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| Project: | COVID-19 | Meeting: | M176 |
| Topic: | Response to Covid-19-related rent concessions issues | Agenda Item: | 3.2 |
| | | Date: | 28 May 2020 |
| Contact(s): | Ao Li ali@asb.gov.au Helena Simkova hsimkova@asb.gov.au Fridrich Housa fhousa@asb.gov.au | Project Priority: | High |
| | | Decision-Making: | High |
| | | Project Status: | Consider comments on ED and impact of the amendment on Tier 2 framework and determine next steps |

OBJECTIVE OF THIS PAPER

- The objective of this agenda item is to:
 - consider Australian not-for-profit (NFP) specific feedback in response to Exposure Draft 300 *Amendment to Australian Accounting Standards - Covid-19-Related Rent Concessions* (ED 300) which proposed an amendment to AASB 16 *Leases* and decide whether any further action needs to be taken in light of the feedback; and
 - consider the proposed amendments to AASB 16 and decide whether these should be applicable to Tier 2 entities.

ATTACHMENTS

- Submission to ED 300 from Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) [Agenda paper 3.4 - included in Supplementary Folder]

STRUCTURE

- This Staff Paper is set out as follows:
 - Summary of staff recommendations and questions to the Board;
 - Background (para 3-9);
 - Staff Analysis and Recommendation:
 - Section 1: Public sector entities as lessors (para 10-11);
 - Section 2: Tier 2 disclosure considerations (para 12-23);
 - Appendix: Summary of feedback in respect to lessor consideration for ED 300 – For-profit (FP) entities' perspective

SUMMARY OF STAFF RECOMMENDATIONS and QUESTIONS TO THE BOARD

| Question No. | Overview of staff recommendation | Question to the Board |
|-------------------|---|--|
| 1 | Staff recommend the Board to take no further action in response to the feedback on NFP lessor accounting for Covid-19-related rent concessions. | Does the Board agree with the staff recommendation to take no further action in response to the feedback on NFP lessor accounting? |
| 2 | Staff recommend the Board to take no further action in response to the feedback on below-market-leases. | Does the Board agree with the staff recommendation to take no further action response to the feedback on below-market leases? |
| 3 | Staff recommend that for the consideration of impact on Tier 2 entities, the Board considers <ul style="list-style-type: none"> • ‘user need’ and ‘cost benefit’ for RDR; • existence of significant differences in R&M requirements for SDS. Only if significant differences in R&M arise, then consider ‘user need’ and ‘cost benefit’ principles as defined in BC 41 and BC 42 of AASB 1060. | Does the Board agree with the recommended approach to address the implications of proposed new IFRS 16 (AASB 16) disclosures on RDR/SDS in relation to the Covid-19-related rent concessions disclosure for Tier 2 entities? |
| 4 | Staff recommend that for consideration of any future new IFRS disclosures on Tier 2 entities, the Board considers the same principles as explained in Q3 above. | Does the Board agree with the recommended approach should be used going forward when considering impact of any future new IFRS disclosures on RDR/SDS? |
| 5 | Staff recommend that all proposed amendments to IASB 16 (AASB 16) are made applicable to Tier 2 entities. | Does the Board agree with staff recommendation to make all proposed disclosure-related amendments applicable to both types of Tier 2 entities? |
| 6 | Staff recommend including the new paragraph with required disclosures (60A to AASB 16) in AASB 1060. | Does the Board agree with staff recommendation to amend AASB 1060 so all required disclosures are contained within one standard? |
| 7 | Staff recommend a 30-days comment period for the amendment proposed to AASB 1060 in question 6 above considering the urgency of the issue. | Does the Board agree with the recommended comment period of 30 days? |

BACKGROUND

- 3 The IASB issued Exposure Draft ED/2020/2 *Covid-19-Related Rent Concessions (Proposed amendments to IFRS 16)* (ED/2020/2) on 24 April 2020, with a 14-day comment period ending on 8th May 2020. The AASB issued Australian equivalent Exposure Draft 300 *Amendment to Australian Accounting Standards - Covid-19-Related Rent Concessions* (ED 300) on 27th April 2020 and comments were due by 8th May 2020.

- 4 ED 300 proposed to:
- (a) provide lessees with an optional exemption from assessing whether a Covid-19-related rent concession is a lease modification;
 - (b) require lessees that apply the exemption to account for covid-19-related rent concessions as if such concessions were not lease modifications;
 - (c) require lessees that apply the exemption to disclose that fact;
 - (d) require lessees to apply the exemption 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 reporting period in which a lessee first applies the amendment; and
 - (e) make the exemption effective for annual reporting periods beginning on or after 1 June 2020 with early application permitted.
- 5 Considering the length of comment period, urgency of the issue and limited scope of the amendments, staff received comments from stakeholders and performed targeted outreach. The respondents included large and mid-tier accounting firms, AASB Disclosure Initiative Advisory Panel, leasing industry representative body, accounting professional bodies and preparers. To promote timely feedback, comments could also be sent to the AASB via an online survey.
- 6 Feedback from Australian stakeholders was provided directly to IASB staff rather than as a formal comment letter to reduce the need for due process, as agreed with the Board at its April 2020 meeting. The views expressed in the staff submission were those of the AASB's Staff. Whilst the draft of the submission had been circulated to members of the AASB prior to submission, the urgency of the issue only allowed them to provide brief feedback and to express general support while noting some of the preliminary feedback including comments on lessor-related considerations. The Board did not have the opportunity to discuss the individual issues at a meeting.
- 7 In the IASB Supplementary meeting on 15 May 2020, the IASB Board tentatively decided to finalise the proposal in ED/2020/2 with the following changes:
- (a) extend the condition proposed in paragraph 46B(b) to capture covid-19-related rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021;
 - (b) require a lessee applying the practical expedient to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from covid-19-related rent concessions; and
 - (c) specify that in the reporting period in which a lessee first applies the amendment, the lessee is not required to disclose the information required by paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- 8 After considering the feedback from for-profit lessors requesting an extension of the practical expedient, the IASB Board decided not to provide any relief for lessor accounting.
- 9 The IASB Board plans to issue the amendment to IFRS 16 on or around 28 May 2020. Considering the urgency of the issue, staff intend to seek Board's approval of the Australian equivalent amending standard (amendment to AASB 16) in out-of-session vote.

Staff Analysis and Recommendations

Section 1: Public Sector entities as lessors

- 10 One stakeholder (HoTARAC) is concerned that the IASB proposed amendment did not provide any relief to lessors and has requested that AASB 16 be amended to provide such relief to not-for-profit (NFP) entities as lessors. Staff have had further communication with the stakeholder to better understand the prevalence and magnitude of issue for Australian NFP entities that are lessors.
- 11 The following table summarises the issue raised by HoTARAC for the Australian NFP sector, along with staff analysis and recommendation.

| Summary of the feedback in respect of Australian Not-for-profit entities | AASB staff analysis and recommendations |
|---|---|
| <p>AASB received eight submission letters for ED 300. One stakeholder (HoTARAC) requested that in the event that the IASB's proposal does not provide the relief requested for lessors, the Australian standard AASB 16 be amended to provide relief to NFP entities as lessors as:</p> <ul style="list-style-type: none"> • There are many lessors with large number of leases in the public sector, leasing is not the core business for many of them and these entities may not necessarily have the systems and/or resources that would allow easy recalculation following the changes in rent terms. The task of revising numbers for lessors would be significant. • These lessors will have difficulties working out how to account for rental concessions, in particular seeing this is happening close to the end of the 2020 financial year and coinciding with the first-time adoption of AASB 16. <p>The respondent also noted that some private sector not-for-profit entities, e.g. churches, may be in a similar position as lessors for a significant number of properties.</p> <p>During further informal outreach the respondent also noted that lease accounting has generally limited information value for users of public sector financial statements and that therefore the costs of determining the accounting for modifications would necessarily outweigh the benefits.</p> <p>Prevalence/magnitude</p> <p>Anecdotally there are a large number of leases with public sector entities as lessors. This number is estimated by some to be in the range of tens of thousands.</p> <p>While the respondent could not provide any data on the prevalence of granting rental relief, it was expected that public sector entities would be providing relief to lessees where requested to demonstrate the values of the code of conduct.</p> | <p>Staff acknowledge the challenges faced by both FP and NFP sector entities as lessors in the current circumstances. While it is plausible that the systems and processes of a public sector entities as lessors may not be set-up to deal with a very large number of changes in rent terms triggered by Covid-19-related rent concessions occurring within a short period of time, staff consider that these challenges are similar in nature and extent to those of FP lessors.</p> <p>Staff consider that the factors identified by the IASB in their response to the concerns raised about lessor accounting also apply to the NFP sector. The cost of developing a practical expedient for lessors would therefore outweigh the benefits for the following reasons:</p> <ul style="list-style-type: none"> • AASB 16 does not currently have any specific requirements on how a lessor accounts for changes in lease payment that are not a lease modification. <ul style="list-style-type: none"> ○ For finance leases, the accounting for a Covid-19-related rent concession would likely be the same regardless of whether the concession is a lease modification, as the lessor would need adjust its measurement of the finance lease receivables to reflect any reduction in future contractual lease payments that arises from a Covid-19-related rent concession in accordance with AASB 9. ○ For operating leases, a lessor would need to determine how to account for the rent concession if the change in lease payment is not a modification. Under the current requirement for lease modification (para 87, AASB 16), a lessor would treat a lease modification as a new lease and recognise lease income on a systematic basis that represents the pattern in which benefits from the use of underlying asset are diminished-this pattern of income recognition would reflect the provision of the right-of-use of asset. • A practical expedient would therefore have to include some new recognition and measurement requirements, which may: <ul style="list-style-type: none"> ○ take time to develop and expose for public consultation, preventing a practical expedient being provided in time to be useful; ○ not meet the expectations of those asking the Board to develop a practical expedient; ○ not be any simpler than the current requirements; and ○ carry a risk of unintended consequences. For example, the current requirements of lessor accounting in AASB 16 for changes in operating leases are very similar to those for changes in service contracts applying AASB 15. It would be difficult to develop a practical expedient for lessors under AASB 16 without creating inconsistency and/or tension with AASB 15 for operating leases and as noted above, there is likely a little benefit from a practical expedient for finance leases as in many cases the same accounting would apply whether the change is assessed as a lease modification or not. <p>Providing a practical expedient which would permit lessors to account for rent concessions other than as lease modifications and would not require lessors to assess whether a rent concession is in fact a lease modification would therefore not effectively address many of the practical challenges identified by stakeholders. Further work would be required to determine how the practical expedient should look like for lessors. For example, lessors would still have to deal with the large volumes of contract changes, enter into complex negotiations with each of their tenants; perform manual calculations if there is no readily available billing and accounting systems.</p> <p>Staff further note that providing a practical expedient to NFP lessors but not FP lessors would represent divergence from the principle of transaction neutrality and would result in different accounting for FP and NFP entities. HoTARAC referred to paragraph 23(a)(ii) (prevalence and magnitude of issue specific to the NFP sector) and 23(a)(vi) (undue cost or effort considerations) of the AASB's Not-for-Profit Entity Standard-Setting Framework in determining whether the amendments would be provided for NFP sector lessors.</p> |

| Summary of the feedback in respect of Australian Not-for-profit entities | AASB staff analysis and recommendations |
|--|--|
| | <p>Staff have further considered whether there are any justifiable circumstances (set out in paragraph 28 of the NFP Standard-Setting Framework) for NFP-specific amendments, such as:</p> <ol style="list-style-type: none"> 1. User information needs not adequately addressed (NFP standard-setting framework paragraph 28(b)) <p>While staff acknowledge the stakeholder's observation that lease accounting has generally limited information value for users of public sector financial statements, the relief sought for lessors would not necessarily address this issue. In particular, as noted above it is not certain that it would result in simpler accounting. In fact, for finance leases the accounting may not necessarily be very different regardless of whether a practical expedient is provided.</p> <p>While there could possibly be user benefits in simplifying accounting for operating leases of lessors, these benefits would be the same as for-profit entities (see summary of issues raised by FP stakeholders in the Appendix). As a consequence, there is no difference between the users of for-profit and not-for-profit entities that would warrant NFP specific amendments.</p> 2. Prevalence and magnitude of NFP-specific transactions, circumstances and events results in NFP entities' reported performance or financial position not reflecting economic reality (NFP standard-setting framework paragraph 28(c)) <p>While staff acknowledge that there may be a large number of leases impacted by Covid-19-related rent concessions, staff consider that these circumstances are not specific to NFP sector and would not result in the reported performance or financial position not reflecting economic reality of NFP entities and therefore would not warrant NFP modification.</p> 3. Undue costs or effort (NFP standard-setting framework paragraph 28(d)) <p>Staff consider that there is no clear evidence available on the differences in resources available to NFP lessors in the public sector lessors compared to those available in FP sector (noting there are no NFP modifications in AASB 16 for NFP lessors at present). Also, no other submission to AASB requested specific modification for NFP lessors. As discussed above, staff consider that the cost or effort of preparing and disclosing information under a practical expedient for public sector lessors may outweigh the marginal benefits. Staff further consider the basis for the IASB's considerations of undue cost or effort for FP entities as outlined further above is equally valid for NFPs.</p> <p>Staff also considered paragraph 29 of NFP standard-setting framework which requires the AASB to assess whether the issue raised is sufficiently significant to warrant any NFP specific amendments and in doing so, to consider the quantitative and qualitative significance of the transaction on the entity's financial statements, on the relevant sector and the Australian economy taken as a whole and the likely impact on users' decision-making ability. The staff also considered whether the modification would decrease internal consistency within IFRS Standards and/or AAS and the costs of the potential changes relative to the benefits. Staff assessed that there is not sufficient evidence that the issue satisfy these criteria for NFP specific amendment.</p> <p>Staff Recommendation:</p> <p>Based on the analysis above, staff recommend that the Board to take no further action in response to the feedback on NFP lessor accounting.</p> <p>Question 1 to the Board:</p> <p>Does the Board agree with the staff recommendation to take no further action in response to the feedback on NFP lessor accounting?</p> |

| Summary of the feedback in respect of Australian Not-for-profit entities | AASB staff analysis and recommendations |
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| <p>2. HoTARAC also requested the Board to consider as a separate project if the practical expedient for lessees has any additional impact on below-market-leases (i.e. not delaying the issue of the amending standard for practical expedient for lessees).</p> | <p>Staff have performed limited research and analysis on any additional impact the proposed amendments could have on below-market-leases as follows:</p> <ul style="list-style-type: none"> ○ Lessees of any below-market-leases in the scope of AASB 16 would be eligible to apply the practical expedient. There is no difference in accounting of a lease modification between NFP below-market-leases and other leases in AASB 16. ○ The current Aus paragraphs in AASB 16 focus on the initial measurement of right-of-use (ROU) assets (Aus25.1), permit to treat below-market-leases as a separate class of right-of-use assets (Aus25.2) and elect to measure a class of right-of-use assets at cost or at fair value (Aus35.1). Staff consider that the practical expedient does not affect the application these paragraphs, because: <ul style="list-style-type: none"> ○ The practical expedient addresses the accounting for the lease payments/lease liability from the lessee’s perspective. There are no specific requirements/considerations for NFP lessees in respect of the measurement of the lease liability in the case of concessionary leases. Therefore, staff do not identify any unintended consequences of the expedient. ○ The IASB does not address the subsequent measurement for the ROU asset – that follows existing requirements. This would include: <ul style="list-style-type: none"> ▪ For ROU assets held under the cost model, testing the asset for impairment. Staff consider it unlikely that a concessionary lease recognised initially at cost would be subject to further impairment. However, if the concessionary ROU asset were to be impaired (which may be the case if the entity elected to initially recognise the ROU asset at fair value), staff consider that it this should be reflected in the financial statements, and is consistent with accounting in the FP sector. ▪ For ROU assets held under the revaluation model, the entity would continue to revalue the asset as it would have, regardless the effect of the rent concessions. Staff consider that this is also consistent with practice in the FP sector and would provide useful information. <p>Based on the above, staff have not identified any specific issue of concern at this stage. Staff also noted that no other stakeholder has raised any concerns on this matter.</p> <p>Staff Recommendation:</p> <p>Staff recommend that the Board to take no further action in response to the feedback on below-market-leases.</p> <p>Question 2 to the Board:</p> <p>Does the Board agree with the staff recommendation to take no further action response to the feedback on below-market-leases?</p> |

Section 2: TIER-2 considerations

- 12 The IASB tentatively decided to require lessees applying the practical expedient to:
- disclose the fact that the entities have applied the practical expedient;
 - disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from Covid-19-related rent concessions; and
 - specify that in the reporting period in which a lessee first applies the amendment, the lessee is not required to disclose the information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. (Note that AASB1060 has an equivalent disclosure requirement in para 106(b)).

- 13 Given that the practical expedient proposed by IASB introduces new disclosures, and
- General Purpose Financial Statements – *Reduced Disclosure Requirements* (RDR) are still applicable to annual reporting periods beginning before 1 July 2021 and
 - early adoption of AASB 1060 General Purpose Financial Statements – *Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (SDS) is permitted,

the Board has to consider whether the disclosures required by the proposed amendment to IFRS 16 (and in its Australian equivalent) should apply to both Tier 2 frameworks.

- 14 RDR disclosures principles:

Principles for RDR disclosures were set out in the 2011 AASB *Policies and Processes* document which stated that the Tier 2 disclosures are determined by:

- Drawing directly on the level of disclosures required in the IFRS for SMEs standard when Tier 2 recognition and measurement (R&M) requirements are the same as those under IFRS for SMEs (i.e. disclosures for Tier 2 entities were determined by benchmarking full IFRS/AAS disclosures to the *IFRS for SMEs* disclosures when the R&M requirements are the same (or substantively the same) as those under full IFRS¹), and
- Using the user need and cost-benefit principles applied by the IASB in developing the IFRS for SMEs disclosures where R&M are not the same.

Where the relevant full IFRS disclosure is a new or revised disclosure that did not exist when the *IFRS for SMEs* standard was published or last updated, the disclosure was assessed by reference to the 'user need' and 'cost-benefit' principles (see para 18 below).

- 15 SDS disclosure principles:

Disclosures for SDS were developed using a bottom-up approach, starting with IFRS for SMEs disclosures. IFRS for SMEs disclosures were retained unless the R&M principles were significantly different from full IFRS, or a topic was not addressed. Only in those cases, the AASB used the 'user need' and 'cost-benefit' principles applied by the IASB in developing the *IFRS for SMEs* Standard to determine whether to add any disclosures. While these are the same principles as applied under the RDR framework, the simplified disclosures were not developed by referencing back to full AAS disclosures and disclosures from full AAS were added in fewer circumstances as there were only few areas where significant R&M differences were identified.

- 16 On this basis, when assessing any amendments made to full IFRS going forward, staff recommend applying the following approach:

¹ See [operational guidance](#) for further explanation

- (a) RDR – if the amendments introduce new or revised disclosures, assess these disclosures against the ‘user-need’ and ‘cost-benefit’ principles applied by the IASB as set out in paragraph 23 of the *AASB Policies and Processes* document (see table in paragraph 18 below).
- (b) SDS – consider first if the amendments introduce significant R&M differences. If they don’t, no further action is needed. If they do, consider whether disclosures need to be added by applying the ‘user-need’ and ‘cost-benefit’ principles in paragraphs BC41 and BC42 of AASB 1060. Note that the principles in paragraph BC41 are the same as those applied for the RDR and set out in paragraph 18 of this paper.

17 Question 3 to the Board:

Does the Board agree with the recommended approach in paragraph 16 above to address the implications of proposed new IFRS 16 (AASB 16) disclosures on RDR/SDS in relation to the Covid-19-related rent concessions disclosure for Tier 2 entities?

Question 4 to the Board:

Does the Board agree that the approach recommended in paragraph 16 above should be used going forward when considering impact of any future new IFRS disclosures on RDR/SDS?

18 Staff analyses of disclosure impact on RDR

| Principles for determining any additional disclosures (AASB Policies and Processes paragraph 23) | Disclose the fact that practical expedient is applied | Disclose the amount recognised in P&L to reflect the changes in Covid-19-related lease payments |
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| (a) users of the financial statements of for-profit entities that are not publicly accountable entities are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. | Information about whether the practical expedient is applied provides further insight about short-term cash flows (specifically via the reconciliation to operating profit), obligations and commitments. However, staff noted that the impact of the relief would also be obvious from the statement of cash flows itself. | This disclosure is to improve comparability between entities and also provides information about the amount and timing of the cash flow effects of the concessions via the reconciliation to operating profit. |
| (b) users of the financial statements of for-profit entities that are not publicly accountable entities are particularly interested in information about liquidity and solvency . | Staff consider that disclosure of whether the expedient is applied may provide further insight into the liquidity and solvency. Such information can be useful to users of the financial statements. | The amount recognised in P&L to reflect the changes in Covid19 related lease payments may help the users to further assess the impacts on the liquidity and solvency of the entity. |

| Principles for determining any additional disclosures (AASB Policies and Processes paragraph 23) | Disclose the fact that practical expedient is applied | Disclose the amount recognised in P&L to reflect the changes in Covid-19-related lease payments |
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| (c) information on measurement uncertainties is important | N/A | N/A |
| (d) information about an entity's accounting policy choices is important | <p>Using the practical expedient could result in a diversion from the R&M requirements and not disclosing the fact could be misleading for the users of financial statements and impact comparability of financial statements.</p> <p>Arguably, using the expedient is an accounting policy choice that could be considered to result in an accounting policy change. The requirements of para 28 would therefore apply to the extent set out in Appendix A of AASB 108².</p> <p>As such, the disclosure of the information would also be required under paragraph 28(c) and hence should not create any additional disclosure burden.</p> | <p>If using the expedient represents an accounting policy change as outlined on the left, AASB 108 para 28(f) would require disclosure of the amount of the adjustment for current and prior period.</p> <p>However, Staff consider that disclosure of the amount recognised in profit or loss to reflect changes in lease payments that arise from covid-19 related rent concession provides more relevant information than the disclosures that would be required under AASB 108 paragraph 28(f).</p> <p>On that basis, as noted in para 19, staff recommend exempting RDR entities from the disclosure in paragraph 28(f) consistent with the amendments to AASB 16 for Tier 1.</p> |
| (e) disaggregation of amounts presented in the financial statements of for-profit entities that are | N/A | While AASB 16 para 53(e) requires disclosure of variable lease payments not included in the measurement of the lease |

² AASB 108 para 28 as applicable to RDR entities reads as follows: When initial application of an Australian Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose: (a) the title of the Australian Accounting Standard; (c) the nature of the change in accounting policy; (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected; and if AASB 133 *Earnings per Share* applies to the entity, for basic and diluted earnings per share; (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and RDR28.1 an explanation if it is impracticable to determine the amounts to be disclosed by paragraph 28(f)(i) or 28(g).

| Principles for determining any additional disclosures (AASB Policies and Processes paragraph 23) | Disclose the fact that practical expedient is applied | Disclose the amount recognised in P&L to reflect the changes in Covid-19-related lease payments |
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| not publicly accountable entities are important for an understanding of those statements; | | <p>liabilities and this disclosure also applies under the RDR, the IASB noted that users were particularly concerned about the lack of comparability from the optional expedient and wanted to understand the quantitative profit or loss effect of applying the practical expedient.</p> <p>Staff consider that the disclosure provides relevant information for users about the disaggregation of amounts recognised in the financial statements and therefore should be retained for RDR entities.</p> |
| (f) some disclosures in full IFRS Standards are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical for-profit entities that are not publicly accountable entities | N/A | N/A |

19 Consideration of the amendment not to apply the requirement in para 28(f) of AASB 108
(See para 12(c) above)

The IASB is proposing that lessees applying the practical expedient should not be required to disclose the information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Staff consider that as this disclosure relief is provided in full IFRS, then similar relief should be included for the RDR so Tier 2 entities are not disadvantaged.

20 Staff analyses of disclosure impact on SDS

The *IFRS for SMEs* standard does not discuss how to account for lease modifications. Paragraph 10.4 of the standard explains that management shall use its judgement in developing and applying accounting policies that result in relevant and reliable information. Paragraph 10.6 further states that in making the judgement, management may also consider the requirements

and guidance in full IFRS dealing with similar and related issues. Therefore, the expedient provided under full IFRS may not necessarily result in significant differences in R&M requirements. On that basis, it would not be necessary to consider the principles in BC41 and B42 of AASB 1060 in determining whether to add any disclosures to AASB 1060.

However, as outlined in the RDR table above, applying the practical expedient would likely result in a change of accounting policy and hence require the relevant disclosures in paragraph 106 of AASB 1060. Staff note that the practical expedient provides relief from disclosing the impact of a change in accounting policy that would otherwise have to be disclosed under AASB 108 paragraph 28(f) and effectively replaces this disclosure with the requirement to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from the rent concessions. As AASB 1060 has an equivalent disclosure requirement in paragraph 106(b), staff consider that the same amendments should be made to the SDS disclosures so that the information provided about the impact of the practical expedient is consistent and comparable between Tier 1 and Tier 2 entities.

In terms of disclosing the fact that the entity has applied the practical expedient, staff note that this would also be required under paragraph 95(b) of AASB 1060 and that it should therefore not be necessary to add a separate requirement to the standard. However, on the basis that this is merely a clarification and should not add to the overall disclosure burden, staff consider an amendment of AASB 1060 would be warranted due to the specific circumstances and unusual nature of the practical expedient.

21 Staff recommendation

Based on the analyses in paras 18 and 19 above, staff consider that retaining the new disclosures for RDR entities is supported by the 'user need' and 'cost-benefit' principles, and that RDR entities should be provided with the same disclosure relief from the requirements of AASB 108 paragraph 28(f) as Tier 1 entities. Staff noted that similar recommendation is to be provided by NZASB staff to NZASB. Staff further consider that it is also warranted extending the disclosures and the disclosure relief from paragraph 106(b) to SDS entities for the reasons set out in paragraph 20. Therefore, staff recommend that all proposed disclosure-related amendments to IFRS 16 (AASB 16) as set out in paragraph 12 above are made applicable to both types of Tier 2 entities.

Question 5 to the Board:

Does the Board agree with the staff recommendation to make all proposed disclosure-related amendments applicable to both types of Tier 2 entities?

22 If the Board decides that all the disclosure-related amendments to IFRS 16 (AASB 16) proposed by the IASB should be applicable to both types of Tier 2 entities

- no change will be required to the RDR specified in Appendix E of AASB 16;
- for entities that are early adopting AASB 1060, the staff have considered the following options:

| Option | Analysis |
|--|--|
| 1. Make no amendments to Appendix E in AASB 16 and IG1 in AASB 1060. In this case, the new paragraph with required disclosures (60A to AASB 16) would be | Pros: No exposure of the amended standard required. |

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| <p>outside the paragraphs specifically excluded for SDS entities. SDS entities would therefore need to apply para 60A.</p> | <p>Cons: This option is not in line with our principle to have all disclosures in one standard.</p> <p>It would also be unclear whether the exemption from AASB 108(28)(f) would apply analogously to para 106(b) of AASB 1060.</p> <p>Conclusion: Staff does not recommend this option</p> |
| <p>2. Include a new paragraph with required disclosures (60A to AASB 16) would in AASB 1060. In this case, Appendix E in AASB 16 and paragraph IG1 in AASB 1060 would be amended to add paragraph 60A as a paragraph that does not apply to entities preparing SDS under AASB 1060.</p> | <p>Pros: All disclosures applicable for Tier 2 entities would be included in one standard (AASB 1060).</p> <p>Cons: The amendments to AASB 1060 would have to be exposed for comments. The due process minimum recommended period is 30 days.</p> <p>This option would enable the Board to include the relief from para 106(b) of AASB 1060 for Tier 2 entities applying the practical expedient (as discussed above in para 20).</p> <p>Conclusion: Staff recommend this option. The recommended comment period for the amended standard is 30 days to enable application on time.</p> <p>Question 6 to the Board:</p> <p>Does the Board agree with staff recommendation to amend AASB 1060 so all required disclosures are contained within one standard?</p> <p>Question 7 to the Board:</p> <p>Does the Board agree with the recommended comment period of 30 days?</p> |

23 If the Board decides that none or only some of the proposed amendments should apply to Tier 2 entities:

- For entities that are preparing RDR financial statements, Appendix E in AASB 16 would need to be amended to exclude the relevant paragraphs for RDR;
- For entities that are preparing SDS
 - if none of the amendments should be applicable – Appendix E of AASB 16 and IG1 of AASB 1060 would need to be amended to exclude the newly proposed paragraph 60A for Tier 2 entities. In this case, entities would have to disclose all of the information required in para 106 of AASB 1060 relating to the change in accounting policies arising from adopting the practical expedient;
 - if only some of the amendments should be applicable – use the same approach as option 2 in para 22 above.

Either of these scenarios would involve changes to AASB 16 and AASB 1060 and therefore would require exposure for comments.

Appendix

Issue raised by stakeholders for lessors in relation to ED 300 – For-profit (FP) entities' perspective³

Need for an expedient for lessors

Some stakeholders from accounting firms, Australian leasing Industry body (which represents all the big listed property companies in Australia) and a preparer in the property industry disagree with the IASB's decision and reasons for not extending a practical expedient to lessors. In particular, they noted:

- Real estate lessors do not normally deal with a high volume of changes to lease contracts, given the long-life nature of lease arrangements. The majority of commercial leases in Australia are individually negotiated, and therefore each lease is unique. Significant time and effort would be required to examine all lease documents. Rental abatements were also generally immaterial to real-estate lessors before Covid-19. Accordingly, the assumption that lessors have systems to automatically calculate and account for the impact of straight lining is not correct based on anecdotal evidence from stakeholders. Therefore, the cost to lessors of making adjustment for lease modifications caused by covid-19 will be significant due to the highly manual process.
- In addition to lease negotiation, lessors also need to deal with a number of voluminous Covid-19-related issues including managing valuation in uncertain conditions and accounting for deferrals of payments at significant cost and dedication of time.
- The property lease agreements are usually not standardised – they are generally bespoke for each lease. Therefore, there could be inconsistency of treatment across the sector and within portfolios depending on whether specific contracts contain force majeure clauses or not. Also, each contract will have to be individually reassessed for modification which may result in a great volume of contracts needing to be reviewed.
- Providing an expedient to lessees and not lessors is inconsistent and will create a mismatch between a lessee's and a lessor's financial impact of Covid-19, particularly where lessees sub-lease a right-of-use asset.
- If lessors are unable to calculate the impact of the modifications on a timely basis, they may also risk breaching their reporting deadlines or receiving a modified audit opinion (if they are forced to finalise their financial statements by a certain date).
- Stakeholders are also concerned about the comparability of financial statements for entities who are lessors, considering that Financial Accounting Standards Board (FASB) have provided accounting relief to both lessees and lessors in relation to accounting for Covid-19 related rent concessions under US GAAP.

Usefulness of information to investors (Cost outweighs benefits)

Some stakeholders are concerned that modification accounting from a lessor's perspective will lead to no change in overall financial performance or position in the period where a concession is granted.

An example of operating lease was provided that, assuming a rent-free period is given, an accrued revenue asset would be recognised and recovered on a straight-line basis over the remaining lease period. The total cash flows expected to be received over the remaining lease period are included in the fair value of the property. However, as per IAS 41 paragraph 50(c), the fair value of the underlying investment property must exclude prepaid operating lease income, as this is recognised as a separate asset. The fair value would therefore be reduced by the same amount, resulting in a net zero impact on the profit or loss for the period. The overall impact of modification would therefore be neutral at a net profit and loss/net balance sheet perspective, as:

- Net income is the same (i.e. revenue recognised from accruing noncash revenue is offset by FV reduction of underlying asset)
- Net assets are the same (i.e. straight-line asset booked is compensated by reduced FV of investment property).
- Current vs. non-current assets split would be impacted (although some straight lining assets may have a non-current element)

Some stakeholders are concerned that this would not provide useful information to users. In their view, it would be more useful to show the full impact of the concession on profit or loss in the period that the concession was granted, rather than unwinding an accrual over a future period and it could be easier explained to the users. By not showing any impact on profit or loss during the current period, users may also conclude that the entity is not bearing their share of the negative financial impact of Covid-19, resulting in reputational damage to the lessor.

³ This summary is extracted from the informal staff submission to IASB. IASB made tentative decision to not provide any relief for lessor accounting after considering the feedback from FP lessors.