

Explanatory Statement

Accounting Standard AASB 2025-3 ***Amendments to Australian Accounting Standards –*** ***Contracts Referencing Nature-dependent Electricity:*** ***Tier 2 Disclosures***

August 2025



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2025-3

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 2025-3

AASB 2025-1 *Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity* amended AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* to allow entities to better reflect nature-dependent electricity contracts in the financial statements. Nature-dependent electricity contracts help entities to secure their electricity supply from sources such as wind and solar power. The amount of electricity generated under these contracts can vary based on uncontrollable factors such as weather conditions.

AASB 2025-1 amended requirements to:

- (a) clarify the application of the ‘own-use’ criteria to nature-dependent electricity contracts;
- (b) permit hedge accounting if these contracts are used as hedging instruments; and
- (c) add new disclosure requirements to enable users of financial statements to better understand the effect of these contracts on an entity’s financial performance and cash flows.

This Standard (AASB 2025-3) amends AASB 1060 to require a Tier 2 entity to disclose information about nature-dependent electricity contracts that meet the ‘own-use’ criteria and are recognised as procurement contracts. Only some of the disclosure requirements added by AASB 2025-1 to AASB 7 for Tier 1 entities are extended to Tier 2 entities. For contracts referencing nature-dependent electricity meeting the ‘own-use’ criteria and recognised as procurement contracts, Tier 2 entities will be required to disclose the following:

- (a) information about contractual features that expose the entity to variability in the underlying amount of electricity and the risk that the entity would be required to purchase electricity at a time when the entity cannot use the electricity;
- (b) qualitative information about how the entity assesses whether a contract might become onerous in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and
- (c) qualitative information about the effects on the entity’s financial performance for the reporting period.

The Standard does not require Tier 2 entities to:

- (a) disclose specific quantitative information related to electricity contracts meeting the ‘own-use’ criteria and recognised as procurement contracts;
- (b) apply paragraph 23A of AASB 7 for electricity contracts designated in a cash flow hedging relationship; and
- (c) cross-reference the entity’s single note about contracts referencing nature-dependent electricity that are recognised as procurement contracts to any other notes in the financial statements that refer to other contracts referencing nature-dependent electricity contracts.

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 337 *Contracts Referencing Nature-dependent Electricity: Tier 2 Disclosures* in March 2025 for public comment, with comments due by 20 May 2025.

The AASB did not receive any comment letters on ED 337. The AASB decided to proceed with issuing this Standard, with no changes from the proposals in ED 337, except for clarifying the transitional relief provisions. The AASB will monitor future IASB decisions about Contracts Referencing Nature-dependent Electricity for 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 337. This is the same effective date as for the amendments in AASB 2025-1, which apply to Tier 1 general purpose financial statements.

A Policy Impact Analysis has not been prepared in connection with the issue of AASB 2025-3 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.

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Exemption from Sunsetting

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunset 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 sunset because a more stringent review process than sunset 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 sunset 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 2025-3 Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity: 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*. For contracts referencing nature-dependent electricity meeting the 'own-use' criteria and recognised as procurement contracts, Tier 2 entities will be required to disclose:

- (a) information about contractual features that expose the entity to variability in the underlying amount of electricity and the risk that the entity would be required to purchase electricity at a time when the entity cannot use the electricity;
- (b) qualitative information about how the entity assesses whether a contract might become onerous in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and
- (c) qualitative information about the effects on the entity's financial performance for the reporting period.

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*.