

Basis for Conclusions on AASB 2025-2

This Basis for Conclusions accompanies, but is not part of, AASB 1060. The Basis for Conclusions was originally published with AASB 2025-2 Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments: 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 July 2024, the Board issued AASB 2024-2 *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments*. The Standard amends AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* in response to feedback from the 2022 Post-implementation Review of the classification and measurement requirements in AASB 9 and related requirements in AASB 7 and the subsequent 2023 Exposure Draft ED 324 *Amendments to the Classification and Measurement of Financial Instruments*.

BC3 AASB 2024-2 amends requirements related to:

- (a) settling financial liabilities using an electronic payment system;
- (b) assessing contractual cash flow characteristics of financial assets with environmental, social and corporate governance (ESG) and similar features; and
- (c) disclosure about:
 - (i) financial instruments with contingent features that do not relate directly to basic lending risks and costs; and
 - (ii) investments in equity instruments designated at fair value through other comprehensive income.

BC4 These amendments arose from the issuance of International Financial Reporting Standard *Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*) by the International Accounting Standards Board in May 2024.

BC5 The amendments made by AASB 2024-2 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 332

BC6 The Board’s proposals with respect to the amendments finalised in this Standard were exposed for public comment in August 2024 through Exposure Draft ED 332 *Classification and Measurement of Financial Instruments: Tier 2 Disclosures*.

BC7 The significant issues considered by the Board in developing ED 332 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:
- (a) the disclosures address a matter of public policy;
 - (b) the disclosures are of particular relevance in the Australian environment; or
 - (c) the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.
- BC10 The Board noted that the amendments to AASB 9 both clarify the application of existing recognition and measurement requirements and make narrow-scope changes to how some requirements are applied. However, the Board considered that the amendments did not significantly affect or introduce any new significant recognition and measurement differences between full IFRS Standards and the *IFRS for SMEs* Accounting Standard.
- BC11 The Board also noted that the disclosure requirements were added to AASB 7 for several reasons:
- (a) financial instruments with contingent features – because financial statement users said this information is important to their analysis and assessment of an entity’s future cash flows; and
 - (b) equity instruments designated at fair value through other comprehensive income – to provide enhanced transparency about these equity instruments.
- The feedback from Australian users (predominantly representing Tier 1 entities) supported the need for these disclosures.
- BC12 Although the Board had not received any feedback on whether these disclosures are of similar importance to users of Tier 2 financial statements, the Board considered the principles it used when developing AASB 1060 and subsequently when considering whether to add to or amend the disclosure requirements. 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 The Board considered that additional information about:
- (a) financial instruments with contingent features would be useful to the users of Tier 2 financial statements because information about cash flows, such as the effect of contractual terms that could change the amount of contractual cash flows, is of particular importance to them; and
 - (b) investments in equity instruments designated at fair value through other comprehensive income is not required for Tier 2 entities. Although the new disclosures will provide enhanced transparency about these equity instruments in Tier 1 financial statements, the original disclosure requirements in paragraphs 11A and 11B of AASB 7 were simplified significantly for consistency with the *IFRS for SMEs* Accounting Standard when AASB 1060 was developed, and therefore more detailed disclosures are not considered necessary for Tier 2 entities.
- BC14 Therefore, the Board decided to issue an Exposure Draft proposing:
- (a) amendments to AASB 1060 to require a Tier 2 entity to disclose information about financial instruments with contingent features that do not relate directly to basic lending risks and other costs so that financial statement users can better understand the effect of contractual terms that could change the amount of contractual cash flows; and
 - (b) no amendments to AASB 1060 for investments in equity instruments designated at fair value through other comprehensive income.

Finalisation of ED 332 proposals

- BC15 Following the consultation period and after considering the comments received, the Board decided to proceed with issuing this Standard, with no changes from the proposals in ED 332.

Feedback from respondents on ED 332

- BC16 The Board received one formal comment letter on ED 332. The feedback received indicated that the stakeholder was supportive of the proposals.
- BC17 The stakeholder also noted that the IASB had included disclosures related to financial instruments with contractual terms affecting cash flows in IFRS 19 *Subsidiaries without Public Accountability: Disclosures* but had not yet considered the matter in relation to the *IFRS for SMEs* Accounting Standard, possibly due to the

amendments to the IFRS Accounting Standards being finalised after the issuance of the IASB's exposure draft for its update of the *IFRS for SMEs* Accounting Standard. The stakeholder recommended that if the IASB ultimately decides not to include these disclosures in the *IFRS for SMEs* Accounting Standard, the Board should remove the disclosure requirements added to AASB 1060 for consistency.

- BC18 The Board considered this feedback and decided to proceed with issuing this Standard, with no changes from the proposals in ED 332. The Board noted its intention to monitor future IASB decisions about financial instrument disclosures in the *IFRS for SMEs* Accounting Standard and consider whether further amendments are required to AASB 1060 at that time.

Effective date

- BC19 The Board decided that the amendments should be made effective for annual periods beginning on or after 1 January 2026, with earlier application permitted, as proposed in ED 332. This is the same effective date as for the amendments in AASB 2024-2.