

Comments on the Exposure Draft of Amendments to IFRS 16

“COVID-19 related Rent Concessions”

Thank you so much for the opportunity to comment on the exposure draft “COVID-19 related Rent Concessions” proposed as amendment to IFRS 16, Leases. Our comments are given below:

1. The IASB is proposing to add the two paragraphs 46A and 46B in IFRS 16 in response to COVID-19. We do not agree with the proposed insertion of paragraphs 46A and 46B in IFRS 16 for COVID-19 related Rent Concessions.
2. Changing a standard that is for long-term for an unusual one-time event is not appropriate. The change being proposed seems to be a result of the enthusiasm of IASB to demonstrate to the world that IFRS were changed due to COVID-19 and thus, IASB did not remain silent for COVID-19 related impact. COVID-19 related concessions are not limited to rent only. If IASB is willing to demonstrate its action in response to COVID-19, it should have amended IFRS 1, IFRS 2, IFRS 9, IAS 1, IAS 19 and IAS 20 requirements too.
3. If IASB is too enthusiastic to address COVID-19 in IFRS, it is requested to undertake a project on IAS 20 which has become widely applicable due to government stimulus package. IAS 20 is an outdated standard that focuses on income statement rather than balance sheet. One of the reasons for IASB not considering IAS 20 as important is because it was considered as not applicable to entities in developed countries. However, due to COVID-19, this standard shall become applicable to all countries regardless of their status of development.
4. The proposed amendment is unclear. It is not clear how a lessee will account for a change in lease contract as other than modification of lease proposed in paragraph 46A. Does IASB intend that the lessee applies IFRS 9 requirements for modification of financial liability similar to what lessor would do if the lessor classifies as finance lease or simply ignore the changes made such that the lessee continues to measure lease liability as calculated originally and any change in payments from that determined originally shall be recognised in profit or loss. The Basis for Conclusions are not that clear to understand the implications of accounting for a modification of lease as if it is not a modification of lease. Further, it is highly doubtful how financial statements could be said to be presenting the information fairly and faithfully by not

accounting implications of modification of lease as modification of lease just because such modification is related to a particular event. Accounting must not be an instrument of economic policy decision. Accounting must reflect the economics of the transaction. Accounting must not be changed to not reflect the economics of the transaction and that too because of an unusual event.

5. No principles regardless of the words used can enable an entity to identify that the concessions are related directly to COVID-19. Just because the change results in less consideration, the change cannot be said to be related directly to COVID-19 or to put it the other way just because the change does not result in less consideration, the change cannot be said to be not directly related to COVID-19. All changes during this event of COVID-19 are attributed to COVID-19 generally. Further, the changes could be far reaching rather than being limited to 2020. Why entities having such far reaching changes not limited to only 2020 should be in a disadvantageous position. The changes are more for financial instruments, employee benefits, share-based payments than any other asset or liability. The IASB must have amended the requirements of IFRS 9, IAS 19 and IFRS 2 accordingly so as to ease their application. Why sympathise with entities who have changes in leases limited to 2020 and not with other entities who have change in leases not limited to 2020 or have recognised other assets or liabilities but have to carry out substantially the same efforts due to COVID-19. If the intention of IASB was to ease the application of IFRS during this unprecedented time of lockdowns worldwide, the IASB should have proposed relaxations in other standards too. The amendment proposed does not address all changes to leases due to COVID-19 and therefore, cannot be regarded as an unbiased response to COVID-19 related impact.
6. A lease liability is, in substance, a financial liability. For a lessor, the modification of lease liability is accounted as modification of financial liability. However, for a lessee, the same has different accounting principles. The changes in lease liability of a lessee are adjusted to the cost of right-of-use asset. The reason could be that the measurement of lease liability is the cost of right-of-use asset on initial measurement. This is the case for acquisition of inventory, property, plant and equipment, intangible asset or investment property. The fair value of the amount payable becomes their cost. However, if there is a modification of financial liability, IFRS 9 requires recognition of any change as gain or loss in profit or loss. It does not state that

if the initial measurement of financial liability was also the initial measurement of the cost of an asset, any modification of such financial liability shall be recognised as an adjustment to the cost of such asset. Thus, the measurement of right-of-use assets and other non-financial assets are inconsistent. The IASB could take this opportunity and amend IFRS 16 or IFRS 9 to remove such inconsistencies as response to COVID-19 event.

7. The proposed amendment makes financial statements incomparable qua entities and qua periods. Entities that have amended their systems according to IFRS 16 requirements will not opt for the practical expedient proposed by inserting paragraph 46A. Entities that have not amended their systems according to IFRS 16 requirements and therefore need to perform calculations manually for each lease contract, may opt for the practical expedient proposed. This makes the financial statements incomparable qua entities.
8. The financial statements of an entity that opts for this practical expedient will be incomparable qua periods. The financial statements for the period beginning on 1 January 2019 are already incomparable with the amounts reported in comparative period for lease contracts because of modified retrospective approach that permits application of the standard from the date of initial application. With the proposed amendment, the incomparability will be extended to further periods.
9. The beneficiaries of the proposed amendment seem to be those lethargic entities that like last minute management. If IASB wanted to benefit such entities, it could have simply given an option to extend the application of IFRS 16 itself. This would have ensured that financial statements are incomparable only qua entities and not qua periods. Further, the entities to which the proposed amendment is targeted will be more than happy to follow IAS 17 again as their systems are based on IAS 17 requirements.
10. There is also an inconsistency between IFRS 1 requirements and the transition provisions of IFRS 16. A first-time adopter is required to apply IFRS 16 requirements from transition date. If a subsidiary has opted for applying IFRS 16 from the date of initial application being 1 January 2019 and the date of transition of the parent being first-time adopter later than subsidiary is 1 January 2018, the parent shall apply IFRS 16 in Separate Financial Statements and Consolidated Financial Statements from 1 January 2018. However, paragraph D17 permits parent that adopts IFRS later than subsidiary to account based on the assets and liabilities

recognised by the subsidiary. Thus, the parent opting for paragraph D17 of IFRS 1 will apply IAS 17 for lease contracts of subsidiary whereas it will apply IFRS 16 for lease contracts where it is the lessee during the year ended 31 December 2018. It is doubtful how fair and faithful the resultant information will be. The IASB may take this opportunity to amend IFRS 1 to require parent to account from the date of initial application rather than date of transition.

11. If IASB feels that any gain or loss due to modification must be recognised in profit or loss and that presentation is fair and faithful, the IASB may amend the requirements of modification of lease itself. This will align the requirements with that of lessor and also align with IFRS 9.
12. One of the arguments for recognising the gain or loss due to modification to right-of-use asset is that the impairment requirements will take care. The exposure draft talks of lease of building. Normally buildings do not generate independent cash flows and therefore, their impairment is tested for the Cash-Generating Unit (CGU) to which they belong. The IASB is already aware of the limitations of impairment of CGU. Considering such limitations, the IASB must amend the requirements of modification of lease to require recognition in profit or loss and not to right-of-use asset.
13. Lastly, we would like to draw attention of IASB to the requirement of paragraph 18 of IAS 1 which states that an entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material. Simply because the amendment requires disclosure of modification that is not accounted as modification, the financial statements cannot be said to be presenting the information fairly and faithfully. Accounting must not be an instrument of economic policy decisions. COVID-19 related economics must not be hidden by changes in accounting. If IASB feels recognition of gain or loss due to modification in profit or loss is fair and faithful presentation, it must change the requirements of IFRS 16 for modification of leases accordingly as response to COVID-19. Accounting must reflect the economics of the transaction. COVID-19 or any other event related transactions must be reflected in accounting as gain or loss in profit or loss. Thus, changing right-of-use asset for modification of lease liability is not reflecting economics of the transaction. If an accounting is not reflecting economics of the transaction for an event, it will not reflect economics of the transaction for other events too. Therefore, the IASB is requested



to change the requirements of accounting for modification of lease instead of proposing to account for modification on account of an unusual event as not a modification of lease.

