

8 May 2020

Mr Hans Hoogervorst
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Via website: www.ifrs.org

Dear Hans

**Submission on Exposure Draft ED 2020-2 COVID-19-Related Rent Concessions
(Proposed amendment to IFRS 16)**

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on the above Exposure Draft (the ED).

We appreciate the speed and willingness with which the IASB has responded to the issue of COVID-19-related rent concessions, as this presents a significant challenge for many of our stakeholders.

We support the proposed amendment which allows lessees to treat rent concessions received, as a result of the COVID-19 pandemic, as if they were not lease modifications under IFRS 16.

However, we recommend that the IASB extends the proposed scope of the relief beyond lease payments originally due in 2020. As the impact of the pandemic continues, we are aware of instances where concessions being granted now impact payments that are due in 2021. Therefore, the scope should include payment concessions for subsequent periods that are agreed to in 2020 as a direct result of COVID-19.

We also support the immediate application of this amendment once issued, the option of early adoption and the limit of its retrospective application to opening balances in the year of implementation. This combination of implementation measures will ensure that practical benefits offered by this change are available as quickly as possible and give all preparers the flexibility they need in these unusual and challenging circumstances to both manage their resources and meet the information needs of users.

The global nature of the pandemic means that lessees will encounter a wide variety of scenarios relating to rent concessions. Therefore, we would encourage the IASB to provide educational material to support this amendment. Given the urgency, we consider that the IASB can make use of material it already has available. For example, the table of practical numerical examples provided in the IASB [staff paper](#) (Table 1, page 14) clearly illustrates the accounting for changes to leases applying the exemption under different scenarios and so would be of considerable use to preparers. It is also important that this guidance reiterates the important application principles contained in the “Basis for Conclusions” as this will assist preparers understand the Board’s intentions around the scope of the amendment, a matter we discuss further in our response to Question 1 of the ED.

Our responses to the specific questions in the ED are included in the Attachment to this letter. If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely



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Attachment

Specific matters for comment

Question 1—Practical expedient (paragraphs 46A and 46B of the [Draft] amendment to IFRS 16)

Paragraph 46A of the draft amendment to IFRS 16 proposes, as a practical expedient, that a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election would account for any change in lease payments resulting from the covid-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification. Paragraph 46B of the draft amendment to IFRS 16 proposes that the practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

- (a) 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;
- (b) any reduction in lease payments affects only payments originally due in 2020; and
- (c) there is no substantive change to other terms and conditions of the lease.

Do you agree that this practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements? Why or why not? If you disagree with the proposal, please explain what you propose and why.

We agree that the nature of the COVID-19 pandemic and its impact on lessees is sufficiently unique and challenging to justify the provision of relief to assist in making determinations about the complex matter of:

- assessing whether rent concessions are lease modifications; and
- making the necessary adjustments to the lease liability and right-of-use asset calculations if the rent concessions meet the criteria for lease modifications.

We also agree that the election will provide preparers with some practical relief that will allow them to allocate their financial reporting resources more efficiently at this time, while still ensuring that users of financial statements are provided with clear consistent information.

As stated in our cover letter, we recommend that the IASB extends the current proposed scope of the relief beyond any reduction in lease payments originally due in 2020. We are aware of instances where rent concessions are being granted now for payments that are due in 2021 and believe that the proposed relief should be available to these payments too, provided such concessions are directly linked to COVID-19. Therefore, the scope should be extended to include reductions in lease payments that are due beyond 2020 provided that they were agreed to in 2020 in response to the COVID-19 pandemic.

We are also aware that some of the rent holidays being provided to assist with the current crisis are conditional upon the term of the lease being extended to match that of the suspended period. We note that the wording of the example in paragraph BC5(c) of the Basis for Conclusions says that "...a three-month rent holiday in 2020 followed by three additional months of substantially equivalent payments at the end of the lease would not prevent a rent concession from being within the scope of the practical expedient". Whilst we agree with this example, we are concerned that changes to the lease term may not qualify for relief as it may represent a "substantive change to the other terms and conditions of the lease", one of the proposed conditions that need to be satisfied under paragraph 46B. We support the Board's view in BC5(c) that a matched extension of the lease term should not be considered as a significant change to the lease. Therefore, we recommend that this view is clearly communicated to stakeholders implementing the standard. This may not occur if it remains in the Basis for Conclusions and so we suggest that it should either be included in the amending standard or in the implementation guidance that accompanies it. An additional example added to Table 1 addressing this circumstance would also be beneficial.

Finally, we note the term "rent concessions" suggests the relief is relevant to property leases only, although the intention clearly is to make the relief available to all types of leases. Accordingly, we suggest changing the term from "rent concessions" to "lease payment concessions".

Question 2—Effective date and transition (paragraphs C1A and C20A of the [Draft] amendment to IFRS 16)

Paragraphs C1A and C20A of the draft amendment to IFRS 16 propose that a lessee would apply the amendment:

- (a) for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued; and
- (b) retrospectively, recognising the cumulative effect of initially applying the 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.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose and why

We agree that the unique nature of the COVID-19 pandemic and the complexity of assessing the impact of it on lessees under IFRS 16 provides sufficient justification for both:

- immediate application to financial periods beginning on or after 1 June 2020 with earlier application permitted; and

- retrospective application that is limited to adjusting opening retained earnings on initial adoption of the standard, rather than full retrospective application.

Therefore, we support the timing of the proposals in their current form.

However, we note that the proposed paragraph C1A includes a statement “Earlier application is permitted, including in financial statements not yet authorised for issue at [date the amendment is issued]”. We consider that the inclusion of the additional wording about “financial statements not yet authorised for issue” is unnecessary and should be removed. The first part of this sentence, in conjunction with the existing requirements in IAS 10 *Events after the Reporting Period* sufficiently addresses the availability of the relief for immediate application and unnecessary inconsistency in application paragraphs is unhelpful.