

EFRAG FEEDBACK STATEMENT

IASB ED/2021/9 NON-CURRENT LIABILITIES WITH COVENANTS

IAS 1 AMENDMENTS

April 2022



Introduction

Objective of this feedback statement

EFRAG published its final comment letter on IASB ED/2021/9 *Non-Current Liabilities with Covenants* (‘the ED’) on 29 March 2022. This feedback statement summarises the main comments received by EFRAG on its draft comment letter (‘DCL’) and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter.

IASB Exposure Draft

In November 2021, the IASB published the ED which aims to improve the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with conditions where compliance is required after the reporting period end, in addition to addressing concerns about the classification of such a liability as either current or non-current. In the ED, the IASB:

- has maintained the requirement that an entity’s right to defer settlement must have substance (introduced in the 2020 amendments);
- retains the classification of current and non-current based on the borrower’s right to defer payments based on the situation as of the end of the reporting period for at least 12 months after the end of the reporting period;
- clarify that
 - certain liabilities with specified conditions to be complied with at the reporting period end but tested after the end of the reporting period affect the entities right to defer payments for more than 12 months after the reporting

- period and may lead to a current classification (paragraph 72B(a) of IAS 1);
- certain liabilities with specified conditions to be complied with after the end of the reporting period do not affect the entities right to defer payments and lead to a non-current classification (paragraph 72B(b) of IAS 1);
- certain liabilities that may become payable within 12 months after the end of the reporting period are to be classified as current if they are payable at the discretion of a third party or if the borrower cannot affect the outcome of the occurrence of an uncertain future event that causes payment within 12 months after the reporting period end (paragraph 72C of IAS 1).
- propose a separate presentation within the non-current heading of the balance sheet to highlight the information that some non-current liabilities (under paragraph 72B(b)), due to contractual conditions, may become current within 12 months after the end of the reporting period;
- provide disclosure requirements for non-current financial liabilities that may become repayable within 12 months, e.g., forward-looking information on whether and how an entity will comply with a covenant after the reporting period end.

The ED was open for comments until 21 March 2022.

EFRAG’s draft comment letter

EFRAG published its Draft Comment Letter (‘DCL’) on 18 January 2022 which was open for comments until 9 March 2022.

IASB ED/2021/9 Non-current Liabilities with Covenants – EFRAG’s Feedback statement

In its DCL, EFRAG supported the IASB’s efforts to address the concerns of constituents that have emerged in the context of the IFRS Interpretations Committee’s agenda decision of December 2020.

EFRAG supported that liabilities should be classified as current or non-current based on the situation at the end of the reporting period. But EFRAG did not support paragraph 76ZA(a), which requires a separate presentation on the statement of financial position of 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, as this proposal contradicts the principles-based nature of IFRSs.

EFRAG is sympathetic with the concerns about providing forward-looking information with respect to future compliance with covenants as was also expressed in the ED’s alternative view, but EFRAG proposed an alternative wording for paragraph 76ZA(b)(iii) with regard to certain aspects of the disclosure requirements.

EFRAG disagreed with paragraph 72C(b) and encouraged the IASB not to use the notion of “unaffected by the entity’s future actions”, as there is a substantial risk that the proposed wording will not preclude a divergent interpretation based on facts and circumstances faced by different entities.

Outreach activities

After the publication of its DCL, EFRAG undertook different measures to receive sufficient feedback. EFRAG held public meetings with working groups after publishing the DCL:

- EFRAG held a meeting with EFRAG FR TEG-CFSS on 17 February 2022;
- EFRAG held a meeting with the EFRAG Academic Panel on 4 March 2022.

Moreover, EFRAG also held other outreach in closed meetings (e.g., a closed User Panel Event) with constituents and published a survey where eight respondents replied.

Comment letters received from constituents

In addition to the outreach activities, EFRAG received 12 comment letters from constituents. These comment letters are available on the [EFRAG website](#).

The comment letters were received from national standard setters, a regulator, preparer organisations and a professional organisation.

Feedback received from constituents

In general, all participants in the outreach events and respondents to the EFRAG DCL (‘respondents’) shared the concerns that were raised by respondents to the IFRS IC tentative agenda decision. Specifically, concerns that the outcomes of the ED proposals will fail to faithfully represent an entity’s financial position at the reporting date.

Respondents explicitly agreed with the proposed amendments that compliance with specified conditions within 12 months after the end of the reporting period should not affect classification as non-current. Furthermore, respondents specifically suggested that insurance liabilities should not be referred to as an example of liabilities that should be classified as current. They also raised concerns about the proposed scope of the disclosures and suggested entities should only disclose information where significant uncertainties about premature payment within the next 12 months exist.

Respondents did not support forward-looking information with regard to how an entity expects to comply with covenants within 12 months after the reporting period end and some respondents disagreed with forward-looking information in total.

IASB ED/2021/9 Non-current Liabilities with Covenants – EFRAG’s Feedback statement

None of the respondents supported a separate presentation of non-current financial liabilities on the face of the statement of financial position.

Many respondents supported the proposed retrospective application and the deferral of the effective date of the amendments to IAS 1 published in 2020.

EFRAG’s final comment letter

Considering the feedback received from respondents to EFRAG’s DCL and participants in the outreach events, EFRAG reiterates its view to support the IASB’s efforts and classification of liabilities as either current or non-current based on the situation at the end of the reporting period. EFRAG is also cognisant that the amendment will leave unsolved a grey area of conditional settlement terms other than covenants. Thus, EFRAG recommends the IASB consider a broader review of the current/non-current classification in the primary financial statements, including a conceptual view.

EFRAG reiterates its disagreement with the proposal to require a separate presentation on the face of the statements of financial position.

EFRAG still encourages the IASB not to use the notion of “unaffected by the entity’s future actions”, as there is a substantial risk that the proposed wording will not preclude a diverse interpretation based on facts and circumstances faced by different entities. Instead, EFRAG recommends deleting paragraph 72C(b) and to further consider paragraph 72C(a), in the light of an amendment whose main focus should be on liabilities with covenants. EFRAG also recommends to the IASB to clarify the requirement in paragraph 72A of IAS 1 that a right to defer must have “substance”; and the interaction between paragraphs 72B(b) and 75 of IAS 1.

EFRAG is concerned that the targeted scope of the disclosure requirements may in practice be too broad and recommends to the IASB in paragraph 76ZA(b) to require the disclosure only in case of significant uncertainties on

whether the specified conditions will be met within 12 months after the end of the reporting period, specifying a probability threshold to support consistent application.

EFRAG is sympathetic with the concerns about providing forward-looking information with respect to future compliance with covenants as was also expressed in the ED’s alternative view and EFRAG proposes an alternative wording for paragraph 76ZA(b)(iii). EFRAG recommends the IASB specify that the knowledge gained up to the date of the issuance of the financial statements should be considered when forward-looking information about “whether” to comply in future is disclosed.

Detailed analysis of issues, comments received, and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Questions 1 *Classification and disclosure*

The ED proposes that specified conditions with which an entity must comply within 12 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 12 months after the reporting period and thus do not affect current versus non-current classification (paragraph 72B(b)). The ED also proposes to exempt some liabilities with specified conditions from the clarification when the counterparty or any other party has discretion to demand payment at any time or where the repayment within 12 months after the reporting period end is affected by an uncertain future event or an outcome that occurs (or does not occur), whereas occurrence (or non-occurrence) is unaffected by the entity’s future actions. When an entity classifies a liability with covenants under paragraph 72B(b) as non-current, it would be required to disclose information in the notes to help assess the risk that the liability could become repayable within 12 months after the reporting period end. Amongst other disclosures, the proposals require forward-looking information regarding whether and how an entity expects to comply with the specified conditions.

In its DCL, EFRAG supported the ED as it addresses the concerns of constituents. EFRAG suggested that the main explanation for differentiation in paragraph 72C(b) should not be based on the words “unaffected”, but instead to clarify that payments as a consequence of a discrete event that occurred after the balance sheet date do not affect the classification; and items such as financial guarantees would be classified as current. Moreover, EFRAG suggested a different wording to overcome the issues that arise from the wording. EFRAG also proposed that disclosures should be limited to liabilities with covenants where significant uncertainties exist on whether the conditions will be met within 12 months after the reporting period.

EFRAG’s response to constituents’ comments

EFRAG Final Position

Considering the feedback received from the respondents, EFRAG retained its DCL position. With regard to the classification and disclosure requirements, EFRAG made the following changes:

- EFRAG recommends that the IASB deletes paragraph 72C(b) and reconsiders the need for paragraph 72C(a) in the light of the amendments that should deal primarily with the classification of liabilities with covenants. Moreover, EFRAG recommends that the IASB considers the issue of classification of liabilities with other conditions from a broader perspective in a different project.
- EFRAG recommends the IASB limits the scope of disclosures to covenants with significant uncertainties and defines a probability threshold above which disclosures should be required.
- EFRAG recommends that the IASB elaborates on the application of the word ‘substance’ with regard to the classification decision and the disclosures.
- EFRAG further explained why the use of insurance liabilities as an example is not appropriate.



EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Respondents explicitly agreed with the proposed amendments that specified conditions where compliance is required 12 months after the end of the reporting period should not affect classification as non-current. Moreover, respondents were concerned about the proposals requiring classification based on the entity’s ability to affect an uncertain future event or outcome that triggers repayment within 12 months after the end of the reporting period as those could be misleading and result in diversity in practice. Respondents also suggested deleting all requirements for other conditions that would affect classification. Respondents specifically suggested that insurance liabilities should not be referred to as an example of liabilities that should be classified as current. Respondents also raised concerns about the proposed scope of the disclosures and suggested entities only disclose information where significant uncertainties about premature payment within the next 12 months exist. Respondents did not support forward-looking information with regard to how an entity expects to comply with covenants within 12 months after the reporting period end and some respondents disagreed with forward-looking information in total. Respondents supported EFRAG’s proposal to consider information regarding forward-looking information that is based on the knowledge gained up to the date of issuance of the financial statements.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Questions 2 Presentation

The ED 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 12 months after the reporting period is subject to compliance with specified conditions within 12 months after the reporting period.

In the DCL, EFRAG disagreed with the separate presentation on the face of the balance sheet of the liabilities classified as non-current for which the entity’s right to defer settlement is subject to compliance with specified conditions within 12 months after the reporting period.

None of the respondents supports a separate presentation of non-current financial liabilities on the face of the statement of financial position as respondents did not see more useful information and mentioned that information usefulness would not increase when most liabilities will have to be reclassified under this item.

EFRAG’s response to constituents’ comments

EFRAG Final Position

Considering the feedback received, EFRAG maintained its DCL position.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Question 3 *Other aspects of the proposals*

The ED proposes to clarify circumstances in which an entity does not have a right to defer settlement of a liability for at least 12 months after the reporting period for the purposes of applying paragraph 69(d) of IAS 1 (paragraph 72C); to 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; and to 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.

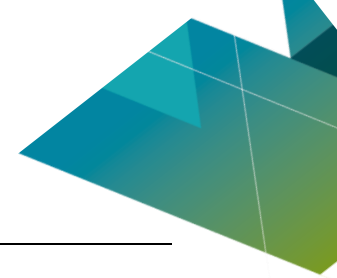
In its DCL, EFRAG supported the other aspects of the proposals.

Many respondents supported the proposed retrospective application and the deferral of the effective date of the amendments to IAS 1 published in 2020. One respondent expressed concerns about the significant complexity with regard to the classification so more time would be required to renegotiate contract terms thus an extension to 2025 would be more appropriate.

EFRAG’s response to constituents’ comments

EFRAG Final Position

Considering the feedback received, EFRAG reiterated the views expressed in the DCL. In addition, EFRAG recommends that the IASB clarifies in the standard that both amendments (the 2020 amendment and the 2021 ED) shall be applied together as a package, aligns the effective dates for these two amendments and considers whether amendments to IAS 34 *Interim Financial Reporting* will be required. EFRAG supports the proposed date of initial application in 2024 if the IASB is able to finalise the amendment in 2022.



Appendix 1: List of respondents

<i>Name of constituent</i>	<i>Country</i>	<i>Type / Category</i>
Swedish Financial Reporting Board (SFRB)	Sweden	Preparer organisation
European Savings and Retail Banking Group (ESBG)	Europe	Preparer organisation
German Insurance Association (GDV)	Germany	Preparer organisation
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Professional organisation
European Securities and Markets Authority (ESMA)	Europe	Regulator
Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
Swedish Enterprise Accounting Group (SEAG)	Sweden	Preparer organisation
L'Autorité des normes comptables (ANC)	France	National Standard Setter
Accounting Standards Committee of Germany (ASCG)	Germany	National Standard Setter
Dutch Accounting Standard Board (DASB)	The Netherlands	National Standard Setter
Draft comment letter of BusinessEurope	Europe	Preparer organisation