



Grant Thornton

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Dr. Keith Kendall  
Chair  
Australian Accounting Standards Board

Submission via online form

5 May 2020

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## Grant Thornton Australia Submission – ED 300 *COVID-19-Related Rent Concessions*

Dear Dr. Kendall

We welcome this opportunity to provide our views on ED 300 *COVID-19-Related Rent Concessions*. Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations.

Overall, we support the proposals in ED 300, subject to our comments below. Of specific note, we request that wording be amended within ED 300 to clarify that a reference to "2020" refers to any relief granted in the calendar year ending 31 December 2020 to reduce potential confusion for entities with non-calendar year reporting periods.

We also note that some limited guidance is included in the Basis for Conclusion, specifically paragraph BC7. This paragraph, and the lack of specific guidance in the draft standard, leaves open for interpretation how forgiveness of all or part of a lease liability should be accounted for, specifically whether any reduction in liability should be treated as a gain event or a reduction in the corresponding Right of Use Asset. We also recommend that the additional guidance included in the Basis for Conclusion be included either within the application guidance or within the body of the Accounting Standard.

Given the intent of the proposed amendment, we recommend that specific guidance be included in the standard to prevent disparity of practice, and that this recommendation require a gain-event treatment recognised in profit or loss.

Should you have any queries related to our submission, please contact either me (merilyn.gwan@au.gt.com) or Owen Carew (owen.carew@au.gt.com).

Yours sincerely

Merilyn Gwan  
Partner - Audit & Assurance  
Head of National Assurance Quality

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## Answers to specific and general matters for comment in ED 300

In this section, Grant Thornton Australia offers feedback on the specific and general matters for comment requested by the AASB in ED 300.

- 1 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- a not-for-profit entities; and
- b public sector entities, including GAAP/GFS implications;

No specific comments.

- 2 Whether the proposals create any auditing or assurance challenges;

A judgement is introduced regarding whether a concession is COVID-19-related or not. This is not seen as an insurmountable item, however may present challenges in assurance engagements in certain situations.

- 3 Whether, overall, the proposals would result in financial statements that would be useful to users;

The financial statements will result in information that is less useful to users than would otherwise be the case due to a departure from the accounting standard that will not be reflected in future periods. This may result in mismatches between accounting applying the practical expedients and the expectations of users, especially users of lease-accounting information.

- 4 Whether the proposals are in the best interests of the Australian economy;

The proposals result in a departure from the existing principles of the accounting standards and, as a result, decreases the quality of financial reporting as it relates to the period. Conversely, it may be in the best interests of financial reporting to allow streamlined and simplified accounting in the circumstances.

As a result, we conclude that there is a net overall benefit to the proposal becoming an allowed practical expedient, subject to our commentary in the cover letter.

- 5 Unless already provided in response to specific matters for comment 1 – 4 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.

It is likely that the practical expedient will result in reduced cost of accounting for lease modifications. The relative costs of this saving will be minimal relative to the greater economy, however may reasonably be expected to reduce workload on assurance professionals.

In the context of the COVID-19 pandemic, this will be beneficial to entities under audit (due to reduced costs of audit) while also reducing resource-pressure for the assurance industry (which is resource limited due to travel limitations).

## Questions: IASB

### Question 1— Practical expedient (paragraphs 46A and 46B of the [Draft] amendment to IFRS 16)

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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.

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We agree with the proposal, with a comment for clarity.

We expect that utilisation of the proposed practical expedient will be high; consistency between entities can also reasonably be expected to be high. For clarity, we recommend amending the reference to “2020” to “the calendar year ending 31 December 2020”. For entities with non-calendar reporting periods, common parlance results in a fiscal year ending, for instance, on 30 June 2020, being referred to as “2020”.

Amending the reference will prevent confusion in users of the standard.

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### Question 2— Effective date and transition (paragraphs C1A and C20A of the [Draft] amendment to IFRS 16)

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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.

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We agree with the proposal. It will allow for adoption, as desired, by entities who have received concessions prior to the date of ED 300 becoming effective and ensures that entities can benefit from the practical expedient in an expedited manner.

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