

Explanatory Statement

Accounting Standard AASB 2022-6 ***Amendments to Australian Accounting Standards –*** ***Non-current Liabilities with Covenants***

December 2022



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2022-6

This Standard makes amendments to AASB 101 *Presentation of Financial Statements* (July 2015) and AASB Practice Statement 2 *Making Materiality Judgements* (December 2017).

These amendments arise from the issuance of International Financial Reporting Standard *Non-current Liabilities with Covenants* (Amendments to IAS 1) by the International Accounting Standards Board (IASB) in October 2022.

Main Features of AASB 2022-6

This Standard amends AASB 101 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').

This Standard revises and defers requirements for the presentation of liabilities in the statement of financial position as current or non-current that were added to AASB 101 in AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* in March 2020. Those requirements will now apply mandatorily to annual reporting periods beginning on or after 1 January 2024 instead of 1 January 2023, with earlier application permitted.

This Standard also amends an example in Practice Statement 2 regarding assessing whether information about covenants is material for disclosure.

Application Date

This Standard applies to annual periods beginning on or after 1 January 2023. Earlier application is permitted, provided AASB 2020-1 is also applied at the same time.

Marked-up Text

This Standard incorporates marked-up text to clearly identify the amendments to AASB 101 and Practice Statement 2. All amendments are incorporated using clean text into the compilations of the pronouncements when they are prepared, based on the legal commencement date of the amendments.

Consultation Prior to Issuing this Standard

In January 2020, the IASB issued IFRS Standard *Classification of Liabilities as Current or Non-current*. In Australia, these amendments were issued by the AASB in 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 aspects of how entities classify liabilities as current or non-current; in particular, how an entity assesses whether it has the right to defer settlement of a liability when that right is subject to compliance with covenants within twelve months after the reporting period.

In response to questions from stakeholders, the IFRS Interpretations Committee published a tentative agenda decision explaining how to apply the 2020 amendments to particular fact patterns. Respondents to the tentative agenda decision raised concerns about the outcomes and potential consequences of the 2020 amendments in some situations. In November 2021, after considering the new information, the IASB issued Exposure Draft ED/2021/9 *Non-current Liabilities with Covenants*, proposing further amendments to the liability classification requirements in IAS 1 *Presentation of Financial Statements* and a deferral of the revised requirements to periods beginning no earlier than 1 January 2024.

The AASB issued ED 316 *Non-current Liabilities with Covenants* in December 2021, with comments due by 3 February 2022. ED 316 incorporated the IASB's ED/2021/9. The AASB received feedback on ED 316 via targeted consultation with key stakeholders, including users of financial statements, financial statement preparers, auditors, professional bodies and regulators.

Feedback on ED 316 indicated that the proposed changes to the liability classification requirements would provide useful information. However, recognising the potential implementation challenges, stakeholders suggested the IASB consider the interaction between the proposals in ED/2021/9 and the IASB's Primary Financial Statements project, its Management Commentary project and IFRS 7 *Financial Instruments: Disclosures*, to ensure consistent principles are applied and to avoid duplicative requirements. Clarification of proposed disclosure requirements was also suggested.

The AASB disagreed with the IASB's proposal in ED/2021/9 to require an entity to present non-current liabilities that are subject to compliance with covenants within twelve months after the reporting period separately in the statement of financial position, taking the view that note disclosure would be sufficient. The AASB made a submission to the IASB on ED/2021/9 on 11 March 2022, consistent with the feedback received.

The IASB analysed the feedback it received on the proposed amendments and decided to finalise the amendments after making changes. The changes included requiring note disclosure of the relevant non-current liabilities rather than separate presentation in the statement of financial position.

The AASB considered and adopted the amendments made by the IASB to IAS 1 in finalising AASB 2022-6 and the revised amendments to AASB 101.

The amendments in AASB 2022-6 are effective for annual periods beginning on or after 1 January 2024, with earlier application permitted. AASB 2022-6 therefore 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 liability classification requirements in AASB 101 will now apply mandatorily to annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2022-6 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Legislative Features of Accounting Standards

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

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Exemption from Sunsetting

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunseting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemptions and Other Matters) Regulation 2015* (Item 18(a)).

The AASB's Standards incorporate Standards set by the International Accounting Standards Board in respect of publicly accountable for-profit entities. The AASB's Standards are exempt from sunseting because a more stringent review process than sunseting applies to the Standards. This review process ensures Australia's Accounting Standards regime remains consistent with international Standards. Typically, the AASB Standards are revised at least once within a ten-year period, with most of the Standards subject to much more frequent revisions. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunseting regime would have very limited practical application to AASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 2022-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants*

Overview of the Accounting Standard

This Standard makes amendments to AASB 101 *Presentation of Financial Statements* (July 2015) and AASB Practice Statement 2 *Making Materiality Judgements* (December 2017).

The amendments to AASB 101 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').

This Standard revises and defers the amendments originally made to AASB 101 by AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* (March 2020), 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 liability classification requirements in AASB 101 will now apply mandatorily to annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

This Standard also amends an example in Practice Statement 2 regarding assessing whether information about covenants is material for disclosure.

Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.