



Exposure Draft

Proposed Accounting Standards for Private Enterprises

Leases

June 2021

**COMMENTS TO AcSB MUST BE RECEIVED BY
July 30, 2021**

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this [online form](#).

Please address your response to:

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This Exposure Draft reflects proposals made by the Accounting Standards Board (AcSB). Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

HIGHLIGHTS

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to amend LEASES, Section 3065 in Part II of the CPA Canada Handbook – Accounting. This amendment would extend the relief period for both lessees and lessors on accounting for rent concessions received or granted as a result of the COVID-19 pandemic. The proposal extends the optional relief by one year to lease payments originally due on or before December 31, 2022. This amendment would also apply to not-for-profit organizations (NFPOs) applying the standards in Part III of the Handbook, as relevant.

Background

In November 2020, the AcSB amended Section 3065 to provide an option for both lessees and lessors to not account for COVID-19-related rent concessions as new leases. This relief is limited to lease payments originally due on or before December 31, 2021. In response to the ongoing effects of the COVID-19 pandemic and the possibility that lessors may grant rent concessions to lessees that extend beyond December 31, 2021, the Board proposes to extend the optional relief for both lessees and lessors to December 31, 2022.

Main features of the Exposure Draft

The key features of the proposals are as follows:

Classification

- The existing optional relief in paragraph 3065.11A for lessees and lessors related to COVID-19-related rent concessions would be extended by one year to lease payments originally due on or before December 31, 2022, providing the other conditions in paragraph 3065.11A are met.

Effective date and transition

- The amendment would be effective for fiscal years ending on or after December 31, 2021, with earlier application permitted.
- Retrospective application of the amendment would be required as defined in ACCOUNTING CHANGES, Section 1506.

Consequential amendments

As required, consequential amendments would be made to other standards in Parts II and III of the Handbook.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation with the Board's Private Enterprise Advisory Committee. The Committee assists the Board in maintaining and improving accounting standards for private enterprises. The Board will also consult with its Not-for-Profit Advisory Committee for input on circumstances that are unique to NFPOs when applying the potential change to the standard.

The AcSB will provide updates about its deliberations in its decision summaries and on the Leases project page.

Once the deliberation process is complete and the due process procedures for finalizing a standard are carried out, the AcSB plans to issue the amendments in December 2021 if no significant changes are required to the proposals.¹

Comments requested

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

While the AcSB welcomes comments on all of the proposals in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. Do you agree that the existing relief for COVID-19-related rent concessions should be extended for lease payments originally due on or before December 31, 2022 (see paragraph 3065.11A(a))? If not, why not?
2. Do you agree that the amendment be applied retrospectively as defined in ACCOUNTING CHANGES, Section 1506 (see proposed paragraph 3065.86)? If not, why not?
3. Do you agree with the proposed effective date of fiscal years ending on or after December 31, 2021, with earlier application permitted? If not, why not?

The deadline for providing your comment letter to the AcSB is July 30, 2021. Comment on this document by uploading your response letter via this [online form](#).

¹ Refer to “Due Process Specifically Related to Domestic Standards” in the [AcSB Standard-Setting Due Process Manual](#).

PROPOSAL

The following Section would be amended as indicated below. Additional New text is denoted by underlining and deleted text by strikethrough.

LEASES, Section 3065

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CLASSIFICATION

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- .11A As a practical expedient, a lessee or a lessor that receives or grants a rent concession in the form of a deferral or waiver of lease payments may choose to not account for the rent concession as a new lease, as required by paragraph 3065.11, when all of the following conditions are met:
- (a) the rent concession occurred as a direct consequence of the COVID-19 pandemic;
 - (b) the total payments resulting from the rent concession are the same or less than the total payments required by the original lease contract. A rent concession that increases the total payments required for the lease contract would not be considered a direct consequence of the COVID-19 pandemic, except to the extent the increase reflects the time value of money; and
 - (c) any reduction in lease payments affects only payments originally due on or before ~~December 31, 2024~~ December 31, 2022 (for example, a rent concession in the form of a deferral of lease payments will meet this condition if it results in reduced lease payments on or before ~~December 31, 2024~~ December 31, 2022, but the lease payments are paid after ~~December 31, 2024~~ December 31, 2022).

An enterprise is permitted to apply this ~~choice~~ practical expedient for each rent concession on a lease-by-lease basis. An enterprise that chooses this practical expedient accounts for the rent concession in accordance with paragraphs 3065.11B-.11C.

...

EFFECTIVE DATE AND TRANSITION

- .82 Except as specified in paragraphs 3065.83-.856, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .85 Amendments to paragraph 3065.11 and new paragraphs 3065.11A-.11C and 3065.81A-.81D, issued in November 2020, apply to annual financial statements relating to fiscal years ending on or after December 31, 2020. Earlier application is permitted, including in financial statements not yet authorized for issue, so that the practical expedient is available for COVID-19-related rent concessions granted or received in 2020. An enterprise applies these amendments retrospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(d).
- .86 Amendments to paragraph 3065.11A, issued in December 2021, apply to annual financial statements relating to fiscal years ending on or after December 31, 2021. Earlier application is permitted, including in financial statements not yet authorized for issue. An enterprise applies these amendments retrospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(d).

BASIS FOR CONCLUSIONS

Introduction

- 1 In November 2020, the AcSB amended Section 3065 to provide optional relief for both lessees and lessors on accounting for rent concessions received or granted as a result of the COVID-19 pandemic. Without this amendment, Section 3065 would require both lessees and lessors to account for COVID-19-related rent concessions as new leases. This could be onerous for enterprises with many leases. The relief in Section 3065 is currently limited to lease payments originally due on or before December 31, 2021, that meet the conditions specified in paragraph 3065.11A.
- 2 In developing these proposals, the AcSB sought the advice of its Private Enterprise Advisory Committee and Not-for-Profit Advisory Committee. These Committees include financial statement users, auditors and preparers, with a range of backgrounds and experience from across Canada. Members include representatives from organizations of differing sizes and in a variety of industries.

Applicability to NFPOs

- 3 Section 3065 in Part II of the Handbook applies to private enterprises as well as NFPOs applying the standards in Part III of the Handbook, as relevant. Accordingly, in finalizing the amendments, in light of the feedback received, the AcSB will consult its Not-for-Profit Advisory Committee on any unique considerations for NFPOs applying these proposals.

Effects analysis

- 4 The effect of the amendment is to extend the optional relief for both lessees and lessors by one year to December 31, 2022. As a result, enterprises will have a choice to not account for COVID-19-related rent concessions that meet the conditions in paragraph 3065.11A as new leases.

COVID-19-related lease modifications

Scope of the relief

- 5 In developing the original amendments to Section 3065, the AcSB recognized that determining an appropriate timeframe for the relief was challenging because of the uncertainty regarding how long the COVID-19 pandemic would last. The Board limited the optional relief to lease payments originally due on or before December 31, 2021, to capture the majority of COVID-19-related rent concessions being negotiated or contemplated and to provide relief to stakeholders when they needed it the most.
- 6 The AcSB agreed to continually monitor developments relating to the COVID-19 pandemic and, in doing so, recognizes the ongoing effects of the COVID-19 pandemic and the possibility that lessors may grant rent concessions to lessees that extend beyond December 31, 2021. Consequently, the Board proposes to amend Section 3065 to extend the optional relief for COVID-19-related rent concessions by one year to December 31, 2022, providing the other conditions in paragraph 3065.11A are met. The Board recognizes that determining an appropriate timeframe for extending the relief continues to be challenging because there is still uncertainty in how long the COVID-19 pandemic will last. The Board thinks that extending the relief by one year will capture the majority of COVID-19-related rent concessions received or granted. To reduce the risk that the relief is applied to rent concessions other than those that are a direct consequence of the COVID-19 pandemic, the Board decided to limit the proposed relief to only COVID-19-related rent concessions that occur in a specific timeframe. Limiting the relief to a

specific timeframe also makes it easier for lessees and lessors to apply because it reduces the judgment in determining whether the rent concession was related to the pandemic. This judgment could become more challenging in future periods when it may be more difficult to determine if the rent concessions are COVID-19-related.

- 7 The AcSB also decided that the relief should be available for each rent concession on a lease-by-lease basis. For example, an enterprise may have chosen to not apply the relief to a rent concession that met the conditions in paragraph 3065.11A as issued in December 2020. However, the enterprise may now choose to apply the relief to a subsequent rent concession related to that lease provided that the conditions in paragraph 3065.11A are met.

Effective date and transition

- 8 The AcSB plans to issue the amendment on December 1, 2021. Determining an effective date for amendments is an important step in the Board's due process. Considering the importance of the relief and the urgency of receiving it, the Board proposes that the amendment should be effective for fiscal years ending on or after December 31, 2021. The Board also proposes permitting earlier application, which includes financial statements not yet authorized for issue. Early adopting the proposed amendment provides enterprises an opportunity to apply the relief as lease modifications continue to occur.
- 9 The AcSB proposes that the amendment be applied retrospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(d). Retrospective application allows for similar COVID-19-related lease modifications to be accounted for consistently.

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