ED 323 sub 1

Dr. Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via submission portal: https://www.aasb.gov.au/current-projects/open-for-comment/

6 April 2023

Dear Keith,

Re: ED 323 *Disclosure of Non-current Liabilities with Covenants - Proposed Amendments to Tier 2*

On behalf of PwC, I confirm that we are comfortable with the proposed amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. We agree that this is relevant information for users of Tier 2 financial reports and that it is justified under the principles applied by the IASB in developing the IFRS for SMEs Standard per AASB 1060 BC41.

However, we recommend that the disclosures and guidance in AASB 1060 be reviewed against any future changes made by the IASB to the IFRS for SMEs standard in due course to consider if any changes are warranted.

I would welcome the opportunity to discuss our firm's views at your convenience should you have questions.

Yours sincerely,

Erin Craike
Partner

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Deloitte.

Deloitte Touche Tohmatsu

ABN 74 490 121 060
477 Collins Street
Melbourne, VIC, 3000
Australia

Phone: +61 3 9671 7000
www.deloitte.com.au

18 May 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
Level 20, 500 Collins Street
Melbourne, VIC 3000
Australia

via email: standard@aasb.gov.au

Dear Keith

AASB Exposure Draft ED 323 *Disclosure of Non-current Liabilities with Covenants – Proposed Amendments to Tier 2*

Deloitte is pleased to respond to the Australian Accounting Standards Board ('AASB' or 'Board') Exposure Draft ED 323 *Disclosure of Non-current Liabilities with Covenants – Proposed Amendments to Tier 2* ('ED 323'').

We appreciate the opportunity to comment on the Exposure Draft and welcome the Board's action in this area. We are supportive of the Board aligning the disclosure requirements of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* with amendments already made to AASB *101 Presentation of Financial Statements* by 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*.

Our detailed comments on the specific matters and general matters for comments are attached in Appendix A and Appendix B respectively.

Please contact me at +61 3 9671 7871 or moverton@deloitte.com.au if you wish to discuss any of our comments.

Yours sincerely

Moana Overton
Partner

APPENDIX A – RESPONSE TO REQUESTS FOR SPECIFIC MATTERS FOR COMMENT

Request for specific matter comment 1– Do you agree with the proposed amendments to AASB 1060? If you disagree, please explain why.

We agree with the proposed amendments to AASB 1060. We however, note the below:

ED 323 paragraph 40(d)

The below sentence in ED 323 paragraph 40(d) is a separate paragraph in AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* (i.e. paragraph 76B). Further, AASB 2020-1 indicates that paragraph 76B relates to paragraphs 69(a), 69(c) and 69(d). Therefore as paragraphs 69(a), 69(c) and 69(d) are also in AASB 1060 (i.e. paragraphs 40(a), 40(c) and 40(d) respectively) and because the below sentence relates to paragraphs 40(a), 40(c) and 40(d)(and not only to paragraph 40(d) as might be considered to be implied by the proposed drafting) the Board could consider including the following sentence in a separate paragraph (as opposed to including in in paragraph 40(d)).

ED 323 paragraph 40(d) and AASB 2020-1 paragraph 76B:

Terms of a liability that could, at the option of the counterparty, result in its settlement by 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.

Reference to reporting date

The amendments refer to 'reporting date' as opposed to 'at the end of the reporting period' which is used in AASB 101 *Presentation of Financial Statements,* AASB 2022-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants* and AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current.* We acknowledge that the *IFRS for SMEs®* Accounting Standard also refers to reporting date (e.g. paragraph 4.7 which AASB 1060 paragraph 40 is based on). However, we recommend consistency with AASB 101 *Presentation of Financial Statements* in this regard, and accordingly would recommend the use of the phrase "at the end of the reporting period".

Request for specific matter comment 2

Do you agree that the proposed new disclosure requirements in paragraph 47A:

(a) are relevant to Tier 2 entities; and

(b) deliver benefits for financial statement users that outweigh any costs incurred by preparers?

We agree that the disclosure requirements are relevant to Tier 2 entities. Entities preparing Tier 2 financial statements enter into loan arrangements, some subject to compliance with covenants within twelve months of the reporting date.

The proposed disclosure requirements in paragraph 47A will help users of the financial statements (including prospective investors) understand the risk that the liabilities could become repayable within twelve months after the reporting date. Further, we note that ASIC has recently called for improved material business risk disclosure in annual reports (February 2023 media release 23-018MR *ASIC calls for improved material business risk disclosure in annual reports* and March 2023 media release 23-058MR *ASIC continues its focus on improved material business risk disclosure in annual reports*).

In our view the proposed disclosure requirements in paragraph 47A will contribute to transparent reporting and reporting of risks. Further, we believe that the proposed disclosure requirements in paragraph 47A deliver benefits for financial statement users that outweigh any costs expected to be incurred by preparers.

Request for specific matter comment 3 - Do you expect any significant challenges for entities in complying with the disclosure requirements proposed in paragraph 47A? If so, please explain why and what alternative you suggest instead.

We do not expect any significant challenges for entities in complying with the disclosure requirements proposed in paragraph 47A.

We would expect an entity to have the relevant information to provide the proposed disclosure requirements in paragraph 47A(a) and be able to reasonably assess (without undue effort) the relevant facts and circumstances to determine whether it may have difficulty complying with covenants to provide the disclosure requirements in paragraph 47A(b).

Request for specific matter comment 4 - Do you have any other comments on the proposals?

No, we do not have any other comments on the proposals.

APPENDIX B – RESPONSE TO REQUESTS FOR GENERAL MATTERS FOR COMMENT

Request for general matter comment 5 – Whether the *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* have been applied appropriately in developing the proposals in this Exposure Draft?

We believe that the *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* have been applied appropriately in developing the proposals in this Exposure Draft.

Request for general matter comment 6 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

We are not aware of any regulatory issue or other issues in the Australian environment that may affect the implementation of the proposals.

Request for general matter comment 7 – Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

We are not aware of any auditing or assurance challenges that the proposals may create.

Request for general matter comment 8 – Whether, overall, the proposals would result in financial statements that would be useful to users?

We believe that overall the proposals would result in financial statements that would be useful to users. As noted in request for specific matter comment 2, we believe that the proposed disclosure requirements (in paragraph 47A) will help users of the financial statements (including prospective investors) understand the risk that the liabilities could become repayable within twelve months after the reporting date, thus contributing to transparent reporting and reporting of risks.

Request for general matter comment 9 – Whether the proposals are in the best interests of the Australian economy?

We believe that the proposals are in the best interests of the Australian economy. The proposals will help ensure users of the financial statements (including prospective investors) have relevant information which could affect decision making.

Request for general matter comment 10 – Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

We are unable to provide an estimate of any expected incremental costs or the nature thereof. However as noted in specific matter comment 2, we believe that the proposed new disclosure requirements in paragraph 47A deliver benefits for financial statement users that outweigh any costs expected to be incurred by preparers.

22 May 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Via website: www.aasb.gov.au

Dear Keith

Exposure Draft 323: Disclosure of Non-current Liabilities with Covenants – Proposed amendments to Tier 2

As the representatives of over 300,000 professional accountants around the world, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on the above Exposure Draft ("the ED"). We make this submission on behalf of our members and in the public interest.

CA ANZ and CPA Australia commend the Australian Accounting Standards Board (AASB) for its promptness in developing the ED in response to the amendments to IAS 1/AASB 101 *Presentation of Financial statements*, effective from 1 January 2024, that clarify the classification requirements for current and non-current liabilities. Our joint submission to the IASB on these reforms broadly supported the changes and recognised the importance of these classification requirements being applied consistently by all entities.

Therefore, we support the alignment of the requirements in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities requirements* (AASB 1060) with the AASB 101 amendments noted above for annual periods beginning on or after 1 January 2024, with early adoption allowed.

Our responses to the specific questions raised in the ED are included in the **Attachment.**

If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Simon Grant FCA
Group Executive – Advocacy and International
Chartered Accountants Australia and New Zealand

Dr Gary Pflugrath FCPA
Executive General Manager, Policy and Advocacy
CPA Australia

Attachment

Specific matters for comment

1. **Do you agree with the proposed amendments to AASB 1060? If you disagree, please explain why.**

We support the amendments to AASB 1060 that will:

- clarify that a liability is classified as non-current if an entity has the right at the reporting date to defer settlement of the liability for at least twelve months after the reporting date,
- clarify the reference to settlement of a liability by the issue of equity instruments in classifying liabilities, and
- require the disclosure of information that enables users of the financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period.

Consistent and accurate classification of liabilities is crucial if users of financial statements are to make informed decisions about an entity's liquidity and solvency. Therefore, it is essential that the classification requirements in AASB 1060 be aligned with their equivalents in AASB 101 to provide a clear and consistent framework that reflects the economic reality behind an entity's financing arrangements.

Ensuring that only those conditions existing at or before the balance sheet date impact classification as at the balance sheet date and requiring disclosure of other conditions that could impact classification in the 12 months after the reporting period, is an appropriate way to ensure these disclosures are consistently applied.

2. **Do you agree that the proposed new disclosure requirement in paragraph 47A**
   a. **Are relevant to Tier 2 entities; and**
   b. **deliver benefits for financial statement users that outweigh any costs incurred by preparers?**

We agree that covenants and the associated classification issues are a common feature of the loans held by entities of all sizes, and that appropriate classification of liabilities based on these criteria provide valuable information for users of Tier 2 entity financial statements in the context of cash flows and solvency. Therefore, the requirements in AASB 1060 need to mirror those of AASB 101 to ensure users are provided with clear information about the risks of repayment that could arise from the non-compliance with covenants.

We do not consider that the disclosure requirements will impose additional costs on preparers as the information needed to support them should already be available as part of the entity's normal governance and reporting practices.

3. **Do you expect any significant challenges for entities in complying with the disclosure requirements proposed in paragraph 47A? If so, please explain why and what alternative you suggest instead.**

No, the feedback we have received from our members indicates that:

- these reforms will facilitate consistent classification of loans that provides meaningful information to financial statement users, and
- the information needed to support these disclosures is already available as part of the entity's normal governance and reporting practices.

4. Do you have any other comments on the proposals?

We appreciate the AASB's fast tracking of these amendments that will ensure that they are available through early adoption provisions to Tier 2 preparers producing financial statements for years ending 30 June 2023.

General matters for comment

5. Whether the AASB *For-Profit Entity Standard-Setting Framework* and the AASB *Not-for-Profit Entity Standard-Setting Framework* have been applied appropriately in developing the proposals in this Exposure Draft?

We agree that covenants and the associated classification issues are a common feature of the loans of entities of all sizes. Therefore, the requirements in AASB 1060 need to mirror those of AASB 101 and apply to all entities in both the for-profit and not-for-profit sectors.

6. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

These amendments address important practical concerns that have been raised over several years regarding the application of the requirements in AASB 101. Therefore, we are of the view that they should lead to more consistent application of these important requirements. We are not aware of additional regulatory issues that may arise.

7. Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

We believe these reforms should reduce the audit challenges associated with applying the classification requirements in paragraph 69 of AASB 101, by providing clearer guidance on the application of the requirements, especially where covenants are involved.

8. Whether, overall, the proposals would result in financial statements that would be useful to users?

We are of the view that the clarification of the classification requirements in AASB 101 and the supporting disclosures in AASB 1060 will improve the consistency of application of these requirements, reducing preparer and audit costs. These clarifications and the associated disclosures will be of benefit to users in this critical area.

9. Whether the proposals are in the best interests of the Australian economy?

We are of the view that the benefits of these reforms will outweigh the costs of their implementation. The additional information required to be disclosed is already available to affected entities and its disclosure will improve the consistency and quality of the information they are required to report.

10. Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

We have no additional comments.

KPMG

Level 38, International Towers Three
300 Barangaroo Avenue
Sydney NSW 2000

P O Box H67 Australia Square
Sydney NSW 1213
Australia

ABN: 51 194 660 183
Telephone: +61 2 9335 7621
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Our ref ED 323 Submission

22 May 2023

Dear Dr Kendall

Exposure Draft 323 Disclosure of Non-current Liabilities with Covenants - Proposed Amendments to Tier 2

We are pleased to have the opportunity to comment on Exposure Draft 323 *Disclosure of Non-current Liabilities with Covenants – Proposed Amendments to Tier 2* (ED 323).

We generally support the proposals to amend AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-profit and Not-for-Profit Entities* (AASB 1060) contained in ED 323.

Refer to **Appendix** for further discussion on useful additional guidance we would recommend including in AASB 1060.

We do not expect any significant challenges for entities in complying with the disclosure requirements proposed in paragraph 47A. We believe they are relevant for Tier 2 entities. The assessment of liquidity, solvency and the reliance on debt funding is an important consideration for a majority of financial statement users.

The proposals – updated for the comments in the Appendix – should provide benefits to financial statement users that outweigh the costs.

We have no comments in relation to the general matters set out on page 4 of ED 323.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9744.

Yours sincerely

Michael Voogt
Director – Department of Professional Practice
KPMG Australia

Appendix

Comments on AASB 101 amendments not in ED 323

We would support including the text from paragraphs 72B and 75A in AASB 101 in an amended AASB 1060.

Why?

We would recommend inclusion of the above paragraphs for the following reasons:

- First, we would highlight that the classification between current and non-current liabilities has historically been a judgement that has not been made consistently amongst entities which report under Australian Accounting Standards. The assessment of liquidity, solvency and the reliance on debt funding is an important consideration for a majority of financial statement users.
- The two paragraphs highlight above are the guidance in AASB 101 that most clearly set out the impact of covenants that are 'tested' before, at and after reporting (balance) date. They are a clear/simple english explanation of the guidance set out in the proposed amended AASB 1060.40(d). Arguably they would provide the most assistance to financial statement preparers.
- Further, the IASB formed a view that the guidance was necessary/would be useful for financial statement prepares for entities with public accountability. As a general statement, the preparers of GPFS-Tier 1 would be more sophisticated than preparers of GPFS-Tier 2 financial statements.
- The original intention in developing AASB 1060 was as a 'one-stop' shop for GPFS-Tier 2 financial statement preparers. By not including the above paragraphs Tier 2 preparers will either not be aware of the useful guidance in AASB 101 or alternatively have to refer to AASB 101 for the guidance.
- In reference to the discussion in the March 2023 AASB Staff Paper we make the following comments:
  - We acknowledge that the current Standard-Setting Framework does not contemplate situations where AASB 1060 should be updated for paragraphs that are added to 'full IFRS Standards' – however it would be our view that it should. Changes made to full IFRS Standards will, in a majority of situations, also be relevant for GPFS-Tier 2 financial statement prepares.
  - We cannot wait for any full IFRS Standards changes to be considered in the IFRS for SMEs update cycle – a process that takes multiple years.
  - We would also highlight the IASB Board discussion on the Subsidiaries without Public Accountability: Disclosures project and the intention to update the disclosures when full IFRS Standards are updated.