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ZIA Comment Letter Exposure Draft ED/2020/2 “Covid-19-Related Rent Concessions/Proposed amendment to IFRS 16”

Dear Sir/Madam,

the German Property Federation (ZIA) is the leading association of the real estate industry in Germany. Through our members we represent over 37.000 companies along the entire value chain. Many of them are also actively participating in the leasing market.

The ED proposes an amendment to IFRS 16 to permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications, but instead to account for those rent concessions as if they were not lease modifications. It is stated in the introduction to the ED that “**lessees** have identified potential difficulties in the current environment in assessing whether covid-19-related rent concessions are lease modifications and, for those that are, applying the required accounting.” Accordingly, the objective of the ED is to provide **lessees** with practical relief during the covid-19 pandemic while enabling them to continue providing useful information about their leases to users of financial statements.

While we support the IASB’s initiative to provide relief for **lessees** when accounting for covid-19-related rent concessions, we strongly encourage the IASB to also provide a corresponding relief for lessors when accounting for operating leases, in particular for lessors in the real estate sector.

In the basis for conclusions the IASB makes the thesis that “lessors are not expected to face the same practical challenges as lessees in accounting for covid-

19-related rent concessions" which seems to be the primary reason why the ED does not address lessor accounting. This thesis seems to be based on the following observations/assumptions:

- For many lessors with a large volume of leases, leasing is a core part of their business.
- IFRS 16 carried forward the lessor accounting model in IAS 17 Leases. Therefore, unlike lessees, lessors have not recently implemented a new accounting model for their leases.
- Lessor accounting for modifications to operating leases requires no re-measurement of amounts recognised in a lessor's statement of financial position, whereas lessees are required to remeasure lease liabilities using a revised discount rate for all lease modifications. Many of the real estate leases for which covid-19-related rent concessions are being provided would be operating leases for the lessor.

We don't concur with the IASB's view on the exclusion of the practical relief for lessors and strongly reject the IASB thesis that lessors are not expected to face similar practical challenges as lessees. In contrast, it is our observation that lessors in the real estate sector are particularly and significantly impacted by covid-19 related rent concessions for the following reasons:

- While leasing property is of course the core part of these businesses, typically in the real estate sector lease agreements run for a long time (often longer than 10 years) and during this time remain often unchanged. Accounting for lease modifications is therefore not something that is part of the daily routine of lessors. Processing lease modifications requires significant resources in particular if it happens in a large volume of cases as it is today.
- Typically, property lease contracts are individualized, to meet the needs of tenants and are up to date to reflect the current laws and regulations. This is not only the case for different types of properties (residential, industrial, logistical, office, retail etc), but is also different from country to country and also depends on the point in time when the contract was entered into (i.e. a contract entered into 10 years ago will have different provisions as a contract entered into today). To fulfil the requirements of IFRS 16, real estate lessors would need to analyse each contract which was subject to a rent concession, which could be very burdensome, as property lease contracts are often significantly more customized than lease contracts for equipment and vehicles.
- Many real estate lessors have systems in place to record the journal entries for their lease accounting. However, as typically lease contracts are concluded for a longer time period, the systems used to process property lease contracts often are not customized to deal with modifications of lease contracts, i.e. there would often be significant manual work to do to revise the straight-lining of operating lease income as a result of a lease modification. It would be much easier for lessors to have the possibility to

- recognize any rent concessions immediately (as negative variable lease payments) without being required to update the straight-lining.
- For many real estate lessors, the concessions made to lessees in 2020 are significant. Some investors in real estate companies would expect that the effects of covid-19-rent concessions granted should be recognized in 2020, rather than being deferred over a much longer remaining lease term (which could be up to 10 year or even longer), thus hiding the losses in 2020.
- We understood, that the FASB has granted a similar relief to lessors as to lessees. We therefore assume that the FASB has acknowledged that not only lessees but also lessors face practical challenges in accounting for rent concessions. While US GAAP and IFRS are virtually similar standards (in particular with respect to lessor accounting), it would be hard to understand why for entities reporting under US GAAP a lessor relief is required while under IFRS no such relief is required.

We believe real estate lessors are presently facing significant business issue, one of them being the complex accounting for rent concessions under IFRS 16. We would very much appreciate if the IASB could provide a limited relief exemption to real estate lessors similar with the relief provided to lessees, which would be of enormous benefit for the real estate lessors.

Yours sincerely,

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ZIA

The Germany Property Federation (ZIA) is a unified lobby group that represents the interests of the German property sector in all its diversity, as befits its position as one of the most important industries in the German economy. The confederation gives its members – some of the best-known companies in the sector – a voice that is heard at the national and European level and within the Federation of Germany Industries (BDI). For more information, visit www.zia-deutschland.de.