# Non-Current Liabilities with Covenants Amendments to IAS 1

## General information

**Note to the participants**
We welcome your participation. This questionnaire does not necessarily require prior knowledge of the text in IAS 1 (ED/2021/9), but here is the link to the IASB's proposals: ED/2021/9 *Non-Current Liabilities with Covenants*. For EFRAG's Draft Comment Letter please follow this link: Draft Comment Letter.

You will need approximately 15-25 minutes to complete the questionnaire.

The questionnaire is structured in two sections.

- Answering to Section A is an alternative way of providing feedback to sending a Comment Letter to EFRAG; completion is not needed if you plan to send a Comment Letter.
- Section B aims at collecting additional input on practical aspects of the IASB proposal that will inform EFRAG next steps of discussion leading to the Final Comment Letter.

Respondents may respond to both or only one of the sections. If not stated otherwise there is only one possible choice per question.

Please note that information marked with * is required.

1. Please provide the following information:*information is required

Title

Name and surname *

Your email

Name of your company/ institution

2. Type of respondent

- Financial statement user
- Financial statement preparer
- Standard setter or enforcer
- Academic
- Other, please describe shortly

3. May we contact you if we have questions about your response?*

- Yes
- No

4. Please note that your comments (except for your email address and whether you can be contacted) will be posted on EFRAG's website unless you request confidentiality. Such requests will not normally be granted unless supported by good reasons, for example, that the information that you provide is commercially sensitive. Please see our website for details on this and how we use your personal data here. If you want to request confidentiality, please indicate this below and provide your reason. Do you want to request confidentiality? *

- Yes
- No

Please provide your reason for requesting confidentiality.

**Navigation**

5. Do you want to skip SECTION A as you already plan to send a Comment Letter as a response to EFRAG's DCL?

- Yes
- No

**SECTION A**

## SECTION A: CONTRIBUTING TO EFRAG DRAFT COMMENT LETTER

**General introduction**

Paragraph 60 of IAS 1 *Presentation of Financial Statements* require entities to present balance sheet items as current or non-current except when a presentation based on liquidity provides information that is reliable and more relevant. Paragraph 69 regulates this presentation and requires the presentation of a liability as current when the entity cannot defer settlement of the liability for at least 12 months after the reporting period.

The amendments to IAS 1 published in January 2020 [currently not yet endorsed by the EU] clarified aspects of the presentation as current or non-current. This includes the assessment of whether an entity has the right to defer settlement of a liability when that right is subject to compliance with specified conditions ('covenants') within 12 months after the reporting period. Liabilities subject to compliance with such covenants is to be presented as non-current only if the entity complies with those conditions at the end of the reporting period. For example, if there is a covenant that the entity has to meet on 31 March 2023, but is currently breaching at its period end of 31 December 2022, the liability has to be classified as current in its 2022 balance sheet.

As a reaction to a submission to the IFRS IC, the IASB has published a new ED in 2021 that proposes the following changes to classify liabilities with specified conditions as current or not current.

**Presentation**

1. Where the conditions attached to a liability will be tested based on data as at the end of the reporting period or earlier, the liability has to be presented as current if the entity was not compliant at the end of the reporting period. However, if the test is to be performed more than 12 months after the period end, the liability will be presented as non-current.
2. If a liability contains one or more conditions, that are to be tested based on data after

the end of the reporting period, an entity presents the liability as non-current even if the entity would not have been compliant at the end of the reporting period.
3. An entity should present a liability as current if the liability could become payable within 12 months after the end of the reporting period at the discretion of the counterparty. The same is true if it could become payable because of an uncertain future event or outcome that is unaffected by the entity's future actions.

The proposed amendment requires that all liabilities classified as non-current but with one or more conditions to be tested within 12 months after the period end are to be presented separately in the balance sheet.

**Disclosures**
For the liabilities that are to be presented separately in the balance sheet the entity will also have 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, such as:

1. 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);
2. whether the entity would have complied with the conditions based on its circumstances at the end of the reporting period; and
3. whether and how the entity expects to comply with the conditions after the end of the reporting period.

**Presentation**

6. Do you agree that covenants to be complied with based on data (even shortly) after the end of the reporting period should be presented as non-current?

- Yes
- No
- Do not know

Please comment

7. EFRAG has a concern that the distinction between the following two cases is not clear enough:

- liabilities with conditions to be tested based on data after the end of the reporting period (to be presented as non-current); and
- liabilities that could become payable within 12 months after the end of the reporting period because of an uncertain future event or outcome that is unaffected by the entity's future actions (to be presented as current).

EFRAG suggests that the IASB do not use the words "affected" or "unaffected". Rather clarify that obligations to repay as a consequence of a discrete event occurring after the end of the reporting period do not affect the presentation at the end of the reporting period. Also, the underlying contractual agreement does not provide a fixed payment schedule for the following 12 months. Therefore, items such as financial guarantees would be classified as current. Do you agree with the proposed changes?

- Yes
- No
- Do not know

Please comment

8. Paragraphs 74 and 75 of IAS 1 are left unchanged by the amendments proposed in ED/2021/9. A liability with a condition that has been breached on or before the end of the reporting period can only be presented as non-current if the lender agrees by the end of the reporting period to provide a grace period ending at least 12 months after the reporting period. Within this period the entity can rectify the breach and the lender cannot demand immediate repayment. Thus according to paragraph 75, the following liability would be presented as current:

- a liability that is to be tested for a covenant at or before the end of the reporting period;
- the entity receives a waiver at or before the end of the reporting period; and
- such waiver allows the testing of that covenant to be deferred and done based on the situation three months after the end of the reporting period.

However, according to the proposed requirements of the ED: A liability that in accordance with the contractual terms is to be tested for a covenant based on the situation three months after the end of the reporting period is to be presented as non-current. Do you agree with the proposed outcome of the ED?

- Yes
- No
- Do not know

Please comment

9. For the separation of current and non-current, IAS 1 paragraph 69(d) focuses on the right to defer settlement as opposed to assumptions about timing of cashflows used in the measurement of the liabilities. Some stakeholders observe that this may lead to misalignments between presentation and measurement, but that the ED as a narrow scope amendment to IAS 1 does not resolve this. However, for other stakeholders the ED solves the concerns of constituents about the IFRS Interpretations Committee's December 2020 tentative agenda decision, and therefore they accept the proposals in this ED as a solution. Do you support that the amendment shall only clarify but not amend the principle in paragraph 69(d) of IAS 1?

- Yes
- No
- Do not know

Please comment

10. EFRAG disagrees with the proposed requirement to separately present, on the face of the balance sheet, the liabilities classified as non-current for which the entity's right to defer settlement for at least 12 months after the reporting period is subject to compliance with specified conditions within 12 months after the reporting period. EFRAG disagrees as most liabilities are expected to contain conditions that would trigger this separate presentation. Instead EFRAG recommends requiring disclosing this information in the notes. Do you agree with the EFRAG recommendation?

- Yes
- No
- Do not know

Please comment

**Disclosures**

11. Do you think that the proposed new disclosures should also be required in cases where the entity expects to comply with the conditions in the future?

- Yes
- No
- Do not know

Please comment

12. Do you agree that entities should not be required to disclose how they expect to comply with the specified conditions in the future?

- Yes
- No
- Do not know

Please comment

13. Do you consider that a disclosure requirement about future compliance should be based on the knowledge gained up to the date of issuance of the financial statements?

- Yes
- No
- Do not know

Please comment

14. Some IASB Board members disagreed with the proposed requirement to disclose whether and how an entity expects to comply with conditions after the reporting date as this is forward-looking information with respect to future compliance with covenants. Do you agree with the concern raised regarding the use of forward-looking information?

- Yes
- No
- Do not know

Please comment

15. Some EFRAG members questioned the usefulness of the proposed new disclosure requirements in IAS 1. Do you agree with the usefulness of the proposed new disclosure requirements?

- Yes, these are very useful
- Yes, these are useful
- No, other disclosures would be needed (please comment)
- No, IFRS standards already require all necessary disclosures for such cases
- Do not know

Please comment

## SECTION B

### SECTION B: ADDITIONAL INPUT ON PRACTICAL APPLICATIONS OF THE IASB PROPOSALS

**General introduction**

Paragraph 60 of IAS 1 *Presentation of Financial Statements* require entities to present balance sheet items as current or non-current except when a presentation based on liquidity provides information that is reliable and more relevant. Paragraph 69 regulates this presentation and requires the presentation of a liability as current when the entity cannot defer settlement of the liability for at least 12 months after the reporting period.
The amendments to IAS 1 published in January 2020 [currently not yet endorsed by the EU] clarified aspects of the presentation as current or non-current. This includes the assessment

of whether an entity has the right to defer settlement of a liability when that right is subject to compliance with specified conditions (‘covenants’) within 12 months after the reporting period. Liabilities subject to compliance with such covenants is to be presented as non-current only if the entity complies with those conditions at the end of the reporting period. For example, if there is a covenant that the entity has to meet on 31 March 2023, but is currently breaching at its period end of 31 December 2022, the liability has to be classified as current in its 2022 balance sheet.
As a reaction to a submission to the IFRS IC, the IASB has published a new ED in 2021 that proposes the following changes to classify liabilities with specified conditions as current or not current.

**Presentation**

1. Where the conditions attached to a liability will be tested based on data as at the end of the reporting period or earlier, the liability has to be presented as current if the entity was not compliant at the end of the reporting period. However, if the test is to be performed more than 12 months after the period end, the liability will be presented as non-current.
2. If a liability contains one or more conditions, that are to be tested based on data after the end of the reporting period, an entity presents the liability as non-current even if the entity would not have been compliant at the end of the reporting period.
3. An entity should present a liability as current if the liability could become payable within 12 months after the end of the reporting period at the discretion of the counterparty. The same is true if it could become payable because of an uncertain future event or outcome that is unaffected by the entity’s future actions.

The proposed amendment requires that all liabilities classified as non-current but with one or more conditions to be tested within 12 months after the period end are to be presented separately in the balance sheet.

**Disclosures**
For the liabilities that are to be presented separately in the balance sheet the entity will also have 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, such as:

1. 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);
2. whether the entity would have complied with the conditions based on its circumstances at the end of the reporting period; and
3. whether and how the entity expects to comply with the conditions after the end of the reporting period.

16. If the IASB would continue with the proposals as they are, how many of your non-current liabilities with such conditions (requiring compliance within 12 months after the reporting period end) would require separate presentation?

- More than 90%
- Between 75% and 90%
- Between 50% and 75%
- Between 25% and 49%
- Less than 25%
- None

17. If the IASB will continue with the proposals as they are, will you be able to describe how the entity expects to comply with the conditions after the end of the reporting period? Would you say that a statement about how you comply and whether you expect to comply could cause legal problems in the context of your local laws and regulations? (several answers possible)

- [ ] Yes, we can provide relevant disclosures
- [ ] No, disclosures would probably be boilerplate
- [ ] This type of disclosure will cause legal problems
- [ ] This type of disclosure will cause auditability problems
- [ ] Do not know

Please provide additional explanations if you anticipate legal or auditability problems.

18. IFRS 7 *Financial Instruments: Disclosures* requires an entity to disclose a maturity analysis for non-derivative financial liabilities. In this maturity analysis it is normally deemed appropriate to separate between liabilities that are due before and after 12 months. If the liabilities may become due significantly earlier than indicated in the maturity analysis the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate this risk. What are your views on additional disclosure requirements in IAS 1 with regard to liabilities with specified conditions to be tested within 12 months after the end of the reporting period? Do you think that IFRS 7 already require similar disclosures?

- The proposed additional disclosure requirements in IAS 1 are needed as the current requirements in IFRS 7 are not sufficient
- The proposed additional disclosure requirements in IAS 1 are not needed as the current requirements in IFRS 7 are sufficient
- Do not know

Please comment

19. Do you also provide additional disclosures for liquidity risk under IFRS 7 that arises from other sources than financial liabilities?

- Yes
- No
- Do not know

Please comment

20. If the IASB continues with the proposals as they are, what kind of additional disclosures (if any) would you expect to provide?

21. Please provide us with any further comments you may have.

## Thank You!

Thank you for taking our survey. Your response is very important to us.