

Basis for Conclusions on AASB 2024-1

This Basis for Conclusions accompanies, but is not part of, AASB 1060. The Basis for Conclusions was originally published with AASB 2024-1 Amendments to Australian Accounting Standards – Supplier Finance Arrangements: 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 the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Background

Tier 1 amendments

- BC2 In June 2023, the AASB issued AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements*. The Standard amends AASB 107 *Statement of Cash Flows* and AASB 7 *Financial Instruments: Disclosures* to require an entity to provide additional disclosures about its supplier finance arrangements.
- BC3 The additional information will enable users of financial statements to assess how supplier finance arrangements affect an entity’s liabilities, cash flows and exposure to liquidity risk. The amendments require an entity to disclose the terms and conditions of the arrangements, the carrying amount of the liabilities that are part of the arrangements, the carrying amounts of those liabilities for which the suppliers have already received payment from the finance providers, the range of payment due dates and the effect of non-cash changes.
- BC4 These amendments arose from the issuance of International Financial Reporting Standard *Supplier Finance Arrangements* (Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*) by the International Accounting Standards Board (IASB) in May 2023.
- BC5 The amendments made by AASB 2023-1 introduced disclosure requirements for entities applying Tier 1 reporting requirements. Therefore, it was appropriate for the Board to consider whether 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* were required.

Issue of Exposure Draft ED 328

- BC6 The Board’s proposals with respect to the amendments finalised in this Standard were exposed for public comment in December 2023 through Exposure Draft ED 328 *Supplier Finance Arrangements: Tier 2 Disclosures*.
- BC7 The significant issues considered by the Board in developing ED 328 are addressed in the following section.

Relevance of the amendments to AASB 1060

- BC8 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.
- BC9 The standard-setting frameworks first consider whether the amendments introduce a significant recognition and measurement difference between full IFRS Standards and the *IFRS for SMEs* Accounting Standard. If they do not, the standard-setting frameworks state that no further action is required unless:
- the disclosures address a matter of public policy;
 - the disclosures are of particular relevance in the Australian environment; or
 - the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.

- BC10 The Board noted that the disclosure requirements were added to IFRS Standards to address users' need for information relating to an entity's liquidity position and cash flow. The feedback from Australian users reinforced the need for these disclosures.
- BC11 Although the Board had not received any feedback on whether these disclosures were of similar importance to users of Tier 2 financial statements, in deciding whether to propose adding disclosures about supplier finance arrangements to AASB 1060 the Board considered the principles it used when developing AASB 1060 and subsequently when considering whether to add to or amend the disclosure requirements.
- BC12 When developing and considering amendments to AASB 1060, the Board considers that information about short-term cash flows and obligations, commitments or contingencies, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts presented in the financial statements would be particularly important to the users of Tier 2 financial statements.
- BC13 Therefore, the Board proposed amendments to AASB 1060 to require Tier 2 entities to disclose information relating to their supplier finance arrangements. The amendments would require a Tier 2 entity to include in its financial statements the same specific disclosures that AASB 2023-1 requires in the financial statements of entities applying Tier 1 reporting requirements. The Board considered the proposed disclosures would provide additional information about the cash flows, liquidity and solvency of Tier 2 entities.

Finalisation of ED 328 proposals

- BC14 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 328. The Board noted the disclosures would need to be made only where material to the entity.

Feedback from respondents on ED 328 and international alignment

- BC15 The Board received one formal comment letter on ED 328. The feedback received indicated that, in general, the stakeholder was supportive of the proposals. However, the stakeholder provided additional feedback.
- BC16 The stakeholder suggested that the disclosure objective in proposed paragraph 119A in ED 328 was unnecessary. The stakeholder observed that the IASB has not generally included disclosure objectives in the *IFRS for SMEs* Accounting Standard and, therefore, the Board generally has also not previously included disclosure objectives in AASB 1060. It also observed that not including disclosure objectives is consistent with the approach proposed by the IASB in its *Subsidiaries without Public Accountability: Disclosures* project.
- BC17 The Board noted that the IASB has tentatively decided not to include the disclosure objective in its proposed amendments to add supplier finance arrangement disclosures to the *IFRS for SMEs* Accounting Standard.
- BC18 The Board considered this feedback and decided that, for consistency with the IASB's tentative approach, it would not add the disclosure objective proposed in ED 328 to this Standard. As AASB 1060 was developed based on the requirements in the *IFRS for SMEs* Accounting Standard, the Board considered that following the IASB's tentative approach was appropriate. However, the Board noted its intention to monitor future IASB decisions about supplier finance arrangement disclosures in the *IFRS for SMEs* Accounting Standard and consider whether further amendments are required to AASB 1060 at that time.
- BC19 In considering the IASB's tentative approach and proposed amendments to the *IFRS for SMEs* Accounting Standard and the forthcoming *Subsidiaries without Public Accountability: Disclosures* Standard, the Board observed that the IASB is not proposing to include:
- (a) transition relief in the *IFRS for SMEs* Accounting Standard. The IASB does not consider transition relief necessary as it expects to issue the amendments at least two years before their application date. (The IASB has not yet considered whether transition relief may be required in the *Subsidiaries without Public Accountability: Disclosures* Standard.) The Board, however, considered that it is necessary to add transition relief to AASB 1060 given the short time frame between the issue of these amendments and their application date. Consequently, the transition reliefs proposed in ED 328 are included in paragraph 119C of this Standard; and
 - (b) the final sentence in paragraph 119A of this Standard in the *IFRS for SMEs* Accounting Standard. However, the IASB has tentatively decided to include this sentence in proposed amendments to the *Subsidiaries without Public Accountability: Disclosures* Standard. The Board considered the additional information about some finance arrangements that are outside the scope of supplier finance arrangements is useful for Tier 2 entities and decided to retain this information.

Effective date

BC20 The Board decided that the amendments should be made effective for annual periods beginning on or after 1 January 2024 that end on or after 30 June 2024, with earlier application permitted, as proposed in ED 328. This is consistent with the effective date of AASB 2023-1 for most Tier 1 entities.