply to rent concessions due on or before 1 January 2020, the net impact on retained earnings on 1 January 2020 upon early adoption of the MFRS 16 amendment is nil.</p>

## Key disclosure requirements (continued)

MFRS 16.46A-46B	<b>Notes to the financial statements (continued)</b>  <b>2. CHANGES IN ACCOUNTING POLICIES UPON EARLY ADOPTION OF THE MFRS 16 AMENDMENT (CONTINUED)</b>
	<p>On adoption of the MFRS 16 amendment, the Group is not required to assess whether a COVID-19-related rent concession that meets all of the following conditions is a lease modification:</p> <ol style="list-style-type: none"><li>1. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;</li><li>2. any reduction in lease payments affects only payments due on or before 30 June 2021; and</li><li>3. there is no substantive change to other terms and conditions of the lease.</li></ol> <p>The Group accounts for such COVID-19-related rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs.</p>



## Key disclosure requirements (continued)

### Notes to the financial statements (continued)

#### 3. SIGNIFICANT ACCOUNTING POLICIES

*Example disclosure below are for illustration only. Preparers should tailor the relevant accounting policy disclosures based on the facts and circumstances.*

##### 3.1 Leases in which the Group is a lessee

MFRS 101.117

To disclose the significant accounting policies on lessee accounting on rent concessions.

MFRS  
16.46A-46B

#### Example - The Group as a lessee

During the financial year, the Group elects to account for a COVID-19-related rent concession that meets all of the following conditions in the same way as they would if they were not lease modification:

1. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
2. any reduction in lease payments affects only payments due on or before 30 June 2021; and
3. there is no substantive change to other terms and conditions of the lease.

The Group accounts for such COVID-19-related rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs. The Group presents the impacts of rent concessions within operating expenses. **[GN3]**



#### Key consideration **[GN3]**

MFRS 16 does not specify a location for rent concessions in the statement of comprehensive income. Paragraph BC205E(a) of MFRS 16 refers to the accounting for rent concessions both as a variable lease payment and as the derecognition of part of the lease liability. As a result:

- It might be appropriate – if an entity considers rent concessions as variable lease payments – to present them in operating expenses, similar to where the entity would present variable lease payments that are not reflected in the measurement of lease liabilities.

## Key disclosure requirements (continued)

### Notes to the financial statements (continued)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.1 Leases in which the Group is a lessee (continued)

- Alternatively, if an entity considers rent concessions under the partial derecognition guidance, it might also be acceptable to present the derecognition gains in the same line item as gains or losses on extinguishment of financial liabilities.
- If the amount is material, the entity might also consider presenting the concessions as a separate line in the statement of comprehensive income.

An entity should disclose the approach that it has taken in its accounting policies, and it should apply that policy consistently.

Until 31 December 2019, the accounting required by MFRS 16 for a change in lease payments, other than those arising from a change in amounts expected to be payable under residual value guarantees or in an index or rate used to determine lease payments, depends on whether that change meets the definition of a lease modification.

MFRS 16.44-46

If a rent concession results from a lease modification, the Group accounts for the rent concession as either a new lease or as a remeasurement of an existing lease liability, depending on the criteria set in MFRS 16.

MFRS 16.38(b)

If a rent concession does not result from a lease modification, the Group accounts for the rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs.



## Key disclosure requirements (continued)

### Notes to the financial statements (continued)

#### 4. DISCLOSURES - LESSEES

MFRS  
16.60A(a)

##### Qualitative disclosure:

- To disclose that the lessee has applied the practical expedient to all rent concessions that meet the conditions of the amendment or, if not applied to all such rent concessions, information about the nature of the lease contracts to which it has applied the practical expedient.

MFRS  
16.60A(b)

##### Quantitative disclosure:

- To disclose the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient. **[GN4]**



##### **Key consideration [GN4]**

If a lessee has recognised negative variable lease payments, that amount should be disclosed separately from other variable lease payments that are already required to be disclosed by paragraph 59(b)(i) of MFRS 16.

MFRS  
16.BC205G

##### Cash flows statement:

- The main effect on cash flows would be the reduction or absence of cash outflows for leases during the period of the rent concession. Where the carrying amount of the lease liability is adjusted, a lessee would disclose this effect as a non-cash change in lease liabilities, applying paragraph 43-44A of MFRS 107 *Statement of Cash Flows*.
- If the lessee treats interest payments as operating cash flows and principal repayments as financing cash flows, in the periods in which it makes payments for previously deferred amounts, it will have to allocate those payments between principal and interest for the purposes of presenting those cash flows in the cash flow statement.

MFRS  
16.BC205G

##### Other disclosures:

- The lessee should consider the impact of rent concessions on all of the following:
  - the liquidity disclosures required by MFRS 7;
  - the going concern assessment and related disclosures; and
  - the MFRS 101 critical accounting judgements and estimates.

MFRS 7.39  
MFRS  
101.25-26,  
122, 125, 129

## Key disclosure requirements (continued)

### Notes to the financial statements (continued)

#### 4. DISCLOSURES - LESSEES (CONTINUED)

##### Example - The Group as a lessee

MFRS 16.59(a),  
60A(a)

During the financial year, as a result of COVID-19 pandemic, the Group has received various forms of rent concessions, including payment holidays and deferral of lease payments for a period of time.

MFRS  
16.60A(a)

The Group has applied the practical expedient to all rent concessions that meet the conditions of the MFRS 16 amendment.  
**[GN5]**

**To replace the preceding sentence with the sentence below if the Group has not applied the practical expedient to all rent concessions that meet the conditions of the amendment:**

[The Group has applied the practical expedient only to all property leases that meet the conditions of the MFRS 16 amendment.]

MFRS 16.2,  
BC205C



##### **Key consideration [GN5]**

The practical expedient if elected, must be applied consistently to all leases with similar characteristics and in similar circumstances. For example, it could be applied to all property leases which are leases of the same class, but not to equipment leases. It would not be appropriate to 'cherry-pick' which leases to apply the practical expedient to.

MFRS  
16.60A(b)

The amount recognised in the Group's 31 December 2020 profit or loss to reflect changes in lease payments that arise from rent concessions to which the Group has applied the practical expedient is RMxxx. The lease liability is reduced by RMxxx.

## Key disclosure requirements (continued)

MFRS  
107.43-44A

### Notes to the financial statements (continued)

#### 4. DISCLOSURES - LESSEES (CONTINUED)

##### Example - MFRS 107 disclosures on changes in liabilities arising from financing activities (extract)

	Lease liabilities
<b>As at 1 January 2019</b>	<b>xxx</b>
Cash outflows	(xxx)
Non-cash changes:	
• Interest accretion	xxx
• New leases	xxx
<b>As at 31 December 2019</b>	<b>xxx</b>
Cash outflows	(xxx)
Non-cash changes:	
• Interest accretion	xxx
• New leases	xxx
• Effects of rent concession received during the financial year	(xxx)
<b>As at 31 December 2020</b>	<b>xxx</b>

**Related materials:** Refer to our previous publication on [Guide to Drafting MFRS 16 Disclosures](#)

Do you need further information on this topic?

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