



Technical Accounting Alert

TA 2020-09

AASB issues Exposure Draft 300 COVID-19-Related Rent Concessions

Introduction

On 27 April 2020, the Australian Accounting Standard Board (AASB) issued ED 300 *COVID-19-Related Rent Concessions – Proposed amendments to AASB 16* which incorporates International Accounting Standard Board (IASB) Exposure Draft ED/2020/2 *COVID-19-Related Rent Concessions - Proposed amendment to IFRS 16* (“the ED”) for public comments by 8 May 2020.

Due to the COVID-19 pandemic, the IASB expects lessors to provide lessees with rent concessions (such as rent holidays or rent reductions) which may or may not include increased rent payments in future periods. Such contractual amendments are captured by AASB 16 *Leases* as a “*change in the scope of lease or consideration of the lease that was not part of the original terms and conditions*”, potentially requiring lease modification accounting. If a contractual change results in a lease modification, the lessee is required to follow the relatively complex accounting guidance within AASB 16, including the requirement to remeasure lease liability using a revised discount rate determined at the date of the modification.

ED 300 provides a practical expedient permitting lessees to not assess whether particular COVID-19 related rent concessions are lease modifications and instead to account for them as if they were not. The ED does not propose a change to lessor accounting.

What changes are proposed by the AASB?

Under the proposals:

- a lessee may elect to account for a lease modification arising from a COVID-19 related rent concessions as if it were not a lease modification; and
- the practical expedient will only be available if the rent concession occurs as a direct consequence of the COVID-19 pandemic and if all of the below conditions are met:
 - The change in the lease payments results in revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
 - any reduction in lease payments affects only payments originally due in 2020¹; and
 - there are no substantive changes to other terms and conditions of the lease.

A lessee that applies the practical expedient shall disclose the fact.

¹ GT has requested that the term “2020” be clarified as the calendar year ended 31 December 2020.



Accounting for changes in lease payments applying the practical expedient

In its ED, the IASB has addressed the accounting for changes in lease payments applying the practical expedient for three types of changes:

1. Rent forgiveness or waiver: The forgiveness or waiver should be accounted for as a variable lease payment (IFRS 16.38) by derecognising part of the lease liability that has been extinguished by the forgiveness or waiver of lease payments.
2. Change in the timing of individual payments (e.g. lease payment reduces in one period but proportionally increases in another period): The lessee should continue to reduce the lease liability for payments made to the lessor in accordance to IFRS 16.36(b)
3. Reduction in lease payments that incorporates both a rent forgiveness and change in the timing of payments requiring an approach incorporating both 1. and 2.

There remains some uncertainty as to the method of accounting for the forgiveness or waiver of lease payments. GT has sought clarity regarding this and will release a TA Alert once ED 300 has been finalised.

Transition and effective date

The expected effective date is for annual reporting periods ending on or after 1 June 2020, with early-adoption permitted.

It is expected that the final requirements arising from this amendment will need to be applied retrospectively by recognising the cumulative effect of initially applying the amendment as an adjustment to the opening retained earnings at the beginning of the annual reporting period in which the lessee first applies the practical expedient.

Further information



If you wish to discuss any of the information included in this Technical Accounting Alert, please get in touch with your Grant Thornton Relationship Partner or a member of Grant Thornton Financial Reporting Advisory at fra@au.gt.com.