International Financial Reporting Standard

Classification of Liabilities as Current or Non-current

January 2020

BASIS FOR CONCLUSIONS – AMENDMENTS

[IAS 1]

[Related to AASB 2020-1]

Amendments to the Basis for Conclusions on IAS 1 *Presentation of Financial Statements*

Paragraphs BC38L–BC38P and the heading above paragraph BC38L are deleted. The heading above paragraph BC39 is replaced by a new heading and sub-heading. Paragraphs BC48A–BC48H are added and headings are added above paragraphs BC48A and BC48F. New text is underlined and deleted text is struck through.

Statement of financial position

...

~~Classification of the liability component of a convertible instrument (paragraph 69)~~

BC38L–BC38P [Deleted]

~~Effect of events after the reporting period on the classification of liabilities (paragraphs 69–76)~~

Current liabilities (paragraphs 69–76B)

Effect of events after the reporting period (paragraphs 69–76)

BC39 ...

Right to defer settlement for at least twelve months (paragraphs 69(d) and 72A–76)

BC48A Paragraph 69(d) specifies that, to classify a liability as non-current, an entity must have the right to defer settlement of the liability for at least twelve months after the reporting period. In January 2020, the Board amended aspects of this classification principle and related application requirements in paragraphs 73–76. The Board made the amendments in response to a request to reconcile apparent contradictions between paragraph 69(d)—which required an 'unconditional right' to defer settlement—and paragraph 73—which referred to an entity that 'expects, and has the discretion, to' refinance or roll over an obligation.

BC48B The Board added to the classification principle in paragraph 69(d) and the example in paragraph 73 clarification that an entity's right to defer settlement must exist 'at the end of the reporting period'. The need for the right to exist at the end of the reporting period was already illustrated in the examples in paragraphs 74 and 75 but was not stated explicitly in the classification principle.

BC48C The Board also observed that the classification principle requires an assessment of whether an entity has the right to defer settlement of a liability and not whether the entity will exercise that right. Accordingly:

(a) the Board amended paragraph 73, which discusses liabilities an entity has a right to roll over for at least twelve months after the reporting period. The Board deleted from paragraph 73 a suggestion that to classify such a liability as non-current, an entity must not only have the right to roll over the liability but also expect to exercise that right. The Board also aligned the terminology by replacing 'discretion' with 'right' in paragraph 73.

(b) the Board added paragraph 75A, which explicitly clarifies that classification is unaffected by management intentions or expectations, or by settlement of the liability within twelve months after the reporting period.

BC48D The Board considered whether an entity's right to defer settlement needs to be unconditional. The Board noted that rights to defer settlement of a loan are rarely unconditional—they are often conditional on compliance with covenants. The Board decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Accordingly, the Board:

(a) deleted the word 'unconditional' from the classification principle in paragraph 69(d); and

(b) added paragraph 72A to clarify that if an entity's right to defer settlement is subject to compliance with specified conditions:

    (i) 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; and

    (ii) 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.

BC48E The Board considered whether to specify how management assesses an entity's compliance with a condition relating to the entity's cumulative financial performance (for example, profit) for a period extending beyond the reporting period. The Board concluded that comparing the entity's actual performance up to the end of the reporting period with the performance required over a longer period would not provide useful information—one of these measures would have to be adjusted to make the two comparable. However, the Board decided not to specify a method of adjustment because any single method could be inappropriate in some situations.

Settlement (paragraphs 76A–76B)

BC48F While developing the amendments discussed in paragraphs BC48A–BC48E, the Board considered whether a liability is 'settled' when it is rolled over under an existing loan facility. The Board concluded that rolling over a liability does not constitute settlement because it is the extension of an existing liability, which does not involve any transfer of economic resources. The Board also observed that a liability is defined as an obligation 'to transfer an economic resource' and that some types of liabilities are settled by transferring economic resources other than cash. For example, performance obligations within the scope of IFRS 15 *Revenue from Contracts with Customers* are settled by transferring promised goods or services. The Board decided it would be helpful to clarify those aspects of the meaning of the term 'settlement' and so added paragraph 76A.

BC48G While considering the meaning of the term settlement, the Board also considered liabilities an entity will or may settle by issuing its own equity instruments or, in other words, by converting the liability to equity. In *Improvements to IFRSs* issued in 2009, the Board had added to paragraph 69(d) a statement that 'terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification'. The effect of this statement is that a bond that the holder may convert to equity before maturity is classified as current or non-current according to the terms of the bond, without considering the possibility of earlier settlement by conversion to equity.

BC48H The Board concluded that, when it had added the statement about counterparty conversion options in 2009, it had intended the statement to apply only to liabilities that include a counterparty conversion option that meets the definition of an equity instrument and, applying IAS 32 *Financial Instruments: Presentation*, is recognised separately from the host liability as the equity component of a compound financial instrument. The Board further concluded that, in other cases—that is, if an obligation to transfer equity instruments is classified applying IAS 32 as a liability or part of a liability—the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. To reflect those conclusions, the Board moved the statement about counterparty conversion options from paragraph 69(d) to new paragraph 76B and clarified its scope.