

22 May 2023

Dr Keith Kendall  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007  
AUSTRALIA

Via website: [www.aasb.gov.au](http://www.aasb.gov.au)

Dear Keith

**Exposure Draft 323: Disclosure of Non-current Liabilities with Covenants – Proposed amendments to Tier 2**

As the representatives of over 300,000 professional accountants around the world, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on the above Exposure Draft (“the ED”). We make this submission on behalf of our members and in the public interest.

CA ANZ and CPA Australia commend the Australian Accounting Standards Board (AASB) for its promptness in developing the ED in response to the amendments to IAS 1/AASB 101 *Presentation of Financial statements*, effective from 1 January 2024, that clarify the classification requirements for current and non-current liabilities. Our [joint submission](#) to the IASB on these reforms broadly supported the changes and recognised the importance of these classification requirements being applied consistently by all entities.

Therefore, we support the alignment of the requirements in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities requirements* (AASB 1060) with the AASB 101 amendments noted above for annual periods beginning on or after 1 January 2024, with early adoption allowed.

Our responses to the specific questions raised in the ED are included in the **Attachment**.

If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) at [amir.ghandar@charteredaccountantsanz.com](mailto:amir.ghandar@charteredaccountantsanz.com) or Ram Subramanian (CPA Australia) at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely

**Simon Grant FCA**  
Group Executive – Advocacy and International  
**Chartered Accountants Australia and New Zealand**

**Dr Gary Pflugrath FCPA**  
Executive General Manager, Policy and  
Advocacy  
**CPA Australia**

## Attachment

### Specific matters for comment

#### 1. Do you agree with the proposed amendments to AASB 1060? If you disagree, please explain why.

We support the amendments to AASB 1060 that will:

- 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,
- clarify the reference to settlement of a liability by the issue of equity instruments in classifying liabilities, and
- 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 after the reporting period.

Consistent and accurate classification of liabilities is crucial if users of financial statements are to make informed decisions about an entity's liquidity and solvency. Therefore, it is essential that the classification requirements in AASB 1060 be aligned with their equivalents in AASB 101 to provide a clear and consistent framework that reflects the economic reality behind an entity's financing arrangements.

Ensuring that only those conditions existing at or before the balance sheet date impact classification as at the balance sheet date and requiring disclosure of other conditions that could impact classification in the 12 months after the reporting period, is an appropriate way to ensure these disclosures are consistently applied.

#### 2. Do you agree that the proposed new disclosure requirement 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 covenants and the associated classification issues are a common feature of the loans held by entities of all sizes, and that appropriate classification of liabilities based on these criteria provide valuable information for users of Tier 2 entity financial statements in the context of cash flows and solvency. Therefore, the requirements in AASB 1060 need to mirror those of AASB 101 to ensure users are provided with clear information about the risks of repayment that could arise from the non-compliance with covenants.

We do not consider that the disclosure requirements will impose additional costs on preparers as the information needed to support them should already be available as part of the entity's normal governance and reporting practices.

#### 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.

No, the feedback we have received from our members indicates that:

- these reforms will facilitate consistent classification of loans that provides meaningful information to financial statement users, and
- the information needed to support these disclosures is already available as part of the entity's normal governance and reporting practices.

#### 4. Do you have any other comments on the proposals?

We appreciate the AASB's fast tracking of these amendments that will ensure that they are available through early adoption provisions to Tier 2 preparers producing financial statements for years ending 30 June 2023.

#### General matters for 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 agree that covenants and the associated classification issues are a common feature of the loans of entities of all sizes. Therefore, the requirements in AASB 1060 need to mirror those of AASB 101 and apply to all entities in both the for-profit and not-for-profit sectors.

#### 6. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

These amendments address important practical concerns that have been raised over several years regarding the application of the requirements in AASB 101. Therefore, we are of the view that they should lead to more consistent application of these important requirements. We are not aware of additional regulatory issues that may arise.

#### 7. Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

We believe these reforms should reduce the audit challenges associated with applying the classification requirements in paragraph 69 of AASB 101, by providing clearer guidance on the application of the requirements, especially where covenants are involved.

#### 8. Whether, overall, the proposals would result in financial statements that would be useful to users?

We are of the view that the clarification of the classification requirements in AASB 101 and the supporting disclosures in AASB 1060 will improve the consistency of application of these requirements, reducing preparer and audit costs. These clarifications and the associated disclosures will be of benefit to users in this critical area.

#### 9. Whether the proposals are in the best interests of the Australian economy?

We are of the view that the benefits of these reforms will outweigh the costs of their implementation. The additional information required to be disclosed is already available to affected entities and its disclosure will improve the consistency and quality of the information they are required to report.

#### 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 have no additional comments.