NSW GOVERNMENT | Treasury

Guidance on Rent Concessions for Lessor Entities

Introduction

The current Covid-19 pandemic has significantly changed the economic environment. To support the local economy, the NSW government has provided certain rent relief to eligible commercial tenants of NSW state government agencies. The relief is provided by:

- Deferral of rent payments by tenants, and/or
- Reduction of rent payments (i.e. rent concessions) for certain period of time

Given the impact of deferral is normally immaterial as the deferral is within a year, this guidance is provided for the financial impact of reduction of rent payments only (i.e. rent concessions). Rent concessions change the consideration of a lease, which constitutes a lease modification as defined in Appendix A of AASB 16 *Leases*. The guidance is, therefore, prepared on the basis of the general requirements under AASB 16.

The practical expedient applicable to lessee entities

The Australian Accounting Standards Board has recently issued AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions.* This amendment provides a practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the Covid-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.

However, the above practical expedient is only applicable to lessee entities.

Guidance for lessor entities

Lessor entities should account for the rent concession in accordance with para 80 of AASB 16 for finance lease arrangements, and para 87 of AASB 16 for operating lease arrangements. These two paragraphs relate to lease modifications.

Assuming the rent relief only relates to rent deferrals and/or rent reductions for a certain period of time, and does not affect other terms and conditions, e.g. the scope of the leased asset, the rent relief will not change the classification of the lease (i.e. an operating lease v.s. a finance lease).

Finance leases

For finance leases, the entity should apply AASB 9 requirements for the impact of rent concessions on the finance lease receivables (i.e. the net investment in the finance lease). The finance lease receivable should be remeasured based on the revised rent to be received during the remaining lease period, discounted at the original interest rate (para 5.4.3 of AASB 9). The difference compared with the carrying amount of the finance lease receivables before the remeasurement is recognised in P&L immediately.

Operating leases

For operating leases, the entity should account for the modified lease (i.e. the lease after rent concessions) as a new lease from the effective date of lease modification. As a result, the rent income over the remaining lease period should be re-calculated on a straight line basis, unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished (AASB 16.81), based on the revised rent to be received.

Other considerations

Rent relief should be taken into account when assessing the impairment of the PP&E assets under operating lease arrangements, and expected credit losses for the finance lease receivables under finance lease arrangements. However, rent relief does not automatically mean there is a significant impairment of the underlying asset's fair value or a significant increase in the credit risks of related rent receivables.

Please refer to the guidance on PP&E valuation and Expected credit losses assessment published on the Treasury COVID-19 related accounting webpage for more details.