

Basis for Conclusions on AASB 2020-7

This Basis for Conclusions accompanies, but is not part of, AASB 1060. The Basis for Conclusions was originally published with AASB 2020-7 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 Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard 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;

- (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. The Board further noted that the additional disclosures would apply only to COVID-19-related rent concessions and were warranted because of the special circumstances leading to the practical expedient in AASB 16. The amendments do not alter the fact that disclosure of variable lease payments is not required under the *IFRS for SMEs* Standard and therefore also not required under AASB 1060.

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.

Issue of ED 303 Covid-19-Related Rent Concessions: Tier 2 Disclosures

- BC16 The Board’s proposals were exposed for public comment in July 2020 through Exposure Draft ED 303 *Covid-19-Related Rent Concessions: Tier 2 Disclosures*. Noting that the practical expedient added to AASB 16 is already available for early adoption as at 30 June 2020, the Board agreed on a short exposure period of 14 days from the day of issue of the ED. The Board received feedback through two submissions and discussions with stakeholders, which were supportive of the proposed amendments. The Board therefore decided to finalise and approve the amendments as proposed.

Operative date and early application

- BC17 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.