

# **Classification and Measurement of Financial Instruments: Tier 2 Disclosures**

Comments to the AASB by 11 October 2024



**Australian Government**

**Australian Accounting  
Standards Board**

## Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 11 October 2024.

### Formal submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website ([www.aasb.gov.au/current-projects/open-for-comment](http://www.aasb.gov.au/current-projects/open-for-comment)) as a PDF document and, if possible, a Word document (for internal use only).

### Other feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: [standard@aaasb.gov.au](mailto:standard@aaasb.gov.au)

Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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## Introduction

### Australian Accounting Standards

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The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

### Exposure Drafts

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The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

### Why we are making these proposals

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In July 2024, the AASB issued AASB 2024-2 *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments*. That Standard amends AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* in response to feedback from the 2022 Post-implementation Review of the classification and measurement requirements in AASB 9 and related requirements in AASB 7 and the subsequent 2023 Exposure Draft. AASB 2024-2 amends requirements related to:

- (a) settling financial liabilities using an electronic payment system;
- (b) assessing contractual cash flow characteristics of financial assets with environmental, social and corporate governance (ESG) and similar features; and
- (c) disclosures about:
  - (i) financial instruments with contingent features that do not relate directly to basic lending risks and costs; and
  - (ii) investments in equity instruments designated at fair value through other comprehensive income.

When developing AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, the Board considered that users of the financial statements of Tier 2 entities were particularly interested in information about short-term cash flows and obligations, commitments or contingencies, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts presented in the financial statements.

The Board noted that the disclosures about:

- (a) financial instruments with contingent features were added to AASB 7 because financial statement users said this information is important to their analysis and assessment of an entity's future cash flows. As these disclosures will provide information about the effect of contractual terms that could change the amount of contractual cash flows, which will result in additional information about an entity's cash flows, the Board considered that these disclosures should also be required of Tier 2 entities; and
- (b) equity instruments designated at fair value through other comprehensive income were added to provide enhanced transparency about these equity instruments. However, as the existing disclosure requirements about equity instruments designated at fair value through other comprehensive income were simplified significantly when AASB 1060 was developed, the Board considered that these more detailed disclosures are not necessary for Tier 2 entities.

This Exposure Draft also proposes renumbering the supplier finance arrangement disclosures in AASB 1060 (currently paragraphs 119A–119C) as paragraphs 87A–87C and relocating them along with their related heading from the “Basic Financial Instruments” section of the Standard to the “Statement of Cash Flows” section. This is for consistency with the recently issued IASB Exposure Draft ED/2024/2 *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs* Accounting Standard, which proposes adding supplier finance arrangement disclosures to the *IFRS for SMEs* Accounting Standard in “Section 7 Statement of Cash Flows”.

The renumbering of the supplier finance arrangement disclosure requirements would allow the proposed new disclosure requirements regarding financial instruments with contingent features to be added to AASB 1060 as paragraphs 119A–119C. This would locate the proposed new requirements in the “Basic Financial Instruments” section of the Standard under the sub-heading ‘Items of income, expenses, gains or losses’, which would be consistent with the location of those disclosure requirements in IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

## What we are proposing

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This Exposure Draft proposes:

- (a) amendments to AASB 1060 to require a Tier 2 entity to disclose information about financial instruments with contingent features that do not relate directly to basic lending risks; and
- (b) no amendments to AASB 1060 to replicate the new disclosures added to paragraphs 11A and 11B of AASB 7 for investments in equity instruments designated at fair value through other comprehensive income.

This Exposure Draft also proposes renumbering the supplier finance arrangement disclosures in AASB 1060 (currently paragraphs 119A–119C) and relocating them and their related heading from the “Basic Financial Instruments” section of AASB 1060 to the “Statement of Cash Flows” section.

## Application date

It is proposed the amendments would apply to annual periods beginning on or after 1 January 2026, with earlier application permitted.

## What happens next

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The AASB will consider feedback on this Exposure Draft at future meetings and, based on the information received, will determine whether the proposals should be implemented, with or without amendment. Depending on the nature and extent of the feedback, the AASB may publish a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

## We need your feedback

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Comments are invited on any of the proposals in this Exposure Draft by 11 October 2024. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

## Specific matters for comment

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The AASB would particularly value comments on the following:

- 1 Do you agree that Tier 2 entities should:
  - (a) be required to disclose information about financial instruments with contingent features that do not relate directly to basic lending risks? If you disagree, please explain why; and
  - (b) not be required to disclose additional information about investments in equity instruments designated at fair value through other comprehensive income (i.e. the new disclosures added to paragraphs 11A and 11B of AASB 7)? If you disagree, please explain why.
- 2 Do you have any other comments on the proposals?

## General matters for comment

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The AASB would also particularly value comments on the following general matters:

- 3 Have the *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?
- 4 Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 5 Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?
- 6 Would the proposals result overall in financial statements that are useful to users?
- 7 Are the proposals in the best interests of the Australian economy?
- 8 Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative, and are they appropriate relative to the existing requirements? 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.

# Contents

PREFACE

**[DRAFT] ACCOUNTING STANDARD  
AASB 2024-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – CLASSIFICATION AND  
MEASUREMENT OF FINANCIAL INSTRUMENTS: TIER 2 DISCLOSURES**

	<i>from paragraph</i>
<b>OBJECTIVE</b>	<b>1</b>
<b>APPLICATION</b>	<b>3</b>
<b>AMENDMENTS TO AASB 1060</b>	<b>5</b>
<b>COMMENCEMENT OF THE LEGISLATIVE INSTRUMENT</b>	<b>7</b>

**[DRAFT] BASIS FOR CONCLUSIONS**

[Draft] Australian Accounting Standard AASB 2024-X *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments: Tier 2 Disclosures* is set out in paragraphs 1–7. All the paragraphs have equal authority.

## Preface

### Standards amended by AASB 2024-2

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This [draft] 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

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#### Main requirements

AASB 2024-2 *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments* amended AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* in response to feedback from the 2022 Post-implementation Review of the classification and measurement requirements in AASB 9 and related requirements in AASB 7 and the subsequent 2023 Exposure Draft. AASB 2024-2 amended requirements related to:

- (a) settling financial liabilities using an electronic payment system;
- (b) assessing contractual cash flow characteristics of financial assets with environmental, social and corporate governance (ESG) and similar features; and
- (c) disclosures about:
  - (i) financial instruments with contingent features that do not relate directly to basic lending risks and costs; and
  - (ii) investments in equity instruments designated at fair value through other comprehensive income.

This [draft] Standard amends AASB 1060 to require a Tier 2 entity to disclose information about financial instruments with contingent features that do not relate directly to basic lending risks and costs so that financial statement users can better understand the effect of contractual terms that could change the amount of contractual cash flows.

This [draft] Standard also amends AASB 1060 to renumber the supplier finance arrangement disclosures (currently in paragraphs 119A–119C) and relocate them and their related heading from the “Basic Financial Instruments” section of the Standard to the “Statement of Cash Flows” section.

#### Application date

This [draft] Standard applies to annual periods beginning on or after ... [1 January 2026], with earlier application permitted.

## [Draft] Accounting Standard AASB 2024-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2024-X *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments: Tier 2 Disclosures* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall  
Chair – AASB

## [Draft] Accounting Standard AASB 2024-X *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments: Tier 2 Disclosures*

### Objective

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- 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 require a Tier 2 entity to disclose information about financial instruments with contingent features that do not relate directly to basic lending risks and costs that enables users of financial statements to understand the effect that changes in contractual terms could have on the entity's future cash flows.
- 2 This amendment reflects the issuance of AASB 2024-2 *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments*, which amended AASB 7 *Financial Instruments: Disclosures* (August 2015) and AASB 9 *Financial Instruments* (December 2014), and extends some of the new disclosure requirements to Tier 2 entities.

### Application

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- 3 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*.
- 4 This Standard applies to annual periods beginning on or after ... [1 January 2026]. Earlier application is permitted.

### Amendments to AASB 1060

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- 5 Paragraphs 119A–119C under the 'Supplier finance arrangements' heading are renumbered as paragraphs 87A–87C respectively. The heading is also relocated with the renumbered paragraphs.
- 6 Paragraphs 119A–119C are added immediately after paragraph 119.
  - 119A An entity shall disclose the information required by paragraph 119B by class of financial assets measured at amortised cost or fair value through other comprehensive income and by class of financial liabilities measured at amortised cost. The entity shall consider how much detail to disclose, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate any quantitative information disclosed.
  - 119B To enable users of financial statements to understand the effect of contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in basic lending risks and costs (such as the time value of money or credit risk), an entity shall disclose:
    - (a) a qualitative description of the nature of the contingent event;
    - (b) quantitative information about the possible changes to contractual cash flows that could result from those contractual terms (for example, the range of possible changes); and
    - (c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.



119C For example, an entity shall disclose the information required by paragraph 119B for a class of financial liabilities measured at amortised cost whose contractual cash flows change if the entity achieves a reduction in its carbon emissions.

## **Commencement of the legislative instrument**

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7 For legal purposes, this legislative instrument commences on ... [31 December 2025].

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, AASB 2024-X Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments: Tier 2 Disclosures.*

### Introduction

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BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in the Exposure Draft. It sets out the reasons why the Board developed the Exposure Draft, the approach taken to developing the Exposure Draft and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

### Background

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#### Tier 1 amendments

BC2 In July 2024, the Board issued AASB 2024-2 *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments*. That Standard amends AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* in response to feedback from the 2022 Post-implementation Review of the classification and measurement requirements in AASB 9 and related requirements in AASB 7 and the subsequent 2023 Exposure Draft. AASB 2024-2 amends requirements related to:

- (a) settling financial liabilities using an electronic payment system;
- (b) assessing contractual cash flow characteristics of financial assets with environmental, social and corporate governance (ESG) and similar features; and
- (c) disclosure about:
  - (i) financial instruments with contingent features that do not relate directly to basic lending risks and costs; and
  - (ii) investments in equity instruments designated at fair value through other comprehensive income.

BC3 These amendments arose from the issuance of International Financial Reporting Standard *Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 and IFRS 7) by the International Accounting Standards Board in May 2024.

#### Relevance of the amendments to AASB 1060

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BC4 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.

BC5 The standard-setting frameworks first consider whether the amendments introduce a significant recognition and measurement difference between full IFRS Standards and the *IFRS for SMEs* Accounting Standard. If they do not, the standard-setting frameworks state that no further action is required unless:

- (a) the disclosures address a matter of public policy;
- (b) the disclosures are of particular relevance in the Australian environment; or
- (c) the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.

BC6 The Board noted that the amendments to AASB 9 both clarify the application of existing recognition and measurement requirements and make narrow-scope changes to how some requirements are applied. However, the Board considered that the amendments did not significantly affect or introduce any new significant recognition and measurement differences between full IFRS Standards and the *IFRS for SMEs* Accounting Standard.

- BC7 The Board also noted that the disclosure requirements were added to AASB 7 for several reasons:
- (a) financial instruments with contingent features – because financial statement users said this information is important to their analysis and assessment of an entity’s future cash flows; and
  - (b) equity instruments designated at fair value through other comprehensive income – to provide enhanced transparency about these equity instruments.
- The feedback from Australian users (predominantly representing Tier 1 entities) supported the need for these disclosures.
- BC8 Although the Board has not received any feedback on whether these disclosures are of similar importance to users of Tier 2 financial statements, the Board considered the principles it used when developing AASB 1060 and subsequently when considering whether to add to or amend the disclosure requirements. When developing and considering amendments to AASB 1060, the Board considers that information about short-term cash flows and obligations, commitments or contingencies, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts presented in the financial statements would be particularly important to the users of Tier 2 financial statements.
- BC9 The Board considered that additional information about:
- (a) financial instruments with contingent features would be useful to the users of Tier 2 financial statements because information about cash flows, such as the effect of contractual terms that could change the amount of contractual cash flows, is of particular importance to them; and
  - (b) investments in equity instruments designated at fair value through other comprehensive income is not required for Tier 2 entities. Although the new disclosures provide enhanced transparency about these equity instruments in Tier 1 financial statements, the original disclosure requirements in paragraphs 11A and 11B of AASB 7 were simplified significantly for consistency with the *IFRS for SMEs* Accounting Standard when AASB 1060 was developed, and therefore more detailed disclosures are not considered necessary for Tier 2 entities.
- BC10 Therefore, the Board decided to issue an Exposure Draft proposing:
- (a) amendments to AASB 1060 to require a Tier 2 entity to disclose information about financial instruments with contingent features that do not relate directly to basic lending risks and other costs so that financial statement users can better understand the effect of contractual terms that could change the amount of contractual cash flows; and
  - (b) no amendments to AASB 1060 for investments in equity instruments designated at fair value through other comprehensive income.

## Effective date

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- BC11 The Board proposes that the amendments should be made effective for annual periods beginning on or after 1 January 2026, with earlier application permitted. This would be the same effective date as for the amendments in AASB 2024-2.