AASB Exposure Draft

ED 316
December 2021

Non-current Liabilities with Covenants

Proposed amendments to AASB 101

Comments to the AASB by 3 February 2022

Australian Government

Australian Accounting
Standards Board

How to Comment on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 3 February 2022. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 21 March 2022.

Formal Submissions

Submissions should be lodged online via the "Current Projects – Open for Comment" page of the AASB website 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@aasb.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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AASB REQUEST FOR COMMENTS

The Australian Accounting Standards Board's (AASB's) policy is to incorporate International Financial Reporting Standards (IFRS Standards) into Australian Accounting Standards. Accordingly, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

   (a) not-for-profit entities; and

   (b) public sector entities, including GAAP/GFS implications;

2. whether the proposals would create any auditing or assurance challenges;

3. whether, overall, the proposals would result in financial statements that would be useful to users;

4. whether the proposals are in the best interests of the Australian economy; and

5. unless already provided in response to specific matters for comment 1 – 4 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.

November 2021

IFRS® Standards
Exposure Draft ED/2021/9

Non-current Liabilities with Covenants

Proposed amendments to IAS 1

Comments to be received by 21 March 2022

IASB®

IFRS®

Exposure Draft

Non-current Liabilities with Covenants

Proposed amendments to IAS 1

Comments to be received by 21 March 2022

Exposure Draft ED/2021/9 *Non-current Liabilities with Covenants* is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by 21 March 2022 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

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Introduction

Why is the Board publishing this Exposure Draft?

IAS 1 *Presentation of Financial Statements* requires that, for an entity to classify a liability as non-current, the entity must have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period (right to defer settlement).

In January 2020 the International Accounting Standards Board (Board) issued *Classification of Liabilities as Current or Non-current* (2020 amendments). The 2020 amendments clarified aspects of how entities classify liabilities as current or non-current; in particular, how an entity assesses whether it has the right to defer settlement of a liability when that right is subject to compliance with specified conditions (often referred to as 'covenants') within twelve months after the reporting period.

In response to questions from stakeholders, the IFRS Interpretations Committee (Committee) published a tentative agenda decision explaining how to apply the 2020 amendments to particular fact patterns. The tentative agenda decision explained that an entity does not have the right to defer settlement of a liability—and thus classifies the liability as current—when the entity would not have complied with specified conditions based on its circumstances at the end of the reporting period, even if compliance with such conditions were required only within twelve months after the reporting period.

Respondents to the tentative agenda decision raised concerns about the outcomes and potential consequences of the 2020 amendments in some situations. The Committee reported this feedback to the Board, highlighting new information that the Board had not considered when developing the amendments.

Proposal in this Exposure Draft

Having considered the new information, the Board decided to propose narrow-scope amendments to IAS 1. The proposed amendments would specify that conditions with which an entity must comply within twelve months after the reporting period do not affect classification of a liability as current or non-current. Instead, entities would present separately, and disclose information about, non-current liabilities subject to such conditions.

The proposed amendments would also defer the effective date of the 2020 amendments so that entities are not required to change their assessment of the classification of liabilities before the proposed amendments are in effect.

The Board concluded that the proposed amendments would improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with conditions, in addition to addressing concerns raised in response to the Committee's tentative agenda decision.

Next step

The Board will consider the comments it receives on the Exposure Draft and will decide whether to proceed with the proposed amendments. The Board plans to complete any resulting amendments in the second half of 2022.

Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the Board should consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Questions for respondents

Question 1—Classification and disclosure (paragraphs 72B and 76ZA(b))

The Board proposes to require that, for the purposes of applying paragraph 69(d) of IAS 1, specified conditions with which an entity must comply within twelve months after the reporting period have no effect on whether an entity has, at the end of the reporting period, a right to defer settlement of a liability for at least twelve months after the reporting period. Such conditions would therefore have no effect on the classification of a liability as current or non-current. Instead, when an entity classifies a liability subject to such conditions as non-current, it would be required to disclose information in the notes that enables users of financial statements to assess the risk that the liability could become repayable within twelve months, including:

(a) the conditions (including, for example, their nature and the date on which the entity must comply with them);

(b) whether the entity would have complied with the conditions based on its circumstances at the end of the reporting period; and

(c) whether and how the entity expects to comply with the conditions after the end of the reporting period.

Paragraphs BC15–BC17 and BC23–BC26 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

Question 2—Presentation (paragraph 76ZA(a))
The Board proposes to require an entity to present separately, in its statement of financial position, liabilities classified as non-current for which the entity's right to defer settlement for at least twelve months after the reporting period is subject to compliance with specified conditions within twelve months after the reporting period. Paragraphs BC21–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree with the proposal, do you agree with either alternative considered by the Board (see paragraph BC22)? Please explain what you suggest instead and why.

Question 3—Other aspects of the proposals
The Board proposes to: (a) clarify circumstances in which an entity does not have a right to defer settlement of a liability for at least twelve months after the reporting period for the purposes of applying paragraph 69(d) of IAS 1 (paragraph 72C); (b) require an entity to apply the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with earlier application permitted (paragraph 139V); and (c) defer the effective date of the amendments to IAS 1, *Classification of Liabilities as Current or Non-current*, to annual reporting periods beginning on or after a date to be decided after exposure, but no earlier than 1 January 2024 (paragraph 139U). Paragraphs BC18–BC20 and BC30–BC32 of the Basis for Conclusions explain the Board's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Deadline

The Board will consider all written comments received by **21 March 2022**.

How to comment

Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

[Draft] Amendments to IAS 1 *Presentation of Financial Statements*

Paragraphs 71, 72A and 139U are amended. Paragraphs 72B–72C, 76ZA and 139V are added. Deleted text is struck through and new text is underlined. Paragraphs 69 and 74–75 are not amended but have been included for ease of reference.

Statement of financial position

...

Current liabilities

69 **An entity shall classify a liability as current when:**

- **(a) it expects to settle the liability in its normal operating cycle;**
- **(b) it holds the liability primarily for the purpose of trading;**
- **(c) the liability is due to be settled within twelve months after the reporting period; or**
- **(d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.**

An entity shall classify all other liabilities as non-current.

...

Held primarily for the purpose of trading (paragraph 69(b)) or due to be settled within twelve months (paragraph 69(c))

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 72A–75~~74 and 75~~.

...

Right to defer settlement for at least twelve months (paragraph 69(d))

72A An entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and, as illustrated in paragraphs 72B–75~~73–75~~, must exist at the end of the reporting period. ~~If the right to defer settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The entity~~

~~must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.~~

72B An entity's right to defer settlement of a liability for at least twelve months after the reporting period may be subject to the entity complying with specified conditions (often referred to as 'covenants'). For the purposes of applying paragraph 69(d), such conditions:

(a) affect whether that right exists at the end of the reporting period—as illustrated in paragraphs 74–75—if an entity is required to comply with the condition on or before the end of the reporting period. This is the case even if compliance with the condition is assessed only after the reporting period (for example, a condition based on the entity's financial position as of the end of the reporting period but assessed for compliance only after the reporting period).

(b) do not affect whether that right exists at the end of the reporting period if an entity is required to comply with the condition only within twelve months after the reporting period (for example, a condition based on the entity's financial position six months after the end of the reporting period).

72C An entity does not have the right to defer settlement of a liability for at least twelve months (as described in paragraph 69(d)) if the liability could become repayable within twelve months after the reporting period:

(a) at the discretion of the counterparty or a third party—for example, when a loan is callable by the lender at any time without cause; or

(b) if an uncertain future event or outcome occurs (or does not occur) and its occurrence (or non-occurrence) is unaffected by the entity's future actions—for example, when the liability is a financial guarantee or insurance contract liability. In such situations, the right to defer settlement is not subject to a condition with which the entity must comply as described in paragraph 72B.

...

74 When an entity breaches a condition of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least twelve months after that date.

75 However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

...

76ZA When an entity classifies liabilities subject to the conditions described in paragraph 72B(b) as non-current, the entity shall:

(a) present such liabilities separately in its statement of financial position. The entity shall use a description that indicates that the non-current classification is subject to compliance with conditions within twelve months after the reporting period.

(b) disclose information in the notes that enables users of financial statements to assess the risk that the liability could become repayable within twelve months, including:

(i) the conditions with which the entity is required to comply (including, for example, their nature and the date on which the entity must comply with them);

(ii) whether the entity would have complied with the conditions based on its circumstances at the end of the reporting period; and

(iii) whether and how the entity expects to comply with the conditions after the end of the reporting period.

...

Transition and effective date

...

139U *Classification of Liabilities as Current or Non-current*, issued in January 2020 amended paragraphs 69, 73, 74 and 76 and added paragraphs 72A, 75A, 76A and 76B. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be decided after exposure, but no earlier than 1 January 2024] ~~1 January 2023~~ retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

139V *Non-current Liabilities with Covenants*, issued in [Month, Year], amended paragraphs 71 and 72A and added paragraphs 72B–72C and 76ZA. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be decided after exposure, but no earlier than 1 January 2024] retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Approval by the Board of Exposure Draft *Non-current Liabilities with Covenants* published in November 2021

The Exposure Draft *Non-current Liabilities with Covenants*, which proposes amendments to IAS 1 *Presentation of Financial Statements*, was approved for publication by 10 of 12 members of the International Accounting Standards Board. Mr Mackenzie and Mr Scott voted against its publication. Their alternative view is set out after the Basis for Conclusions.

Andreas Barckow	Chair
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Tadeu Cendon	
Zach Gast	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Thomas Scott	
Rika Suzuki	
Ann Tarca	
Mary Tokar	

Basis for Conclusions on Exposure Draft *Non-current Liabilities with Covenants*

This Basis for Conclusions accompanies, but is not part of, the Exposure Draft Non-current Liabilities with Covenants. *It summarises the considerations of the International Accounting Standards Board (Board) when developing the Exposure Draft. Individual Board members gave greater weight to some factors than to others.*

Background

BC1 In January 2020 the Board issued *Classification of Liabilities as Current or Non-current* (the 2020 amendments), which amended IAS 1 *Presentation of Financial Statements*. The 2020 amendments clarified how an entity classifies a liability as current or non-current in particular circumstances and are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

BC2 In response to questions from stakeholders about the application of the 2020 amendments, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in December 2020. The Committee discussed how an entity determines whether it has the right, at the end of the reporting period (reporting date), to defer settlement of a liability for at least twelve months after the reporting period (right to defer settlement) in situations in which:

(a) the entity's right to defer settlement is subject to compliance with specified conditions (often referred to as 'covenants') within twelve months after the reporting period; and

(b) the entity would not have complied with such conditions based on its circumstances at the reporting date.

BC3 The tentative agenda decision explained that, applying the 2020 amendments, an entity would not have the right to defer settlement of the liability in the fact patterns the Committee discussed. The entity would therefore classify the liability as current in its statement of financial position.

BC4 Respondents to the Committee's tentative agenda decision raised concerns about the outcomes and potential consequences of applying the 2020 amendments in some of the fact patterns discussed. Having considered that feedback, the Committee reported respondents' comments to the Board, highlighting those that provided new information the Board had not considered when developing the 2020 amendments. In response to that new information, the Board decided to propose narrow-scope amendments to IAS 1. The proposed amendments aim to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with conditions within twelve months after the reporting period, in addition to addressing respondents' concerns. The Board intends the proposed amendments to be narrow in scope and not to change fundamentally the basis for classifying a liability as current or non-current.

Proposed amendments to IAS 1

The requirements in the 2020 amendments

BC5 Paragraph 69(d) of IAS 1 requires that, to classify a liability as non-current, an entity must have the right, at the reporting date, to defer settlement of the liability for at least twelve months after the reporting period. The 2020 amendments amended aspects of this classification principle and related application requirements.

BC6 Notably, the 2020 amendments added paragraph 72A to IAS 1 to specify that, if an entity's right to defer settlement is subject to compliance with specified conditions within twelve months after the reporting period, the right exists at the reporting date only if the entity complies with those conditions at that date.

Feedback on the Committee's tentative agenda decision

BC7 Respondents to the Committee's tentative agenda decision said the outcomes of applying the requirements in paragraph 72A of IAS 1 might, in some circumstances, fail to faithfully represent an entity's financial position at the reporting date. They said the requirements:

(a) could result in an entity classifying a liability as current even if, at the reporting date, the entity has no contractual obligation to settle the liability at that date or within twelve months.

(b) take no account of the design of conditions negotiated to reflect an entity's specific circumstances. For example, a contract may specify different conditions at different dates to incorporate the expected effects of seasonality or the entity's future performance (see paragraph BC12).

BC8 Respondents also said it was unclear how an entity applies the requirements in paragraph 72A when an entity's right to defer settlement is subject to non-financial conditions or conditions based on cumulative financial performance or cash flows for a period extending beyond the reporting period (financial performance conditions).

New information the Board had not considered

Challenges of reflecting conditionality in a binary classification model

BC9 The principle in paragraph 69(d) of IAS 1—that an entity classifies a liability as current when it does not have a right to defer settlement of the liability for at least twelve months after the reporting period—is consistent with the objective of classifying, as current, liabilities that are repayable within the current operating cycle (or within twelve months after the reporting period). If an entity does not have such a right to defer settlement, it may be unable to avoid having to repay a liability within twelve months even if, at the reporting date, the entity has no contractual obligation to settle the liability within that period.

BC10 When an entity's right to defer settlement is subject to compliance with specified conditions within twelve months after the reporting period, the related liability could be repayable either within or after twelve months, depending on whether the entity complies with those conditions after the reporting date. It is therefore impossible to know at the reporting date when the liability will ultimately be repayable. Despite this uncertainty, IAS 1 still requires an entity to classify the liability as either current or non-current at the reporting date.

BC11 In this context, the 2020 amendments specified one way of reflecting that conditionality within the constraints of a model that classifies liabilities as either current or non-current. However, having considered respondents' feedback—as well as input from initial discussions with users of financial statements—the Board concluded that the information provided by such a binary classification model, alone, is insufficient to meet the information needs of users of financial statements when an entity's right to defer settlement is subject to compliance with conditions after the reporting date. For example, the classification of a liability as current or non-current does not in itself provide information about the potential effects of such conditionality on when the liability is repayable—in other words, the uncertainty created by the conditionality is not apparent to users of financial statements.

Conditions incorporating the effects of seasonality or future performance

BC12 Respondents' feedback provided new information about conditions designed to incorporate the expected effects of:

(a) the seasonality of an entity's business—conditions that reflect a required financial position or performance at a specific point in the operating cycle of an entity whose business is highly seasonal (for example, conditions that reflect an entity's expected financial position immediately after its high season); and

(b) the entity's future performance—conditions that reflect a required financial position or performance after the occurrence of expected future events, or that are set as a goal that an entity is expected to achieve only at a future date (for example, conditions that become increasingly strict over the term of a liability).

BC13 Respondents said the classification outcomes of applying the 2020 amendments might not provide useful information when a liability is subject to the conditions described in paragraph BC12—such conditions were designed to be assessed only at a specified point in time. The Board shared those concerns, particularly in relation to entities whose business is highly seasonal. The Board also acknowledged the lack of specific requirements on how to apply the amendments to non-financial conditions and financial performance conditions (see paragraph BC8).

Board's proposed approach

BC14 Having considered the new information, the Board decided to propose amendments to IAS 1. The proposed amendments aim to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with conditions within twelve months after the reporting period, in addition to addressing respondents' concerns.

Classification

Conditions with which an entity must comply after the reporting period

BC15 The Board proposes that only conditions with which an entity must comply on or before the reporting date affect classification of a liability as current or non-current. This would include conditions with which an entity must comply as of the reporting date but that are assessed for compliance at a later date. In contrast, the Board proposes to require that conditions with which an entity must comply only after the reporting date would not affect classification of a liability as current or non-current at the reporting date.

BC16 The Board concluded that these proposals would:

(a) avoid classification outcomes that might not provide useful information to users of financial statements (for example, for some entities whose business is highly seasonal);

(b) make it unnecessary to specify how an entity assesses compliance with non-financial conditions or financial performance conditions for the purposes of classifying a liability as current or non-current, thereby avoiding adding complexity to the requirements; and

(c) address many of the concerns raised by respondents to the Committee's tentative agenda decision.

BC17 The Board's classification proposals are linked to its proposals on presentation and disclosure. The Board is of the view that the classification of a liability as current or non-current, alone, would not meet the information needs of users of financial statements when an entity's right to defer settlement of that liability is subject to compliance with conditions within twelve months after the reporting period (see paragraph BC11). Rather, the classification proposals in this Exposure Draft would provide useful information when considered together with the proposals that would require an entity to present separately, in the statement of financial position, such liabilities classified as non-current (see paragraph BC21) and disclose information about such conditions in the notes (see paragraphs BC23–BC26).

Other conditional settlement terms

BC18 The Board decided to retain the scope of the 2020 amendments, which focused on liabilities for which an entity's right to defer settlement is subject to compliance with conditions. Therefore, to avoid the proposed amendments being applied inappropriately to other liabilities, the Board proposes to clarify that an entity does not have the right to defer settlement of a liability for at least twelve months (as described in paragraph 69(d) of IAS 1) when the liability could become repayable within twelve months:

(a) at the discretion of the counterparty or a third party; or

(b) if an uncertain future event or outcome occurs (or does not occur) and its occurrence (or non-occurrence) is unaffected by the entity's future actions.

BC19 In both situations described in paragraph BC18, there are no conditions with which the entity must or could comply in order to avoid settlement of a liability within twelve months after the reporting period. Accordingly, those situations are not within the scope of the proposed amendments.

BC20 The Board intends the clarification set out in paragraph BC18(b) to exclude situations in which an entity can affect the occurrence (or non-occurrence) of future events or outcomes, even if their occurrence is beyond the entity's control. For example, an entity that must comply with a condition based on its future revenues can affect, but not control, whether the required outcome is achieved.

Separate presentation

BC21 The Board's proposals would require an entity to present separately, in the statement of financial position, non-current liabilities for which the entity's right to defer settlement is subject to compliance with conditions within twelve months after the reporting period. The Board concluded that separate presentation would:

(a) avoid users of financial statements being misled by a non-current classification without any indication that the liability could become repayable within twelve months;

(b) alert users of financial statements to seek additional information about such conditions in the notes; and

(c) be relevant for all entities that present current and non-current liabilities—such presentation reflects that the non-current classification of some liabilities is not absolute (such a liability could become repayable within twelve months).

BC22 The Board also considered alternatives to the proposal to specifically require separate presentation of these liabilities. Although the majority of Board members preferred the proposal described in paragraph BC21, some Board members favoured one of the following alternatives:

(a) not specifically requiring separate presentation of those liabilities in the statement of financial position. Some Board members favoured this alternative because they view specific presentation requirements as contrary to the principle-based nature of IFRS Standards, which already include a requirement to present line items separately when such presentation is relevant to an understanding of an entity's financial position (see the alternative view set out after the Basis for Conclusions).

(b) specifically requiring separate presentation only for liabilities with conditions with which an entity would not have complied based on its circumstances at the reporting date. Some Board members favoured this alternative because separate presentation of a more limited set of liabilities may highlight liabilities at a greater risk of becoming repayable within twelve months. In contrast, the Board's proposal would apply to a broader set of liabilities, thus reducing signalling benefits. However, this alternative might require the Board to specify how an entity assesses compliance with non-financial conditions or financial performance conditions for the purposes of that separate presentation, which would introduce complexity.

Disclosures about conditions

BC23 The Board proposes to require an entity to disclose information about conditions with which it must comply within twelve months after the reporting period and to which its right to defer settlement of a liability is subject. The Board concluded that this information would help users of financial statements understand the nature of the conditions and assess the risk that a liability classified as non-current could become repayable within twelve months.

BC24 The Board did not change its view—which underpinned the 2020 amendments—about the usefulness of information about an entity's compliance with conditions based on its circumstances at the reporting date. This information highlights the risk that a non-current liability could become repayable within twelve months if an entity's circumstances are unchanged after the reporting date. However, the Board proposes to require an entity to disclose this information in the notes, rather than having these conditions affect the classification of liabilities as is the case in the 2020 amendments.

BC25 The Board decided not to specify how an entity assesses whether it would have complied with non-financial conditions and financial performance conditions based on its circumstances at the reporting date. In the Board's view, adding further requirements would add unnecessary complexity. The Board proposes to require an entity to disclose in the notes whether it would have complied with conditions based on its circumstances at the reporting date, together with information about those conditions and whether the entity expects to meet them after the reporting period. This would allow an entity to provide context by explaining how it made the assessment and, when applicable, why it would not have complied with such conditions based on its circumstances at the reporting date. It would not be possible to provide this context in the statement of financial position as part of the classification of a liability as current or non-current.

BC26 An entity's right to defer settlement of many non-current liabilities is likely to be subject to the entity complying with conditions within twelve months after the reporting period. In accordance with paragraph 31 of IAS 1, an entity would apply judgement in determining what information about such conditions is material, based on the entity's specific facts and circumstances. In other words, an entity would not need to provide the information required by paragraph 76ZA for a liability or condition if such information is immaterial.

Effect analysis

BC27 The Board is of the view that its proposed approach would:

(a) improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with conditions within twelve months after the reporting period; and

(b) address respondents' concerns about applying the 2020 amendments, such as:

(i) classification outcomes that might not provide useful information in some situations; and

(ii) a lack of specific requirements on how to apply the classification requirements to non-financial conditions and financial performance conditions.

BC28 The Board concluded that the expected costs of requiring entities to provide additional information would not outweigh the benefits of the proposed amendments, which include removing costs associated with applying the 2020 amendments.

Alternative approaches considered

BC29 When developing its proposals, the Board also considered an alternative approach in which it would retain the classification requirements in the 2020 amendments (see paragraphs BC5–BC6), but (a) provide an exception for conditions that reflect the seasonality of an entity's business; and (b) clarify how the amendments apply to non-financial conditions and financial performance conditions. The Board decided not to propose this approach mainly because it would introduce significant complexity.

Transition

BC30 The Board proposes to require entities to apply the proposed amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* because:

(a) classifying a liability as current or non-current on the same basis in current and prior periods would result in more comparable, and thus more useful, information for users of financial statements than not reclassifying comparative amounts.

(b) applying the amendments retrospectively is not expected to be onerous for entities. Although entities would be required to identify retrospectively liabilities with applicable conditions in order to present them separately (see paragraph BC21), the Board expects that entities would already be aware of those conditions and many would be actively monitoring compliance with them.

BC31 The Board concluded it was unnecessary to provide an exemption for first-time adopters of IFRS Standards.

Deferral of the effective date of the 2020 amendments

BC32 The Board's proposals would amend some of the requirements introduced by the 2020 amendments before those requirements are in effect. The Board is therefore also proposing to defer the effective date of the 2020 amendments to annual reporting periods beginning on or after a date to be decided after exposure, but no earlier than 1 January 2024, to avoid an entity potentially having to change its assessment of the classification of liabilities twice within a relatively short period.

Alternative view of Mr Mackenzie and Mr Scott on Exposure Draft *Non-current Liabilities with Covenants*

AV1 Mr Mackenzie and Mr Scott voted against the publication of the Exposure Draft *Non-current Liabilities with Covenants*. They agree with the Board's proposal to specify that, if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions within twelve months after the reporting period, those conditions do not affect whether that right exists at the end of the reporting period (reporting date) for the purposes of classifying a liability as current or non-current. They however disagree with the proposal to specifically require an entity to present separately, in its statement of financial position, non-current liabilities subject to such conditions. Further, although they support entities being required to identify these liabilities in the notes and agree with the related disclosures proposed in paragraph 76ZA(b)(i) and 76ZA(b)(ii), they disagree with the disclosure proposed in paragraph 76ZA(b)(iii).

AV2 Mr Mackenzie and Mr Scott agree that classification as non-current results in a more faithful representation at the reporting date when the lender has no contractual right to demand repayment and the borrower has no contractual obligation to settle the liability at that date or within twelve months. Further, users of financial statements should benefit from the disclosure of conditions with which an entity must comply within twelve months after the reporting period, and the disclosure of whether the entity would have complied with these conditions based on its circumstances at the reporting date.

AV3 Mr Mackenzie and Mr Scott disagree with the proposal to specifically require an entity to present separately, in its statement of financial position, non-current liabilities for which its right to defer settlement is subject to compliance with conditions within twelve months after the reporting period. They support the identification of these liabilities through disclosure in the notes. The most important reason for their disagreement is that this proposal contradicts the principle-based nature of IFRS Standards. This proposal arose indirectly from stakeholder concerns about classifying liabilities as current when an entity would not have complied, based on its circumstances at the reporting date, with conditions with which the entity is required to comply only after the reporting date. To maintain the principle-based nature of IFRS Standards, the Board should set out rules only rarely. The proposed presentation requirement does not represent a compelling case to forgo a principle-based approach. Further, there is limited space in an entity's statement of financial position. Under a principle-based approach, to provide the most relevant information to users of financial statements, an entity would apply principles to prioritise the information presented in the statement of financial position relative to disclosure in the notes.

AV4 Paragraph 55 of IAS 1 *Presentation of Financial Statements* already requires further disaggregation in the statement of financial position when it is relevant to an understanding of an entity's financial position. Some IFRS Standards have disclosure requirements that can be satisfied through either presentation in the statement of financial position or disclosure in the notes. For example, paragraph 8 of IFRS 7 *Financial Instruments: Disclosures* requires entities to disclose financial liabilities at fair value through profit or loss separately from financial liabilities measured at amortised cost; an entity applies judgement in deciding whether it is more appropriate to disclose such information in the statement of financial position or in the notes. A similar approach should be adopted for the Board's proposal because the aggregation and disaggregation of information in the statement of financial position that is most relevant to users of financial statements will inevitably vary across entities. The current principles for disaggregation in IAS 1, and the expected improved principles for disaggregation proposed in the Primary Financial Statements project, should govern disaggregation in all of the financial statements. Accordingly, Mr Mackenzie and Mr Scott do not agree with the proposal to require an entity to present separately, in its statement of financial position, non-current liabilities for which its right to defer settlement is subject to compliance with conditions within twelve months after the reporting period.

AV5 Mr Mackenzie and Mr Scott disagree with the requirement proposed in paragraph 76ZA(b)(iii) to disclose whether and how an entity expects to comply with conditions after the reporting date. They disagree because, in their view, entities should not be required to provide forward-looking information with respect to future compliance with covenants. For example, in the case of a current ratio, providing this information implicitly involves forecasting the balances in the numerator and denominator. Further, users of financial statements should be capable of assessing the risk that a condition may be breached based on the proposed identification of these non-current liabilities and the other proposed disclosures supported by an analysis of the current and past financial reports along with additional economic information. The disclosure requirement proposed in paragraph 76ZA(b)(iii) might prompt entities to provide a high volume of information or produce boilerplate disclosures.

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Columbus Building | 7 Westferry Circus | Canary Wharf
London E14 4HD | United Kingdom
Telephone: +44 (0)20 7246 6410
Email: info@ifrs.org | Web: www.ifrs.org

Customer Service Department
Telephone: +44 (0)20 7332 2730
Email: customerservices@ifrs.org

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