Explanatory Statement

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

**June 2023**



# EXPLANATORY STATEMENT

## 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).

These amendments arise from the issuance of 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. AASB 2020-1 and AASB 2022-6 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’).

The amendments made by AASB 2023-3 for Tier 2 reporting requirements are consistent with the amendments made by AASB 2020-1 and AASB 2022‑6 for Tier 1 reporting requirements.

## Main Features of AASB 2023-3

This Standard amends AASB 1060 to:

1. 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;
2. clarify the reference to settlement of a liability by the issue of equity instruments in classifying liabilities; and
3. 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. Earlier application is permitted.

### Marked-up Text

This Standard incorporates marked-up text to clearly identify the amendments to AASB 1060. 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

The AASB issued Exposure Draft ED 323 *Disclosure of Non-current Liabilities with Covenants – Proposed Amendments to Tier 2* in March 2023 for public comment, with comments due by 22 May 2023.

The AASB received four comment letters on ED 323 and informal feedback from targeted outreach activities. The feedback indicated that, in general, all respondents were supportive of the proposed amendments. However, some stakeholders also provided additional feedback.

For example, one stakeholder suggested the AASB consider including in AASB 1060 certain guidance paragraphs that had been added to AASB 101 that in their view provided 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. Another stakeholder also suggested that the AASB reconsider proposed amendments to the statement about counterparty equity conversion options and relocate the statement to a separate paragraph for consistency with the amendments made to AASB 101.

The AASB analysed the feedback it received on the proposed amendments and decided to finalise the amendments after making some minor changes. The AASB decided not to add the guidance paragraphs to AASB 1060 and confirmed its view that guidance paragraphs added to AASB 101 should not be added to AASB 1060. Tier 2 entities can still refer to AASB 101 for guidance when needed. However, the AASB decided to relocate the statement about counterparty conversion options to a new paragraph for consistency with the amendments made to AASB 101.

The AASB set an effective date for the amendments of annual periods beginning on or after 1 January 2024, with earlier application permitted. This effective date is the same as for the substantive amendments made by AASB 2020-1 and AASB 2022-6 to AASB 101.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2023-3 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.

### Copyright

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**Exemption from Sunsetting**

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunsetting 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 sunsetting because a more stringent review process than sunsetting 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 sunsetting 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 2023-3 *Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2*

### Overview of the Accounting Standard

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

1. 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;
2. clarify the reference to settlement of a liability by the issue of equity instruments in classifying liabilities; and
3. 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.

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### 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*.