

Covid-19-Related Rent Concessions: Tier 2 Disclosures

Comments to the AASB by 23 July 2020



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 23 July 2020.

Formal Submissions

Submissions should be lodged online via the “Work in Progress – Open for Comment” page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aaasb.gov.au

Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) depending on the reporting period, either of the following:
 - (i) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (for reporting periods beginning before 1 July 2021);
 - (ii) Tier 2: Australian Accounting Standards – Simplified Disclosures (for reporting periods beginning on or after 1 July 2021, with early adoption permitted).

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Why we are making these proposals

In June 2020, the AASB made amendments to AASB 16 *Leases*¹ which provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification. Entities that apply this exemption must disclose:

- (a) that they have applied the practical expedient to all rent concessions that meet the conditions in paragraph 46B of AASB 16 or, if not applied to all such rent concessions, information about the nature of the contracts to which they have applied the practical expedient; and
- (b) the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in paragraph 46A of AASB 16.

The amendments also provide relief from providing the information required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 28(f) in the reporting period in which the lessee first applies the amendments made by AASB 2020-4.

The AASB considered these new disclosures and the disclosure relief and concluded that they should also apply to Tier 2 entities (whether reporting under Reduced Disclosure Requirements or Simplified Disclosures) for the reasons set out in the Basis for Conclusions.

What we are proposing

This Exposure Draft proposes:

- (a) to add a new paragraph 146A to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* that would:
 - (i) require entities reporting under the Tier 2 – Simplified Disclosures framework that have applied the practical expedient for COVID-19-related rent concessions in AASB 16 to make the same disclosures as required under AASB 16 paragraph 60A; and
 - (ii) exempt these entities from having to comply directly with AASB 16 paragraph 60A.

This would ensure that all disclosure requirements relevant to these Tier 2 entities continue to be set out in AASB 1060;

¹ AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions*.

- (b) to provide relief for such entities from complying with AASB 1060 paragraph 106(b), being the equivalent paragraph to AASB 108 paragraph 28(f); and
- (c) not to provide any disclosure reductions for entities reporting under the Tier 2 – Reduced Disclosure Requirements framework in relation to the new disclosures in paragraph 60A of AASB 16. This proposal would not require any amendments to be made to AASB 16 in respect of these entities.

Application date

It is proposed that the amendments to AASB 1060 would apply to annual periods beginning on or after 1 July 2021, with earlier application required if the entity has adopted AASB 1060 early and also applied AASB 2020-4.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by 23 July 2020. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific matters for comment

The AASB would particularly value comments on the following:

- 1 Do you agree that Tier 2 entities applying the new Simplified Disclosures framework in AASB 1060 should be:
 - (a) required to provide the same disclosures as those added to AASB 16 (paragraph 60A) by AASB 2020-4 in relation to COVID-19-related rent concessions; and
 - (b) given relief from making the disclosures required by AASB 1060 paragraph 106(b) when first applying the amendments made by AASB 2020-4?If you disagree, please explain why.
- 2 If your answer to question 1 is 'yes', do you agree that AASB 1060 should be amended to include these disclosure requirements, rather than relying on their inclusion in AASB 16? If you disagree, please explain why.
- 3 Do you agree that the new disclosures in paragraph 60A of AASB 16, as introduced by AASB 2020-4, should also apply to Tier 2 entities reporting under Reduced Disclosure Requirements? If you disagree, please explain why.

General matters for comment

The AASB would also particularly value comments on the following general matters:

- 4 Whether *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard Setting Framework* have been applied appropriately in developing the proposals in this Exposure Draft?
- 5 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 6 Whether, overall, the proposals would result in financial statements that would be useful to users?
- 7 Whether the proposals are in the best interests of the Australian economy?
- 8 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

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PREFACE

**[DRAFT] ACCOUNTING STANDARD
AASB 2020-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – COVID-19-RELATED RENT
CONCESSIONS: TIER 2 DISCLOSURES**

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[DRAFT] BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 2020-X *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures* is set out in paragraphs 1 – 7. All the paragraphs have equal authority.

Preface

Standards amended by 2020-X

This [draft] Standard makes amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) and AASB 16 *Leases* (February 2016).

Main features of this Standard

Main requirements

This [draft] Standard adds new disclosure requirements to AASB 1060 (paragraph 146A) which:

- (a) require entities reporting under the Tier 2 – Simplified Disclosures framework that have applied the practical expedient for COVID-19-related rent concessions in AASB 16 to make the same disclosures as required under AASB 16 paragraph 60A;
- (b) exempt these entities from having to comply directly with AASB 16 paragraph 60A; and
- (c) provide relief for these entities from complying with AASB 1060 paragraph 106(b), being the equivalent paragraph to AASB 108 paragraph 28(f).

Application date

This [draft] Standard applies to annual periods beginning on or after ... [1 July 2021]. Earlier application is required if the entity is also applying AASB 1060 and AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions* to the period.

[Draft] Accounting Standard AASB 2020-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2020-X *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall
Chair – AASB

[Draft] Accounting Standard AASB 2020-X *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures*

Objective

- 1 This Standard amends AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) and AASB 16 *Leases* (February 2016) to add disclosure requirements for entities subject to AASB 1060 that have applied the practical expedient in AASB 16 for the accounting for COVID-19- related rent concessions.

Application

- 2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards*.
- 3 This Standard applies to annual periods beginning on or after ... [1 July 2021]. Earlier application of this Standard is required when AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions* and AASB 1060 are applied to an earlier period.
- 4 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to AASB 1060

- 5 Paragraph 146A is added.

Leases

...

- 146A If a lessee applies the practical expedient in paragraph 46A of AASB 16, the lessee shall disclose:
- (a) that it has applied the practical expedient to all rent concessions that meet the conditions in AASB 16 paragraph 46B or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient (see AASB 16 paragraph 2); and
 - (b) the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in AASB 16 paragraph 46A.

In the reporting period in which a lessee first applies the practical expedient in AASB 16 paragraph 46A, the lessee is not required to disclose the information required by paragraph 106(b).

...

Amendments to AASB 16

- 6 Paragraph AusE1 in Appendix E is amended.

Appendix E

Australian simplified disclosures for Tier 2 entities

...

- AusE1 Paragraphs 51–~~60~~60A, 89–92 and B48–B52 do not apply to entities preparing general purpose financial statements that apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Commencement of the legislative instrument

- 7 For legal purposes, this legislative instrument commences on ... [date].

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2020-X Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Exposure Draft (ED). It sets out the reasons why the Board developed the ED, the approach taken to developing the ED and the bases for key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for proposing amendments to AASB 1060

BC2 In June 2020, the Board issued AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions* to make amendments to AASB 16 *Leases* to provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendments added a new paragraph 60A to AASB 16, which requires an entity applying the practical expedient to disclose:

- (a) that it has applied the practical expedient to all rent concessions that meet the conditions in paragraph 46B of AASB 16 or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient; and
- (b) the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in paragraph 46A of AASB 16.

BC3 The amendments further provide relief from providing the information required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 28(f) in the reporting period in which the lessee first applies the amendments made by AASB 2020-4 through paragraph C20B of AASB 16.

BC4 The Board considered whether these disclosures should also apply to entities that intend to adopt AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. The Board referred to the principles used when developing the disclosures in AASB 1060, which are described in paragraphs BC34–BC50 in the Basis for Conclusions to that Standard. In particular:

- (a) the disclosures in the *IFRS for SMEs* Standard should be retained where the recognition and measurement (R&M) requirements and options are the same or similar in the *IFRS for SMEs* Standard and full IFRS Standards (and therefore Australian Accounting Standards);
- (b) where R&M options or treatments in the *IFRS for SMEs* Standard are not available in full IFRS Standards (and therefore Australian Accounting Standards), the related *IFRS for SMEs* disclosures are removed; and
- (c) where the R&M principles in full IFRS Standards (and therefore Australian Accounting Standards) are significantly different from those in the *IFRS for SMEs* Standard or certain topics are not addressed in the *IFRS for SMEs* Standard, disclosures may be added. To determine whether to add any disclosures, the Board refers to the principles applied by the IASB in developing the disclosures in the *IFRS for SMEs* Standard, which are set out in paragraph BC8 below.

In addition to applying these principles, the Board also considers whether to add disclosures to address matters of public policy or to reflect Australian-specific issues.

BC5 Based on these principles, the Board agreed to use the following approach when considering whether to add to or amend disclosure requirements in AASB 1060 in relation to amendments made by the IASB to full IFRS Standards:

- (a) if the amendments introduce significant R&M differences between full IFRS Standards and the *IFRS for SMEs* Standard, apply the principles applied by the IASB in developing the *IFRS for SMEs* Standard, as summarised in paragraph BC8; and
- (b) if the amendments do not introduce significant R&M differences, no further action is required unless the disclosures address a matter of public policy or are of particular relevance in the Australian environment.

- BC6 In relation to the COVID-19-related rent concessions, the Board noted that the *IFRS for SMEs* Standard does not discuss how to account for lease modifications. Paragraph 10.4 of the *IFRS for SMEs* 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 Standards dealing with similar and related issues. It is therefore possible that the expedient provided under full IFRS Standards may not result in significant differences in the R&M requirements. On that basis, it would arguably not be necessary to consider whether to add any disclosures to AASB 1060.
- BC7 However, as the practical expedient introduces a significant exemption from the accounting principles in AASB 16 that is only available to entities in the limited circumstances set out in AASB 16 paragraph 46B, the Board was of the view that this would be a situation where additional disclosures may be warranted.
- BC8 The Board therefore referred to the principles applied by the IASB in developing the disclosures in the *IFRS for SMEs* Standard. These principles consider that users of the financial statements of for-profit entities that are not publicly accountable are particularly interested in information about:
- (a) short-term cash flows and obligations, commitments or contingencies, whether or not recognised as liabilities;
 - (b) liquidity and solvency;
 - (c) measurement uncertainties;
 - (d) accounting policy choices; and
 - (e) disaggregations of amounts presented in the financial statements.
- The principles further note that some disclosures in full IFRS Standards are more relevant to investment decisions in public capital markets than to transactions and other events and conditions encountered by entities without public accountability.
- BC9 Applying the practical expedient in AASB 16 paragraph 46A is an accounting policy choice. Entities would therefore already be required to explain if they have used the expedient, and to what extent, when describing their accounting policies and the basis of preparation of their financial statements under paragraph 95(b) of AASB 1060. However, the Board noted that adding a specific disclosure requirement to AASB 1060 would ensure all entities applying the expedient state this fact in their basis of preparation, regardless of whether they are reporting under Tier 1 or Tier 2. Providing information about accounting policy choices made by the entity is further supported by the principle in paragraph BC8(d).
- BC10 In relation to the amount recognised in profit or loss for the reporting period, the Board noted that this provides information about the disaggregation of amounts presented in the statement of profit or loss, and is hence supported by paragraph BC8(e). The disclosure may also provide further insights about the entity's liquidity and solvency (paragraph BC8(b)) and would improve the comparability of financial statements of lessees that have applied the practical expedient and those that have not.
- BC11 Furthermore, if the entity had applied AASB 16 in a prior period, adopting the practical expedient would be a change in accounting policy and the entity would have to disclose the impact of this change on the current and prior periods under paragraph 28(f) of AASB 108, but for the disclosure relief added to AASB 16 (paragraph C20B) by AASB 2020-4. Noting that there should be no impact on prior periods as the practical expedient is limited to COVID-19-related rent concessions, disclosing the amount recognised in profit or loss for the reporting period would provide essentially the same information as required under AASB 1060 paragraph 106(b), which is the equivalent paragraph to AASB 108 paragraph 28(f). Requiring disclosure of the amount recognised in profit or loss but providing relief from compliance with paragraph 106(b) would therefore not result in any additional disclosures being required under AASB 1060.
- BC12 Considering that the proposed new requirements are not expected to result in an increase in disclosures, the Board agreed to propose amendments to AASB 1060 that would replicate the disclosure changes made to AASB 16 and AASB 108 by AASB 2020-4.

Tier 2 Reduced Disclosure Requirements

- BC13 The Board also considered whether the new disclosures in AASB 16 should be reduced for entities reporting under the Tier 2 Reduced Disclosure Requirements (RDR) framework (Tier 2 RDR entities). In doing so, the Board referred to the 'user need' and 'cost-benefit' principles set out in the 'Tier 2 Disclosure Principles' document of the RDR decision-making framework. These principles were also based on the principles applied by the IASB in developing the disclosures in the *IFRS for SMEs* Standard and are the same as those summarised in paragraph BC8.

- BC14 The considerations in paragraphs BC9–BC12 are therefore also relevant for Tier 2 RDR entities. Disclosure of the accounting policies applied by the entity is already required under AASB 101 *Presentation of Financial Statements* paragraph 117(b), and without the relief introduced by paragraph C20B of AASB 16, entities that had previously applied AASB 16 would need to disclose the impact of the change in accounting policy on each financial statement line item affected.
- BC15 On that basis, the Board took the view that the additional disclosures introduced by AASB 16 paragraph 60A should not be reduced for Tier 2 RDR entities and the disclosure relief in paragraph C20B should be available to such entities. This approach would mean that no further changes would need to be made to AASB 16 in relation to Tier 2 RDR.

Operative date and early application

- BC16 While the amendments made by AASB 2020-4 are effective for annual reporting periods beginning on or after 1 June 2020, the Board noted that AASB 1060 does not become operative until annual reporting periods beginning on or after 1 July 2021. The specified operative date for the amendments made by this Standard therefore could not be earlier than 1 July 2021. However, the Board considered that entities should be required to apply these amendments earlier if they apply both:
- (a) AASB 1060; and
 - (b) the practical expedient in paragraph 46A of AASB 16;
- to a reporting period beginning before 1 July 2021.