

Basis for Conclusions on AASB 2023-3

This Basis for Conclusions accompanies, but is not part of, AASB 1060. The Basis for Conclusions was originally published with AASB 2023-3 Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2.

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 the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for proposing these amendments

BC2 The Board issued AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current* in March 2020 and AASB 2022-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants* in December 2022. These Standards amended AASB 101 *Presentation of Financial Statements* to improve the information an entity provides in its financial statements about liabilities arising from loan arrangements for which the entity’s right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement (often referred to as ‘covenants’). AASB 2022-6 also amended an example in AASB Practice Statement 2 *Making Materiality Judgements* regarding assessing whether information about covenants is material for disclosure.

BC3 The amendments made by AASB 2020-1 and AASB 2022-6 principally affect the classification and disclosure of current and non-current liabilities for entities applying Tier 1 reporting requirements.¹ It is appropriate for the Board to consider making similar amendments to the Tier 2 Standard AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to ensure consistency in the terminology and presentation requirements across Australian Accounting Standards.

Issue of Exposure Draft ED 323

BC4 The Board’s proposals with respect to the amendments finalised in this Standard were exposed for public comment in March 2023 through Exposure Draft ED 323 *Disclosure of Non-current Liabilities with Covenants – Proposed Amendments to Tier 2*.

BC5 The significant issues considered by the Board in developing ED 323 are addressed in the following section.

Relevance of the amendments to AASB 1060

BC6 The *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* outline the approach adopted by the Board for considering whether to add to or amend disclosure requirements in AASB 1060 when the IASB makes amendments to full IFRS Standards.

BC7 Applying this approach, ED 323 proposed that in relation to the amendments made by AASB 2020-1 and AASB 2022-6 to AASB 101:

- (a) where AASB 1060 contains a corresponding paragraph, AASB 1060 should be updated in a similar manner. If the corresponding paragraph in AASB 1060 (paragraph 40) is not updated, entities may interpret and apply the requirements of AASB 1060 differently from the corresponding requirements in AASB 101;
- (b) AASB 1060 should be updated in relation to the new disclosure requirements added to AASB 101 if the disclosure is of particular relevance in the Australian environment or addresses a matter of public policy since the amendments to AASB 101 do not introduce significant recognition and

¹ AASB 1053 *Application of Tiers of Australian Accounting Standards* outlines that Australian Accounting Standards consist of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Simplified Disclosures.

measurement differences. The rationale for proposing to add paragraph 47A to AASB 1060 is further detailed in paragraph BC8; and

- (c) where guidance paragraphs were added to AASB 101, these paragraphs should not be added to AASB 1060. When developing AASB 1060, the Board was aware that replacing certain Standards with sections in AASB 1060 also removed some of the guidance included in those Standards, where such guidance was also not included in the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs Standard)*. However, to maintain the simplicity of the disclosure requirements in AASB 1060, the Board considered this preferable to considering on a case-by-case basis which guidance should be included and which could be omitted.² Although the Board was unable to follow that approach in this case as the *IFRS for SMEs Standard* was last updated by the IASB in 2015, prior to the 2020 and 2022 amendments, on balance the Board considered that including the additional guidance paragraphs in AASB 1060 was not necessary. The Board noted that AASB 1060 paragraph 2 permits an entity applying AASB 1060 to refer to the guidance in other Australian Accounting Standards (including AASB 101) when helpful.
- BC8 When applying the approach outlined in paragraph BC7(b) to proposed paragraph 47A (corresponding to AASB 101 paragraph 76ZA(a)), the Board considered that the disclosures would provide useful information to the users of Tier 2 financial statements because it would allow them to understand the nature of the entity's covenants and the risk that a liability classified as non-current could nonetheless be repayable within twelve months. The Board considers that users of the financial statements of Tier 2 entities are particularly interested in information about an entity's short-term cash flows and obligations, commitments, or contingencies, whether or not recognised as liabilities, and liquidity and solvency.³
- BC9 No changes to AASB 1060 were proposed in relation to the amendments made to AASB Practice Statement 2. This is because AASB Practice Statement 2 provides non-mandatory guidance to all entities on making materiality judgements when preparing general purpose financial statements in accordance with Australian Accounting Standards. AASB 1060 does not include any guidance corresponding explicitly with that in AASB Practice Statement 2.

Finalisation of ED 323 proposals

- BC10 Following the consultation period, and after considering the comments received, the Board decided to proceed with issuing this Standard, with minimal changes from the proposals in ED 323.

Feedback from respondents on ED 323

- BC11 The Board received four formal comment letters on ED 323 and informal feedback from targeted outreach activities. The feedback received indicated that, in general, all respondents were supportive of the proposals. However, some respondents provided additional feedback:
- (a) one stakeholder suggested the Board consider including in AASB 1060 certain guidance paragraphs that had been added to AASB 101. In their view, paragraphs 72B and 75A of AASB 101 provide the most useful guidance for preparers when determining whether a liability is current or non-current. The stakeholder was concerned that if these guidance paragraphs were not included in AASB 1060, Tier 2 entities might not be aware of the useful guidance or would have to refer to AASB 101 for the guidance; and
- (b) one stakeholder suggested the Board reconsider the proposed amendments to paragraph 40(d) and relocate the statement about counterparty equity conversion options to a separate paragraph. In their view, the amendment proposed to paragraph 40(d) in ED 323 implied that the statement is relevant to paragraph 40(d) but not to paragraphs 40(a) and 40(c). They considered that the amendment proposed in ED 323 would be inconsistent with the amendments made to AASB 101, which relocated the statement about counterparty conversion options to a separate paragraph, paragraph 76B.
- BC12 The Board considered the feedback and decided:
- (a) not to add the guidance contained in paragraphs 72B and 75A of AASB 101 to AASB 1060. The Board confirmed its view that guidance paragraphs added to AASB 101 should not be added to AASB 1060; and

² AASB 1060 paragraph BC55.

³ AASB 1060 paragraph BC41.

- (b) to relocate the statement about counterparty conversion options from paragraph 40(d) to a new paragraph, paragraph 41A, for consistency with the amendments made to AASB 101.

Effective date

- BC13 To ensure consistency between the amendments in this Standard for Tier 2 reporting requirements and the amendments made in AASB 2020-1 and AASB 2022-6 for Tier 1 reporting requirements, the Board decided that this Standard would be effective for annual periods beginning on or after 1 January 2024, with earlier application permitted.