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Ref: KLB

6 May 2020

Dr Keith Kendall
Chairman
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne VIC 3000

Dear Keith

SUBMISSION – ED 300 COVID-19-RELATED RENT CONCESSIONS

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on Exposure Draft 300 *Covid-19-Related Rent Concessions* (the Exposure Draft or ED 300).

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Overall, we support the proposal to permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications and instead (where the practical expedient is applied) account for those rent concessions as if they were not lease modifications.

In addition, in our opinion, similar practical relief should be provided to lessors. Leasing is not necessarily a core part of the business activities of all lessors and, in our opinion, covid-19-related rent concessions have the potential to create significant challenges for some lessors. In our opinion, it would be appropriate to provide lessors with comparable relief.

Our detailed responses to the questions contained in ED 300 are attached to this letter.

Please contact either myself or Darryn Rundell, Director - Audit & Accounting Technical (03 8610 5574 or darryn.rundell@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely



K L Byrne
Partner



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Specific matters for comment:

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.

Response:

We agree that the practical expedient, to not assess whether a covid-19-related rent concession is a lease modification, would provide lessees with practical relief.

We also believe that applying the practical expedient, which results in such rent concessions being accounted for as if they were not lease modifications, will provide useful information about leases to the users of the financial statements.

However, it is unclear from our reading of paragraph 46B and BC5(c) whether the conditions of paragraph 46B will be satisfied when a covid-19-related rent concession includes an increase to the lease term (e.g., where the lessor provides a 6-month rent holiday in relation to payments originally due in 2020 and provides a 6-month extension to the lease term).

We recommend that the proposed amendments to AASB 16 be explicit in relation to the treatment of lease extensions in the application of paragraph 46B.

In addition, as noted in our covering letter, in our opinion, similar practical relief should be provided to lessors. Leasing is not necessarily a core part of the business activities of all lessors and, in our opinion, covid-19-related rent concessions have the potential to create significant challenges for some lessors. In our opinion, it would be appropriate to provide lessors with comparable relief.

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.

Response:

We agree with the proposed effective date and transition requirements.