Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Non-current Liabilities with Covenants**	**Meeting:**	March 2023 (M194)
Topic:	**Possible amendments to AASB 1060 following amendments to full IFRS Standards**	**Agenda Item:**	4.1
		Date:	20 February 2023
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		Decision-Making:	Medium
		Project Status:	Draft Exposure Draft

Objective of this agenda item

1 The objective of this paper is for the Board to:

(a) **discuss** the effect of the amendments made by the IASB to IAS 1 *Presentation of Financial Statements*, reflected in the Australian-equivalent amending Standards AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* and AASB 2022-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants* on AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*; and

(b) **discuss** the draft Exposure Draft ED 32X *Amendments to Australian Accounting Standards Non-current Liabilities with Covenants: Tier 2 Disclosures* (see Agenda Paper 4.2); and

(c) **decide** out-of-session approval of the draft Exposure Draft for publication after the Board meeting by the Chair or a subcommittee.

Attachments

Agenda paper 4.2	Draft Exposure Draft ED 32X *Amendments to Australian Accounting Standards Non-current Liabilities with Covenants: Tier 2 Disclosures*

Background and reasons for bringing this paper to the Board

2 This paper considers the possible effect of the amendments made to AASB 101 by AASB 2020-1 and AASB 2022-6 on AASB 1060 with reference to the *AASB For-Profit Entity Standard-Setting Framework* (FP Framework) and the *AASB Not-For-Profit Entity Standard-Setting Framework* (NFP Framework) which outline the Board's approach when considering amendments to AASB 1060 following amendments made by the IASB to full IFRS Standards.[1]

1 AASB 2022-6 defers the amendments originally made to AASB 101 by AASB 2020-1, which were previously deferred by AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date* (August 2020) to periods beginning on or after 1 January 2023. Consequently, AASB 2022-6 itself applies to periods beginning on or after 1 January 2023 in order to defer the amendments from that date for another year. The result is that the revised requirements in AASB 101 will now apply mandatorily to annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. See Appendix A for further detail.

3 The amendments made by AASB 2020-1 and AASB 2022-6 apply to entities preparing Tier 1 general purpose financial statements (Tier 1 GPFS).[2] The amendments apply to annual periods beginning on or after 1 January 2024, with earlier application permitted.[3] Staff have heard positive feedback from Australian stakeholders on the amendments, including some stakeholders indicating an intention to adopt them early.

4 Staff are aware of some stakeholders preparing Tier 2 general purpose financial statements (Tier 2 GPFS) that would like to early adopt the amendments made to AASB 101 by AASB 2021-1 and AASB 2022-6 if the amendments are also made to AASB 1060.

5 This paper considers the possible effect of the amendments made to AASB 101 by AASB 2020-1 and AASB 2022-6 on AASB 1060 with reference to the *AASB For-Profit Entity Standard-Setting Framework* (FP Framework) and the *AASB Not-For-Profit Entity Standard-Setting Framework* (NFP Framework) which outline the Board's approach when considering amendments to AASB 1060 following amendments made by the IASB to full IFRS Standards.[4]

Structure of this Paper

6 The remainder of this paper is set out as follows:

(a) Summary of Staff recommendations (paragraphs 7 – 9);

(b) Other considerations (paragraphs 10 – 12)

(c) Next steps and timeline (paragraph 13)

(d) Appendix A – Background and the AASB Standard-Setting Frameworks

(e) Appendix B – Detailed analysis of the effect of AASB 2020-1 and AASB 2022-6 on AASB 1060

Summary of staff recommendations:

7 On balance, based on the detailed staff analysis in Appendix B, staff recommend the Board issue an exposure draft proposing the following amendments to AASB 1060:

(a) amend AASB 1060.40(d) to:

(i) delete the word 'unconditional';

(ii) clarify that an entity's right to defer settlement must exist 'at the reporting date'; and

(iii) amend the statement about counterparty conversion options to clarify its scope.

(b) add a new disclosure requirement, equivalent to AASB 101.76ZA(a) to AASB 1060; and

8 Staff do not recommend proposing to add guidance paragraphs 72A and 72B of AASB 101 to AASB 1060.

9 Staff also recommend that the Board seek feedback in the Exposure Draft from stakeholders about the proposals in paragraphs 7(b) and 8 above. As noted in Appendix B, although staff have, on balance, made the above recommendations, there were mixed staff views on how to address the disclosures.

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2 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

3 Paragraph BC 96 of AASB 1060 states that "a review of the disclosures will need to take place any time … amendments are made to existing Australian Accounting Standards or Interpretations."

Question 1 to Board members:

Do Board members agree with the staff recommendations in paragraphs 7 and 8:

(a) to amend paragraphs 40(d) (row 1 and row 9 of the table in Appendix B)?

(b) to add a simplified version of AASB 101.76ZA(a) to AASB 1060 (row 7 of the table in Appendix B)?

(c) that no other amendments are required to AASB 1060 (row 2, 3, 4, 5, 6 and 8 of the table in Appendix B)?

If not, what do Board members suggest?

Other considerations

Due process

10 Subject to Board member agreement with the staff recommendations in question 1, staff recommend issuing an Exposure Draft.[5]

11 Paragraph 6.5 of the *AASB Due Process Framework for Setting Standards* outlines that an Exposure Draft is generally issued with a 90-day comment period to ensure appropriate consultation. However, if it is narrow in scope and urgent, a comment period of no less 30 days may be suitable.

12 Staff, therefore, recommend a 60-day comment period. Staff consider that a 60-day comment period is reasonable because:

(a) while staff do not expect the proposed amendments to AASB 1060 to be contentious due to their narrow scope, a 60-day comment period would allow stakeholders sufficient time to comment.

(b) a 60-day comment period is expected to be sufficient for the Board to finalise an amending Standard by 30 June 2023 (subject to feedback received and due process). Whilst staff expect any amendment to apply mandatorily from 1 July 2024 in line with the amendments to AASB 101, staff understand that issuing an amending Standard prior to 30 June 2023 that would be available for earlier application would be helpful for the stakeholders. This is because some stakeholders have expressed a desire to adopt the possible amendments in advance of their mandatory application date.

Question 2 to Board members:

Subject to Board member agreement with the staff recommendations in question 1, do Board members agree with the staff recommendations in paragraphs 10 and 12 to issue an Exposure Draft with a 60-day comment period? If not, what do Board members suggest?

5 Staff understand that there might be no changes in practice to financial statement disclosures as a result of these amendments if the existing requirements were applied as intended. However, staff expect that the amended requirements will help 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 date is subject to the entity complying with conditions specified in the loan arrangement.

NEXT STEPS AND TIMELINE

13 Subject to the Board member agreement with staff recommendations throughout this paper, staff suggest the following timeline.

Task	Timing
Incorporating feedback received from Board members at this meeting, staff will prepare a ballot draft Exposure Draft (for approval via the Chair (or subcommittee))	by 15 March 2023
Exposure Draft to be issued	by 17 March 2023
Comments on the Exposure Draft due (60-day comment period)	by 22 May 2023 (60 days from the issuance of the ED)
Staff to analyse any feedback received and discuss with the Board at the **June 2023** AASB meeting.	May 2023
Staff to finalise and issue the amending Standard after incorporating any feedback from Stakeholders and Board members at the June AASB meeting.[6]	June 2023

Question 3 to Board members:

(a) Subject to Board member agreement with the staff recommendations in question 1, do Board members agree with the staff recommendation to finalise an Exposure Draft via the Chair? If not, would Board members prefer to finalise via a sub-committee?

(b) Subject to Board member agreement with staff recommendations throughout this paper, do Board members have any comments on the suggested next steps and timeline?

6 Staff note, however, that if the Board decides that a comment period of longer than 60 days is needed (see Question 2), the proposed timeline will require adjustment, and an amending Standard is unlikely to be issued before the end of the 2023 financial year.

APPENDIX A – Background and the AASB Standard-Setting Frameworks

14 In January 2020, the IASB issued *Amendments to IAS 1 Classification of Liabilities as Current or Non-current*. These amendments were issued in Australia as AASB 2020-1 in March 2020, following a public consultation process that included Exposure Draft ED 259 *Classification of Liabilities*. These amendments were intended to clarify how an entity assesses whether it has the right to defer settlement of a liability when that right is subject to compliance with specified conditions (often referred to as covenants) within twelve months after the reporting date. When issuing AASB 2020-1, the Board did not specifically consider the possible effects of the amendments on AASB 1060.

15 In response to questions from stakeholders about the application of the amended requirements, the IFRS Interpretations Committee (the IFRS IC) published a tentative agenda decision explaining how to apply the 2020 amendments to particular fact patterns. Respondents to the IFRS IC tentative agenda decision raised concerns about the outcomes and potential consequences of the 2020 amendments in certain situations.

16 To address stakeholders' concerns, the IASB issued Exposure Draft ED/2021/9 *Non-current Liabilities with Covenants* in November 2021, proposing further amendments to the liability classification requirements in IAS 1 and a deferral of the revised requirements to periods beginning no earlier than 1 January 2024.

17 In December 2021, the IASB's proposals were issued in Australia as Exposure Draft ED 316 *Non-current Liabilities with Covenants*. Following the appropriate due process in Australia, the AASB submitted to the IASB on ED/2021/9.

18 The IASB analysed the feedback it received on the proposed amendments and decided to finalise them after making changes. In October 2022, the IASB issued *Amendments to IAS 1 Non-current Liabilities with Covenants*. These amendments were issued in Australia as AASB 2022-6.

Requirements of the AASB Standard-Setting Frameworks

19 Paragraph 56 of the FP Framework and 43 of the NFP Framework state:

Based on the principles in paragraph 52,[7] the AASB uses the following approach when considering whether to add 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 recognition and measurement 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 53;[8] and

(b) if the amendments do not introduce significant recognition and measurement differences, no further action is required unless:

(i) the disclosures address a matter of public policy;

(ii) the disclosures are of particular relevance in the Australian environment; or

(iii) the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.

7 Paragraph 39 in the NFP Framework

8 Paragraph 40 in the NFP Framework

APPENDIX B – Detailed staff analysis of the effect of AASB 2020-1 and AASB 2022-6 on AASB 1060

20 Currently, AASB 1060 paragraphs 40 and 41 state:

40 *An entity shall classify a liability as current when:*

(a) it expects to settle the liability in the entity's normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting date; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

[Based on IFRS for SMEs *Standard paragraph 4.7]*

41 *An entity shall classify all other liabilities as non-current.* [IFRS for SMEs *Standard 4.8]*

21 The same drafting is used in paragraph 69 of AASB 101. The current drafting of paragraph 69 will apply until the amendments made by AASB 2020-1 and AASB 2022-6 become mandatory (for annual reporting periods beginning on or after 1 January 2024) or are adopted early.

22 Staff considered the amendments made by AASB 2020-1 and AASB 2022-6 to determine whether/how they apply to AASB 1060 and whether AASB 1060 should be amended.

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
1.	AASB 101.69(d)	The classification principle was **amended** to: (a) delete the word 'unconditional'.	AASB 1060.40(d)	**Staff Recommendation:** In respect of amendments (a) and (b), staff recommend proposing that AASB 1060.40(d) be amended for consistency with AASB 101 (as amended).[10] Amendment (c) is considered in Row 8 below.

10 See the proposed amendments to AASB 1060.40(d) in row 8 below.

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
		(b) clarify that the entity's right to defer settlement must exist 'at the reporting date'.[9] (c) move the statement about counterparty conversion options to new paragraph 76B.		**Staff analysis and application of the FP Framework and NFP Framework:** In respect of (a), the IASB noted that rights to defer settlement of a loan are rarely unconditional—they are often conditional on compliance with covenants. If an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the reporting date if it complies with those conditions at that date. Staff consider the same rights regarding deferring the settlement of a liability would also apply to Tier 2 entities. If AASB 1060.40(d) is not updated, there is a risk that preparers may interpret and apply the requirements of AASB 1060 differently from those in AASB 101. In respect of (b), the need for the right to exist at the reporting date was already illustrated in the examples in paragraphs 74 and 75 of AASB 101. However, it was not stated explicitly in the classification principle. Entities applying AASB 1060 are permitted to refer to other Standards including AASB 101 for guidance on the requirements of AASB 1060.[11] Therefore, if AASB 1060 is not updated for consistency with AASB 101 in this regard, this may cause confusion when AASB 1060 does not explicitly state that a right to defer settlement must exist at the reporting date but such a requirement is illustrated in the examples in AASB 101 and entities are referring to both Standards when preparing their financial statements. In respect of (c), see the discussion in row 8 below for staff analysis.

9 AASB 2020-1 used the terms 'at the end of the reporting period' and 'after the reporting period' in its amendments to AASB 101.69. To maintain consistency with the existing terminology used in AASB 1060.40, the proposed amendments to AASB 1060.40(d) (see row 8 below and Agenda paper 4.2) use the term 'reporting date'.

11 AASB 1060 paragraph 2

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
				Application of the FP Framework and NFP Framework: Staff consider that the amended disclosure requirements particularly relevant in the Australian environment.[12] As mentioned in paragraph 3, Australian stakeholders are supportive of the AASB 101 amendments and have expressed an intention to adopt the amendments early if they are also made to AASB 1060. Further, although the amendments do not introduce significant recognition and measurement differences, staff consider that the amended requirements in AASB 101 are of particular interest to users of Tier 2 GPFS as the classification of liabilities as current or non-current provides information about an entities' short-term cash flows and obligations, commitments or contingencies, whether or not recognised as liabilities and liquidity and solvency.[13]
2.	AASB 101.72A – 101.72B	These paragraphs were **added** to assist an entity with determining when it has a right to defer settlement for at least 12 months, including illustrating which covenants should be considered (i.e. only those covenants that an entity is	N/A	**Staff Recommendation:** No proposed amendment. **Staff analysis and application of the FP Framework and NFP Framework:** Staff note that, when developing AASB 1060, the Board decided to replace any Standards that dealt exclusively with presentation and disclosure requirements in their entirety with the corresponding requirements in AASB 1060.[14] In developing AASB 1060, the Board noted 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 *IFRS for SMEs*

12 Paragraph 56(b)(ii) of the FP Framework and paragraph 43(b)(ii) of the NFP Framework.

13 Paragraph 53(a) and (b) of the FP Framework and paragraph 40(a) and (b) of the NFP Framework outline the principles to be applied when determining whether amendments are made to full IFRS Standards that introduce significant recognition and measurement differences should be made to AASB 1060. Staff note that paragraphs 53 and 40 are not directly relevant because as noted the amendments do not introduce recognition and measurement differences. However, staff consider the principles provide further support for the proposed amendment to AASB 1060 because of the nature of the information provided by the requirements.

14 Paragraph BC54 of AASB 1060.

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
		required to comply with on or before the end of reporting period).		Accounting Standard. However, to maintain the simplicity of the disclosure requirements, the Board considered this to be preferable to consider on a case-by-case basis which guidance should be included, and which could be omitted.[15] The Board also included AASB 1060 paragraph 2, which specifically permits entities to refer to other Standards (including AASB 101) for guidance on requirements in AASB 1060.[16] In contemplating whether to add the guidance paragraphs, staff could not follow the IASB approach in the IFRS for SMEs Standard, as it was last updated in 2015. Staff were also unable to follow the approach adopted by the IASB in the recently issued Exposure Draft ED/2022/1 *Third edition of the* IFRS for SMEs *Accounting Standard* because the Exposure Draft only considered amendments that became effective before 1 January 2019.[17] Staff note that the Standard-Setting Frameworks do not contemplate whether/when to add guidance paragraphs to AASB 1060 when such paragraphs are added to a full IFRS Standard. Therefore, staff consider it would be necessary to develop principles to support consistent decision-making now and in the future about the inclusion or omission of guidance paragraphs in AASB 1060. Staff do however consider this approach (of deciding whether to include or omit guidance paragraphs on a case-by-case basis) to be somewhat inconsistent with the Board's previous decision to omit guidance paragraphs unless they were also

15 Paragraph BC55 of AASB 1060.

16 AASB 1060 paragraph 2 states "Except to the extent specifically addressed in this Standard, the definitions and presentation requirements of other Australian Accounting Standards continue to apply. Entities are permitted to refer to other Standards for guidance on the requirements in this Standard, including AASB 7 *Financial Instruments: Disclosures*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 124 *Related Party Disclosures*."

17 Paragraph 18 of the Request for Information *Comprehensive Review of IFRS for SMEs Standard*.

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
				included in the *IFRS for SMEs* Accounting Standard. This approach would also be inconsistent with previous Board decisions.[18] Staff, therefore, do not recommend that guidance paragraphs 72A and 72B of AASB 101 be added to AASB 1060.
3.	AASB 101.73	This paragraph discusses liabilities an entity has a right to roll over for at least twelve months after the reporting date. It was **amended** to: • delete a suggestion that to classify such a liability as non-current, an entity must not only have the right to roll over the liability but also expect to exercise that right; • align the terminology by replacing 'discretion' with 'right'.	N/A	**Staff recommendation:** No action is required because AASB 1060 does not contain an equivalent paragraph. **Staff analysis and application of the FP Framework and NFP Framework:** The amendment does not introduce significant recognition and measurement differences. As these paragraphs were not added to AASB 1060 when it was developed, staff also do not consider the amendments that address matters of public policy, are of particular relevance in Australia or affect existing disclosure requirements.

18 When making AASB 2021-6 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards*, the Board considered whether the add guidance paragraphs to AASB 1060 that were added to AASB 101. Exposure Draft ED 312 *Disclosure of Accounting Policies Proposed Amendments to Tier 2 and Other Australian Accounting Standards* proposed adding guidance paragraphs 95A–95E to AASB 1060 (corresponding with paragraphs 117A–117E of AASB 101). However, after considering feedback from stakeholders the Board decided that although the guidance might be helpful to users, AASB 1060 permits entities to refer to AASB 101 (and other Standards) for guidance. Therefore, the Board did not include the proposed guidance paragraphs in AASB 1060.

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
4.	AASB 101.74	This paragraph was **amended** for updated terminology (i.e. to remove the word "unconditional" and replace "provision" with "covenant").	N/A	**Staff recommendation:** No action is required because AASB 1060 does not contain an equivalent requirement. **Staff analysis and application of the FP Framework and NFP Framework:** See row 3 above.
5.	AASB 101.75A	This paragraph was **added** to explicitly clarify that classification of a liability is unaffected by management intentions or expectation (i.e. the intention to settle a liability within twelve months after the reporting date).	N/A	**Staff recommendation**: No action is required. **Staff analysis and application of the FP Framework and NFP Framework:** See row 2 above.
6.	AASB 101.76	This paragraph is **amended** to align with the amendments made to paragraph 75A.	N/A	**Staff recommendation:** No action is required because AASB 1060 does not contain an equivalent requirement. **Staff analysis and application of the FP Framework and NFP Framework:** See row 3 above.
7.	AASB 101.76ZA	This paragraph was **added** to require an entity to disclose information in the notes that enables users of financial statements to	N/A	**Staff recommendation:** Staff recommend proposing a new disclosure requirement, equivalent to AASB 101.76ZA(a), be added to AASB 1060. Staff also recommend the Board seek feedback from stakeholders in the Exposure Draft about the costs and benefits of

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
		understand the risk that non-current liabilities with covenants could become repayable within twelve months, including: • information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities (paragraph AASB 101.76ZA(a)). • facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting		the new disclosure requirements and their relevance in Australia for Tier 2 entities for further consideration. **Staff analysis and application of the FP Framework and NFP Framework:** As noted above, staff could not follow the IASB approach in the *IFRS for SMEs* Accounting Standard or recently issued Exposure Draft. With reference to the principles listed in the Standard-Setting frameworks,[19] staff considered the following three options: **Option 1: Add a new disclosure requirement (consistent with paragraph AASB 101.76ZA) to AASB 1060** ○ **Arguments in favour of this approach:** Adding a new disclosure requirement would be useful to users of the financial statements because it would allow them to understand the nature of the covenants and the risk that a liability classified as non-current could nonetheless be repayable within twelve months. This information could be particularly relevant for users of Tier 2 GPFS who have a particular interest 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. ○ **Arguments against this approach:** The new disclosure, especially paragraph AASB 101.76ZA(b), may overlap with the existing disclosure requirements about going concern in AASB 1060 (i.e. paragraphs 14-15 of AASB 1060).[20] Adding disclosure requirements requiring similar information could increase

19 Paragraphs 53 and 56 of the FP Framework and paragraph 40 and 43 of the NFP Framework.

20 Constituents had previously commented to ED 316 noted that the added disclosure would require an entity to provide information that is also relevant in the context of the current going concern disclosure requirement in AAS. (See pages 3-4 of the AASB Comment Letter on IASB ED/2021/9).

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
		period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting period (paragraph AASB 101.76ZA(b)).		an entities' preparation cost for limited benefits to users the of financial statements. Paragraphs 14-15[21] of AASB 1060 require that an entity assesses whether there is substantial doubt about its ability to continue as a going concern, and if so, the entity should provide disclosures that enable users of the financial statements to understand the nature of the uncertainty and potential impact on the financial statements. The IASB developed the additional disclosures in IAS 1 with the intention of enabling users of the financial statements to assess the risk of a liability becoming repayable within 12 months, even in the absence of the material uncertainties addressed by the going concern disclosures (i.e. IAS 1.25).[22],[23] The IASB considered that the disclosure requirements in IAS 1.25 address a specific situation—when there are material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern—and would not necessarily result in the entity providing the information required by the IAS 1.76ZA(b), for example, facts and circumstances could also include the fact that the entity would not have

21 Paragraph 14 of AASB 1060 requires that "When preparing financial statements, the management of an entity using Australian Accounting Standards – Simplified Disclosures shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date." Paragraph 15 of AASB 1060 requires that "When management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern."

22 Paragraph 87 of the IASB Agenda paper 12 C *Non-current Liabilities with Covenants – Separate presentation and disclosure* (June 2022).

23 The requirements of IAS 1.25 are consistent with AASB 101.25 and AASB 1060.15.

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
				complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting period. Staff acknowledge the IASB considerations about the difference in scope of the disclosure requirements. However, staff are unsure how much new information disclosed in compliance with AASB 101.76ZA(b) would provide and how useful that information would be to users of Tier 2 and whether it would financial statements would justify the additional preparation costs Tier 2 entities would incur. Further, assuming the overarching principle of materiality is applied appropriately, if an entity discloses any facts and circumstances that indicate the entity may have difficulty complying with the covenants as required by AASB 101.76ZA(b), the disclosure would likely be considered a circumstance that gives rise to material uncertainties or conditions that cast significant doubt upon the entity's ability to continue as a going concern which would require disclosure in compliance with AASB 1060.15. **Option 2: Add a new disclosure requirement, equivalent to paragraph AASB 101.76ZA(a), to AASB 1060, as below:** 47A In applying paragraph 40 and other relevant Australian Accounting Standards, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting date. In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including information about the covenants (including the nature of the covenants

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
				and when the entity is required to comply with them) and the carrying amount of related liabilities. ○ **Arguments in favour of this approach:** Same as Option 1. Also, the simplified disclosure addresses the possible overlap between AASB 1060.15 and AASB 101.76ZA(b), which would help to reduce the preparation cost for Tier 2 entities. ○ **Argument against this approach**: The IASB considered that the disclosure requirements added to IAS 1 address a specific situation—when there are material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern—and a simplified version of this requirement would not necessarily result in the entity providing the information required by the AASB 101.76ZA(b). **Option 3: Not add the new disclosure requirement to AASB 1060** ○ **Arguments in favour of this approach:** See the above discussion for arguments against Option 1. Also, with reference to paragraph 56 of the FP Framework and paragraph 43 of the NFP Framework, the amendments to AASB 101/IAS 1 do not introduce significant recognition and measurement differences, they are not a matter of public policy and do not clarify of reduce existing disclosure requirements in full IFRS Standards. Therefore, no further action is required unless the disclosures are of particular relevance in the Australian environment. Staff recommend the Board seek stakeholders' feedback about whether the disclosure requirement would be of particular relevance to Tier 2 entities in the Exposure Draft. ○ **Arguments against this approach**: See the above discussion for the arguments in favour of Option 2.

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
				On balance, staff recommend Option 2. However, staff also recommend the Board seek feedback from stakeholders in the Exposure Draft about the costs and benefits of the new disclosure requirements and their relevance in Australia for Tier 2 entities for further consideration.
8.	AASB 101.76A	This paragraph is **added** to clarify that for the purposes of classifying a liability as current or non-current, rolling over a liability does not constitute "settlement" because it is the extension of an existing liability. Rolling over a liability also does not involve any transfer of economic resources.	N/A	**Staff recommendation:** No action is required. **Staff analysis and application of the FP Framework and NFP Framework:** See row 2 above.
9.	AASB 101.76B	Before being amended, paragraph 69(d) stated "… Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affects its classification." This statement was moved from paragraph 69(d) to	40(d)	**Staff recommendation:** Staff recommend amending the statement presently included in AASB 1060.40(d) to clarify, the scope of the statement. **Staff analysis and application of the FP Framework and NFP Framework:** The IASB added paragraph 76B to IAS 1 to clarify the scope of the statement relating to conversion options. When the statement was added to paragraph 69(d) in 2009, it was intended to apply only in certain circumstances. However, the IASB considered clarification necessary because the statement may be applied to other circumstances, which was not the intended result. Staff considered the following three options:

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
		added in new paragraph 76B. The statement was also clarified to state that it applies only to liabilities that include a counterparty conversion option that meets the definition of an equity instrument and, applying AASB 132 *Financial Instruments: Presentation*, is recognised separately from the host liability as the equity component of a compound financial instrument.		**Option 1:** Amend paragraph 40(d) to remove the statement about conversion rights and add a new paragraph in AASB 1060. This approach is consistent with the amendments to AASB 101. ○ **Arguments in favour of this approach:** This approach is consistent with the Board's consideration when developing AASB 1060. The Board decided to add additional guidance to paragraph 40 (using paragraph 4.7 of the *IFRS for SMEs* Standard as the base) confirming that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification (from paragraph 69(d) of AASB 101). The Board considered this would further ensure that there are no presentation differences to full AAS.[24] If paragraph 40(d) is not amended, presentation differences to full AAS may arise. ○ **Arguments against this approach:** This approach could be considered inconsistent if the Board decides not to propose including the other guidance paragraphs added to AASB 101 in AASB 1060. However, staff acknowledge that Option 1 considers clarifications to an existing paragraph, rather than adding new guidance. **Option 2:** Remove the statement about counterparty conversion options from paragraph 40(d), and do not include a new paragraph in AASB 1060. Entities can refer to AASB 101 for guidance. ○ **Arguments in favour of this approach:** This approach is consistent with staff's **recommendations** not to add new guidance paragraphs to AASB 1060. Further, new paragraph AASB 101.76B provides guidance and

24 Paragraph BC61 of AASB 1060.

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
				has no impact on disclosures and AASB 1060 paragraph 2 permits entities to refer to AASB 101 (and other Standards) for guidance. o **Arguments against this approach:** This approach may give rise to presentation difference between Tier 1 and Tier 2 GPFS, which was one of the reasons why the original statement was included in paragraph 40(d) of AASB 1060. Further, entities applying Tier 2 requirements may not naturally refer to AASB 101 for guidance when **classifying** conversion options as current or non-current liabilities. Removing the statement completely may give the impression that the statement about counterparty conversion options is no longer applicable. **Option 3**: Amend the statement presently included in paragraph 40(d) to include the clarification on the scope, as below: "40 An entity shall classify a liability as current when: … (d) the entity does not have the ~~an unconditional~~ right at the reporting date to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by ~~the issue of equity instruments do not affect its classification~~ the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying AASB 132 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument."

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
				○ **Argument in favour of this approach:** Same to Option 1 above. In addition, there is no need to add an additional paragraph in AASB 1060 under this Option. ○ **Argument against this approach:** Same as Option 1 above. However, this option also does not separate the [recommended] clarification to **AASB 1060.40(d)**. Staff note that the IASB considered the additional clarification to be sufficiently important to be a separate paragraph. However, staff consider that the inconsistencies discussed above can be justified considering that the statement about counterparty conversion options was considered important guidance by the Board and worth adding to AASB 1060.40(d), among all the other guidance included in AASB 101 at the time. On balance, staff recommend option 3 to amend the statement presently included in paragraph 40(d) by adding clarification on the scope of the statement. Staff consider it necessary to also amend AASB 1060 for consistency between Tier 1 and Tier 2 and ensure that the statement is applied as intended.
10	AASB 101.139U-139W	Transition and effective date	N/A	**Staff recommendation:** No action is required. Paragraphs 139U and 139Q are signpost paragraphs added to AASB 101 as equivalent paragraphs were added to IAS 1. Paragraphs 139U and 139W outline the paragraphs amended by the amending Standard and their application date. Signpost paragraphs are not included in domestic Australian Accounting Standards because this information is included in the compilation details of compiled Standards.

	Amendment made by AASB 2020-1 and AASB 2022-6	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation (for the purpose of the ED):
11	AASB Practice Statement 2	AASB Practice Statement 2 was updated for guidance on assessing whether information about covenants is material for disclosure.	N/A	**Staff recommendation:** No action is required. AASB Practice Statement 2 provides non-mandatory guidance to all entities preparing general purpose financial statements on making materiality judgements when preparing general purpose financial statements in accordance with Australian Accounting Standards. Therefore, AASB 1060 does not include any guidance corresponding explicitly with that in AASB Practice Statement 2.