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

via email: standard@asb.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

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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 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.