

7 May 2020

International Accounting Standards Board
7 Westferry Circus,
Canary Wharf
LONDON E14 4HD
UK

Australian Accounting Standards Board
Podium Level,
Level 14, 530 Collins Street
Melbourne VIC 3000
Australia

Dear Board Members

IASB ED/2020/2 and AASB ED 300 Covid-19-Related Rent Concessions - Proposed amendment to IFRS 16

Nexia Australia makes the following comments on the Boards' concurrent Exposure Drafts ED/2020/2 and ED 300.

We commend the Board in providing timely relief to lessees as they respond to modifications to lease arrangements resulting from COVID-19. On that basis, we broadly agree with the Board's proposals.

However, we disagree with restricting the exemption to rent concessions that only relate to lease payments originally due in 2020.

The majority of Australian companies have a financial year ending 30 June. A number of our clients are currently negotiating rent concessions with their landlords. We are aware of cases where the landlord has agreed to rent abatement from 1 April 2020 'until further notice'. At the date the 30 June 2020 financial statements are authorised for issue the entity may reasonably expect that the rent abatement would cease by 31 December 2020. Where the entity had applied the exemption and the concession extended past 2020, presumably a prior period error would have occurred requiring the entity to amend its 30 June 2020 comparative information.

At the present time, many clients are still in the process of negotiating rent concessions as a result of lockdowns and closures due to the COVID-19 pandemic. Depending on the timing of the completion of those negotiations, it is possible that rent concessions may extend into 2021.

Similarly, the term of a rent concession may be due to expire before 31 December 2020, but is subsequently extended due to the re-imposition of government lockdowns. An entity applying the optional exemption described in ED/2020/2 would then face the possibility of treating the extension of a rent concession as a separate modification. This is likely to cause confusion and difficulties for preparers and inconsistencies in the subsequent accounting for both the initial concession and the extension.

We believe that limiting the optional exemption in IFRS 16 to only those payments originally due in 2020 is unnecessarily restrictive and is likely to cause:

- i) Difficulties for preparers and auditors to determine whether, at 30 June 2020, a rent concession will be in scope of the proposals;
- ii) Has the potential for some rent concessions to be in scope of the proposals and others to be out of scope for the same lessee due to the timing of abatement agreements and the concession period at 30 June 2020; and

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- iii) Has the potential to cause undue cost, effort and possible restatements should decisions made at 30 June 2020 regarding the application of the exemption need to be revised for half year reporting at 31 December 2020.

Consequently, in our opinion:

- i) The optional relief proposed by ED/2020/2 should be available to all rent concessions occurring as a direct consequence of the COVID-19 pandemic where 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; and there is no substantive change to other terms and conditions of the lease; and
- ii) Proposed paragraph 46B(b) of the amendment to IFRS 16 should be deleted.

Your faithfully

Nexia Australia Pty Ltd



Martin Olde
Technical Director