

[Draft] Explanatory Statement

Accounting Standard AASB 2025-X *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments: Tier 2 Disclosures*

[Month] 2025



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2025-X

This Standard makes amendments to Australian Accounting Standard AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020).

Main Features of AASB 2025-X

AASB 2024-2 *Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments* (July 2024) 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 Standard (AASB 2025-X) 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. However, the Standard does not add further specific disclosure requirements about investments in equity instruments designated at fair value through other comprehensive income.

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

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 332 *Classification and Measurement of Financial Instruments: Tier 2 Disclosures* in August 2024 for public comment, with comments due by 11 October 2024.

One submission was received, indicating that the stakeholder supported the proposals. The stakeholder also noted that the International Accounting Standards Board (IASB) had included disclosures related to financial instruments with contractual terms affecting cash flows in IFRS 19 *Subsidiaries without Public Accountability: Disclosures* but had not yet considered the matter in relation to the *IFRS for SMEs* Accounting Standard, possibly due to the amendments to the IFRS Accounting Standards being finalised after the issuance of the IASB’s exposure draft for its update of the *IFRS for SMEs* Accounting Standard. The stakeholder recommended that if the IASB ultimately decides not to include these disclosures in the *IFRS for SMEs* Accounting Standard, the Board should remove the disclosure requirements added to AASB 1060 for consistency.

Following the consultation period and after considering the comments received, the AASB decided to proceed with issuing this Standard, with no changes from the proposals in ED 332. The AASB will monitor future IASB decisions about financial instrument disclosures in the *IFRS for SMEs* Accounting Standard and consider whether further amendments are required to AASB 1060 at that time.

The AASB set an effective date of annual periods beginning on or after 1 January 2026, with earlier application permitted, as proposed in ED 332. This is the same effective date as for the amendments in AASB 2024-2.

A Policy Impact Analysis has not been prepared in connection with the issue of AASB 2025-X 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 Australian Accounting 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 2025-X Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments: Tier 2 Disclosures

Overview of the Accounting Standard

This Standard makes amendments to Australian Accounting Standard AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Tier 2 entities will be required 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. However, the Standard does not add further specific disclosure requirements about investments in equity instruments designated at fair value through other comprehensive income.

This 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.

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*.