QIC

7 May 2020

Dr Keith Kendall
Chair and CEO
Australian Accounting Standards Board

Via email to: standard@aasb.gov.au

Dear Dr Kendall,

Exposure Draft 300 Amendment to Australian Accounting Standards: COVID-19-Related Rent Concessions

Thank you for the opportunity to comment on the AASB's Exposure Draft for 'COVID-19 Related Rent Concessions' (ED 300). We note the significance of this amendment in the current environment and appreciate the AASB's engagement with stakeholders to obtain feedback.

QIC is a Queensland Government owned investment and property manager that manages over AU$83 billion in funds under management, as at 31 December 2019, for over 110 institutional investors in Australia and internationally. As at 31 December 2019, QIC's Global Real Estate team managed approximately AU$21 billion cross-pooled and segregated mandates covering 46 retail and office real estate assets across Australia and internationally. We actively manage our assets and provide deal origination, execution, asset management, leasing and development services to our clients.

The novel coronavirus (COVID-19) outbreak has developed rapidly in 2020, with devastating consequences for communities across the globe. Measures taken to contain the COVID-19 pandemic, such as the mandated closure of shopping centres, continue to have a significant impact on economic activity. During this extremely challenging time, we have been working closely with our stakeholders to provide economic relief to our tenants and manage the impacts of the pandemic to investment performance for our investors. We note that these changes to economic activity also have implications for financial accounting and reporting that need to be duly considered.

This submission focuses on the questions for respondents set out in ED 300, which aims to provide lessees with a practical expedient in accounting for COVID-19 related rent relief. We are very supportive of the AASB's decision to provide relief to lessees in relation to accounting for these concessions during the pandemic, especially in light of the many other challenges faced by lessees during this time. Many of these challenges are also being experienced by lessors. More significantly, we believe that recognition of lease concessions related to the effects of the COVID-19 pandemic over the remainder of the lease term (as required under lease modification accounting) is not reflective of the economics of those concessions.

Further, we note that the 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. The FASB was of the view that accounting under the existing lease guidance would be costly and complex to both lessors and lessees. The FASB further noted that the existing guidance did not contemplate concessions being so rapidly executed as a result of the major financial crisis arising from the COVID-19 pandemic and therefore may not be reflective of the economics of the concessions being provided. Hence, we expect many lessors accounting under US GAAP to adopt the practical expedient provided by the FASB. Should this result in a

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divergence in accounting for COVID-19 related impacts globally, it will further reduce comparability of the financial impacts from the pandemic across peers and may present further complexities for investors to navigate. Therefore, we strongly urge the Board to make the practical expedient also available to lessors.

QIC's responses in relation to ED 300 are provided in Appendix A to this letter. If you require further information on our views expressed in this submission, please contact Moditha Perera, Accounting Policy, on +61 7 3360 6659 or at m.perera@qic.com or Kerry Sanders, Head of Finance Solutions, on +61 7 3360 3979 or at k.sanders@qic.com.

Yours sincerely

CMBlake

Claire Blake
Chief Financial Officer

Appendix A: Questions for respondents

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.

QIC response:

Yes, we agree that the practical expedient proposed would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements.

We concur with the International Accounting Standards Board (IASB) Staff observation[1] that applying the existing requirements under AASB 16 *Leases* to a potentially large volume of COVID-19 related rent concessions could be complex, particularly in light of the many other challenges faced by both lessees and lessors during the pandemic. Therefore, we support the Board's decision to provide relief to lessees in relation to accounting for these concessions during the pandemic.

However, we differ from the view formed by the IASB staff that this complexity would not have as a significant impact to lessors. Despite having processes and systems in place for leasing activities, including when changes are made to lease payments, the unprecedented volume of concessions provided in a such a short period also presents significant operational challenges to lessors. Consideration should also to be given as to the overall workload of lessors given the effort required to negotiate each lease concession and developing systems to track deferred payments.

Existing leases have been entered into with lessees over the years under different terms or different laws applicable at the time. The type and form of COVID-19 rent concession negotiated with each lessee may also differ based on the circumstances of the lessee. Due to these differences, the assessment of whether the concession forms part of the original lease contract or is a lease modification will need to be performed over large samples, which will be a costly and complex exercise. Also due to the rapidly evolving situation, such concessions may also be renegotiated, requiring further assessment.

More significantly, we believe that recognition of lease concessions related to the effects of the COVID-19 pandemic over the remainder of lease term (as required under lease modification accounting) is not reflective of the economics of those concessions. The concessions are in place to provide short-term

[1] IASB Staff Paper, *Accounting for covid-19 related rent concessions*, April 2020

economic relief to lessees during the pandemic where most lessees are experiencing difficulties relating to cash flows and lower revenue, rather than a longer term negotiated reduction in rent or increased incentives which may be reflective of lower market rents over a longer period of time.

Further, we note that the FASB have provided accounting relief to both lessees and lessors in relation to accounting for COVID-19 related rent concessions under US GAAP. The FASB was of the view that accounting under the existing lease guidance would be costly and complex to both lessors and lessees and noted that the existing guidance did not contemplate concessions being so rapidly executed as a result of a major financial crisis arising from the COVID-19 pandemic and therefore may not be reflective of the economics of the concessions being provided. Hence, we expect many lessors accounting under US GAAP to adopt the practical expedient provided by the FASB. Should this result in a divergence in accounting for COVID-19 related impacts globally, it will further reduce comparability of the financial impacts from the pandemic across peers and may present further complexities for investors to navigate through. Additionally, providing an expedient to lessees and not lessors is contrary to transactional neutrality and will create a mismatch between lessee's financial impacts of COVID-19 and lessors.

For the above reasons, we propose that the Board strongly consider making the same practical expedient available to lessors during the COVID-19 pandemic.

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.

QIC response:

Yes, we agree that the amendment should be for annual reporting periods beginning on or after 1 June 2020 whilst also making early application available. This provides sufficient time for lessees and lessors to consider the financial impacts and implications of opting to account under the practical expedient prior to making an accounting policy choice. This also allows those lessees and lessor who have already formed a view on their accounting preference to be able to apply the practical expedient to this financial reporting period, where the COVID-19 pandemic is already making significant impacts.

We also agree that the amendment should be retrospectively applied. This aligns with the existing requirement for retrospective application of all new accounting standards and amendments, and any changes in accounting policy. This will also allow for comparative financial information when reporting in the next financial year.