

Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2

[AASB 1060]



Australian Government

**Australian Accounting
Standards Board**

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Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7600
E-mail: standard@aaasb.gov.au
Website: www.aasb.gov.au

Other enquiries

Phone: (03) 9617 7600
E-mail: standard@aaasb.gov.au

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Australian Accounting Standard AASB 2023-3 *Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2* is set out in paragraphs 1–6. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2023-3

This Standard makes amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020).

Main features of this Standard

Main requirements

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* 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').

Consistent with the amendments made by AASB 2020-1 and AASB 2022-6 for Tier 1 reporting requirements, this Standard amends AASB 1060 to:

- (a) 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;
- (b) clarify the reference to settlement of a liability by the issue of equity instruments in classifying liabilities; and
- (c) 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.

Application date

This Standard applies to annual periods beginning on or after 1 January 2024, with earlier application permitted.

Accounting Standard AASB 2023-3

The Australian Accounting Standards Board makes Accounting Standard AASB 2023-3 *Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2* under section 334 of the *Corporations Act 2001*.

Dated 22 June 2023

Keith Kendall
Chair – AASB

Accounting Standard AASB 2023-3 *Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2*

Objective

- 1 This Standard amends AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) to:
- (a) 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;
 - (b) clarify the reference to settlement of a liability by the issue of equity instruments in classifying liabilities; and
 - (c) 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.

These amendments reflect the issuance of AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current* (March 2020) and AASB 2022-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants* (December 2022).

Application

- 2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 1060 set out in AASB 1057 *Application of Australian Accounting Standards*.
- 3 This Standard applies to annual periods beginning on or after 1 January 2024. This Standard may be applied to annual periods beginning before 1 January 2024.
- 4 This Standard uses underlining, striking out and other typographical material to identify the amendments to AASB 1060, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined.

Amendments to AASB 1060

- 5 Paragraph 40 is amended. Paragraphs 41A and 47A are added. Deleted text is struck through and new text is underlined. Paragraph 41 is not amended but is included for reference.

Statement of Financial Position³

...

Current liabilities

- 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 ~~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.~~

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

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

41A 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.

...

Information to be presented either in the statement of financial position or in the notes

...

47A In applying paragraph 40, 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:

- (a) 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; and
- (b) 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 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 reporting date.

Commencement of the legislative instrument

6 For legal purposes, this legislative instrument commences on 31 December 2023.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, 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

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.

public policy since the amendments to AASB 101 do not introduce significant recognition and 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:

² AASB 1060 paragraph BC55.

³ AASB 1060 paragraph BC41.

- (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
- (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.