



STAFF Q&A

TOPIC 842 AND TOPIC 840: ACCOUNTING FOR LEASE CONCESSIONS RELATED TO THE EFFECTS OF THE COVID-19 PANDEMIC

PURPOSE OF THIS STAFF Q&A

This FASB staff question-and-answer document (Q&A) focuses on the application of the lease guidance in Topic 842, Leases, and Topic 840, Leases (if Topic 842 has not yet been adopted) for lease concessions related to the effects of the Coronavirus Disease 2019 (also referred to as COVID-19 pandemic).

The FASB staff has been informed that because of the business disruptions and challenges severely affecting the global economy caused by the COVID-19 pandemic, many lessors are, or will be, providing lease concessions to lessees for a significant number of lease contracts. Stakeholders have noted that while the concessions could vary in form, payment forgiveness and deferral of payments are expected to be the most common types of concessions granted. Additionally, stakeholders have highlighted that because of the severity of the COVID-19 pandemic on the global economy, the number of contracts for which concessions are granted is expected to be substantial for many lessors and lessees.

As part of the Board's continuing commitment to educate stakeholders and to provide interpretive guidance on accounting for lease concessions during a global economic crisis resulting from an unprecedented pandemic, the FASB staff has developed this Q&A to respond to some frequently asked questions about accounting for lease concessions related to the effects of the COVID-19 pandemic. The interpretation provided herein is applicable to entities whose leases are affected by the economic disruptions caused by the COVID-19 pandemic.

The FASB staff developed this Q&A based on the information and feedback received from various stakeholders through the date on which this Q&A has

been issued. The FASB staff will continue to monitor this unique and evolving situation and communicate with the industry as this situation unfolds, including through additional statements, technical inquiries, and other means, as appropriate. The FASB staff plans to host a leases roundtable later this year to discuss lease implementation issues, including certain aspects of the lease modification accounting model in Topic 842, that may cause ongoing challenges for all stakeholders and how those issues potentially could be addressed before private companies and not-for-profit organizations are required to adopt the leases standard.

BACKGROUND

Subsequent changes to lease payments that are not stipulated in the original lease contract are generally accounted for as lease modifications under Topic 842 or Topic 840. Some contracts may contain explicit or implicit enforceable rights and obligations that require lease concessions if certain circumstances arise that are beyond the control of the parties to the contract. If a lease contract provides enforceable rights and obligations for concessions in the contract and no changes are made to that contract, the concessions are not accounted under the lease modification guidance in Topic 842 or Topic 840. If concessions granted by lessors are beyond the enforceable rights and obligations in the contract, entities would generally account for those concessions in accordance with the lease modification guidance in Topic 842 or Topic 840.

To provide clarity in response to the crisis, the FASB staff has provided the following interpretation as an acceptable approach in accounting for lease concessions related to the effects of the COVID-19 pandemic.

QUESTIONS AND ANSWERS—GENERAL QUESTIONS ABOUT ACCOUNTING FOR LEASE CONCESSIONS RELATED TO THE EFFECTS OF THE COVID-19 PANDEMIC

Question 1

Are lease concessions related to the effects of the COVID-19 pandemic required to be accounted for in accordance with the lease modification guidance in Topic 842 and Topic 840?

Response

The FASB staff has been made aware that, given the unprecedented and global nature of the COVID-19 pandemic, it may be exceedingly challenging for entities to determine whether existing contracts provide enforceable rights and obligations for lease concessions and, if so, whether those concessions are consistent with the terms of the contract or are modifications to a contract. That analysis could become even more complex considering the programs being implemented or encouraged by governments that permit or require forbearance, such as temporary suspension of an entity's responsibility to perform on its contractual obligations (that is, lessor's obligation to make the leased asset available for use to the lessee and lessee's obligation to make payment) during the period affected by the effects of the COVID-19 pandemic. Furthermore, in anticipation of the large volume of lease contracts for which concessions related to the effects of the COVID-19 pandemic likely will be granted, the FASB staff understands that, absent interpretive guidance, applying the lease modification requirements in Topic 842 (or Topic 840) to each contract for which concessions related to the effects of the COVID-19 pandemic are made could be costly and complex for both lessees and lessors.

While the lease modification guidance in Topic 842 and Topic 840 addresses routine changes to lease terms resulting from negotiations between the lessee and the lessor, the FASB staff believes that this guidance did not contemplate concessions being so rapidly executed as a result of a major financial crisis arising from the COVID-19 pandemic. The FASB staff notes that the underlying premise in requiring a modified lease to be accounted for as if it were a new lease under Topic 842 is that the modified terms and conditions affect the economics of the lease for the remainder of the lease term. The FASB staff is aware that another view is that recognition of lease concessions related to the effects of the COVID-19 pandemic over the remainder of lease term (as required under modification accounting) may not reflect the economics of those concessions.

To provide clarity in response to the crisis, the FASB staff believes that it would be acceptable for entities to make an election to account for lease concessions related to the effects of the COVID-19 pandemic consistent with how those concessions would be accounted for under Topic 842 and Topic 840 as though enforceable rights and obligations for those concessions existed (regardless of whether those enforceable rights and obligations for the concessions explicitly exist in the contract). Consequently, for concessions related to the effects of the COVID-19 pandemic, an entity will not have to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and can elect to apply or not apply the lease modification guidance in Topic 842 and Topic 840 to those contracts.

This election is available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. For example, this election is available for concessions that result in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract. The FASB staff expects that reasonable judgment will be exercised in making those determinations.

Some concessions will provide a deferral of payments with no substantive changes to the consideration in the original contract. A deferral affects the timing, but the amount of the consideration is substantially the same as that required by the original contract. The staff expects that there will be multiple ways to account for those deferrals, none of which the staff believes are more preferable than the others. Two of those methods are:

- a. Account for the concessions as if no changes to the lease contract were made. Under that accounting, a lessor would increase its lease receivable, and a lessee would increase its accounts payable as receivables/payments accrue. In its income statement, a lessor would continue to recognize income, and a lessee would continue to recognize expense during the deferral period.
- b. Account for the deferred payments as variable lease payments.

Question 2

Is an entity precluded from accounting for lease concessions related to the effects of the COVID-19 pandemic by applying the lease modification guidance in Topic 842 and Topic 840?

Response

No. An entity may account for lease concessions related to the effects of the COVID-19 pandemic in accordance with the lease modification accounting guidance in Topic 842 and Topic 840.

Question 3

Does an entity have to account for all lease concessions related to the effects of the COVID-19 pandemic either (a) as if the enforceable rights and obligations to those concessions existed in the original contract or (b) in accordance with the lease modification guidance in Topic 842 and Topic 840?

Response

No. However, in accordance with paragraph 842-10-10-1, entities should apply Topic 842 consistently to leases with similar characteristics and in similar circumstances. Therefore, entities should apply reasonable judgment in applying that paragraph to lease concessions related to the effects of the COVID-19 pandemic.

Question 4

Should an entity provide disclosures about lease concessions related to the effects of the COVID-19 pandemic?

Response

Yes. Based on existing disclosure requirements in GAAP, an entity should provide disclosures about material concessions granted (lessors) or received (lessees) and the accounting effects to enable users to understand the nature and financial effect of the lease concessions related to the effects of the COVID-19 pandemic.