

11 May 2020

The Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam

Re: Exposure Draft: ED 2020/2 Covid-19 Related Rent Concessions

On behalf of the Institute of Public Accountants, I am writing to comment on the Exposure 2020/2 *Covid-19 Related Rent Concessions; Proposed amendments to IFRS 16*.

While the IPA understands the desire to relieve the pressure on preparers in the current environment the IPA has serious concerns in relation to the proposal in the exposure draft. They are:

1. The IPA is unconvinced the proposed practical expedient is necessary. For many preparers, the ‘burden’ arising from IFRS 16 *Leases* relates to only a few leases and the impact of the proposals are likely to be minimal. For those with more extensive lease arrangements such as retail chains, they are likely to have significant resources (even in the current environment) to process the impacts of any rent concessions received.
2. Furthermore, the appropriate application of the materiality concept may result in no adjustment being necessary in the individual entity circumstances.
3. While not explicitly stated it appears that part of the rationale for the IFRS 16 practical expedient relates to the recency of the application of IFRS 16. However, both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* were only applicable 12 months prior to IFRS 16 and no COVID-19 practical expedients have been proposed for arguably more complex standards with significant potential COVID-19 ramifications. As such, the fact that IFRS 16 is a recent standard does not in of itself provide a basis for the proposed practical expedient.
4. The practical expedient effectively allows preparers to avoid remeasurement arising from changes in contractual cash flows arising from concessions related to COVID-19. However, other standards will require remeasurement of contractual and expected cash flows (e.g. measurement of financial assets and liabilities, impairment of financial assets and non-financial) that have arisen because of concessions granted by other parties as a result of COVID-19. Hopefully, there is no expectation that such requirements will result in the issue of exemptions from the applicable standard. This begs the question as to why such exemptions should apply to IFRS 16?
5. The IPA believes in uncertain economic times it is paramount that investors and creditors have the highest quality information to make decisions as such the IPA is reluctant to support any “watering-down” of requirements that may adversely affect users’ ability to make informed decisions.

6. The IPA is concerned that there will be pressure to extend the relief provided by the practical expedient beyond lease payments originally due in 2020. The IPA believes the proposed amendment is unlikely to have a significant effect due to its limitations, however any extension beyond 2020 lease payments may give rise to a material difference in the carrying values of right-of-use assets and lease liabilities.

We do not support the proposals. Our comments on the questions posed in the exposure draft are attached.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely



Vicki Stylianou
Group Executive, Advocacy & Technical
Institute of Public Accountants

Cc Chair, Australian Accounting Standards Board

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Appendix

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

Paragraph 46A of the draft amendments to IFRS 16 proposes, as a practical expedient that a lessee may elect not to assess whether covid-19 related rent concessions is a lease modification. A lessee that makes this election would account for any changes in lease payments resulting from covid-19 related rent concessions in the same way it would account for the change applying IFRS 16 if the change was not a lease modification.

Paragraph 46B of the draft amendment to IFRS 16 proposes that the practical expedient applies to only 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 reductions in lease payments affects only payments originally due in 2020; and*
- (c) There is no substantive change in 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 proposals, please explain what you propose and why.

IPA response

As noted in our covering letter, the IPA is sceptical as to the benefit of the practical expedient for many preparers. As also noted in our covering letter the IPA has a number of other concerns with the fundamental concept of the proposal. That being said the IPA is of a view that given the constraints in the proposed paragraph 46B it unlikely that users of financial statements would be adversely affected by the proposed changes.

Question 2 – Effective date and transition (paragraphs C1A and C20A of the (Draft) amendments to IFRS 16)

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

- (a) For annual reporting periods beginning on or after 30 June 2020. Earlier application is permitted, including 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.

IPA response

Subject to our response to Question 1, the IPA supports the proposals in relation to effective date and transition.
