Classification of Liabilities as Current or Non-current
Cover Note

Objective

1 The objective of the session is to discuss and agree to recommend to the EFRAG Board a draft endorsement advice on Classification of Liabilities as Current or Non-current Amendments to IAS 1 *Presentation of Financial Statements* (‘the Amendments,’).

Background

2 Paragraph 69 of IAS 1 Presentation of Financial Statements requires an entity to classify a liability as current if the entity ‘does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period’. Paragraph 73 requires an entity to classify a liability as non-current if the entity ‘expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility’.

3 The IFRS Interpretations Committee received two requests for guidance on the relationship between these two requirements. The Committee proposed new guidance as part of the Annual Improvements to IFRSs 2010–2012 Cycle but, after considering feedback from respondents, decided not to recommend finalising the guidance. At its March 2013 meeting the IASB accepted that recommendation and decided to reconsider the issue.

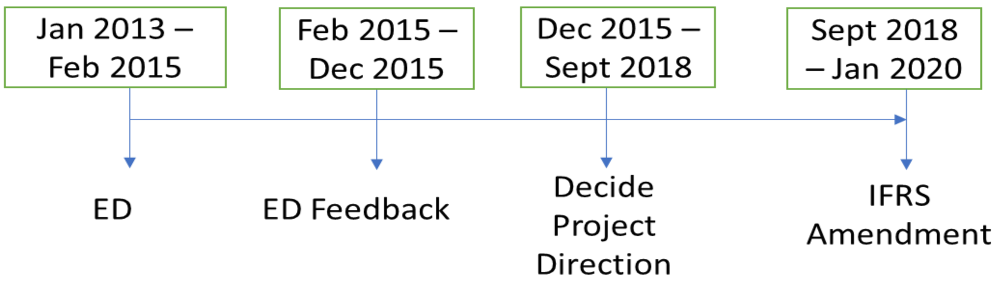
4 At its meeting in September 2013, the IASB tentatively decided to develop clarifications applying a principle that the classification of a liability as current or non-current should reflect the rights existing at the end of the reporting period. In February 2015, the IASB published its proposals in the Exposure Draft Classification of Liabilities.

5 On 24 September 2019 the IASB met to finalise the Amendments and decided not:

(a) to re-expose the amendments; and

(b) that the amendments should apply for annual reporting periods beginning on or after 1 January 2022.

6 On 23 January 2020 the IASB issued the Amendments. The project history for the Amendments can be illustrated as such:



Comment letters received

7 As noted above an Exposure Draft (ED) was issued in February 2015. EFRAG provided its comment letter on that Exposure Draft in June 2015. It its comment letter EFRAG supported the proposed amendments as they clarify the existing

requirements in IAS 1. Finally, EFRAG received comment letters from 14 constituents.

Table: Total respondents by country and by type

Respondent by country:		***Respondent by type:***	
UK	2	National Standard Setters	9
France	2	Professional organisation	1
Sweden	1	Association of preparers	2
Spain	1	Auditors	1
Italy	1	Regulator	1
The Netherlands	1		
Germany	1		
Denmark	1		
Belgium	1		
Norway	1		
European organisations	1		
Global organisations	1		
	14		14

Final amendments comparison

8 The EFRAG Secretariat compared the ED with the final amendments to verify what has changed and whether the recommendations suggested by EFRAG in its final comment letter on the ED have been addressed.

9 The changes were as follows:

Nr	Change from ED to final Amendments
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 a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period ~~(see paragraph 72R). 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~~. An entity shall classify all other liabilities as non-current. ~~For the purposes of classification as current or non-current, settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services that results in the extinguishment of the liability~~
72R	~~The following are examples of circumstances that create a right to defer settlement that exists at the end of the reporting period and, thus, affect the classification of the liability in accordance with paragraph 69(d).~~ ~~(a) If an entity expects, and has the discretion, right to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling When the entity does not have the right to roll over the obligation is not at the discretion of the entity, (because, for example, there is no arrangement for refinancing in place at the end of the reporting period for rolling over the obligation), the entity does not consider the~~

	~~potential to refinance the obligation and classifies the obligation as current.~~ ~~(b) When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable within twelve months after the reporting period, the 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~~
73R	~~The following are examples of circumstances that do not create a right to defer settlement that exists at the end of the reporting period.~~ ~~(a) When an entity breaches a provision 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 an unconditional a right to defer its settlement for at least twelve months after that date.~~ ~~(b) An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:~~ ~~(i) the original term was for a period longer than twelve months, and~~ ~~(ii) an agreement to refinance, or to reschedule the payments of an existing loan, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.~~ ~~(c) In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 Events after the Reporting Period and do not affect classification at the end of the reporting period:~~ ~~(i) refinancing on a long-term basis;~~ ~~(ii) rectification of a breach of a long-term loan arrangement; and~~ ~~(iii) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.~~ ~~An entity discloses non-adjusting events in accordance with IAS 10.~~
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.

10 The EFRAG Secretariat compared IAS 1 with the final amendments to verify what has changed and whether the recommendations suggested by EFRAG in its final comment letter on the ED have been addressed.

Nr	Change from IAS 1 to final Amendments
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 ~~an unconditional~~ the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period ~~(see paragraph 73). 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.~~ An entity shall classify all other liabilities as non-current.
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 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
73	If an entity ~~expects, and~~ has the ~~discretion~~, right, at the end of the reporting period, to ~~refinance or~~ roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. ~~However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing)~~ If the entity has no such right, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.
74	When an entity breaches a ~~provision~~ 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 ~~an unconditional~~ the right to defer its settlement for at least twelve months after that date.
75A	Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period. If a liability meets the criteria in paragraph 69 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting period, or even if the entity settles the liability between the end of the reporting period and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 17(c) and 76(d)).

76	~~In respect of loans classified as current liabilities, if~~ If the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 Events after the Reporting Period: (a) refinancing on a long-term basis of a liability classified as current (see paragraph 72); (b) rectification of a breach of a long-term loan arrangement classified as current (see paragraph 74); ~~and~~ (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ~~ending at least twelve months after the reporting period.~~ classified as current (see paragraph 75); and (d) settlement of a liability classified as non-current (see paragraph 75A).
76A	For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of: (a) cash or other economic resources—for example, goods or services; or (b) the entity's own equity instruments, unless paragraph 76B applies.
76B	Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying IAS 32 Financial Instruments: Presentation, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

EFRAG Comment Letter to the ED – comparsion to the final Amendment of IAS 1

11 Considering the input received from constituents, the EFRAG expressed support for the proposed ED to amend IAS 1 and included some recommendations to avoid further diversity in practice.

12 EFRAG supported the proposals in the Amendments, as they clarify the existing classification principles in IAS 1 by removing inconsistencies in the terms used and were likely to result in greater consistency in applying the principles in IAS 1. However, to avoid further diversity in practice, EFRAG recommended that additional guidance be provided in situations when a right to defer settlement is subject to conditions that are assessed after the reporting period.

13 EFRAG noted that the drafting of this proposal should have been improved in order to avoid unintended outcomes and recommends that the IASB provides additional guidance in situations where liabilities can be settled through the issuance of shares at the option of the counterparty.

14 The final amendment includes major changes to address those comments.

Questions for EFRAG TEG

15 Does EFRAG TEG agree with the proposed changes and agree to recommend to the EFRAG Board the FEA on Amendments to IAS 1?

Agenda Papers

16 In addition to this cover note, agenda papers for this session are:

(a) Agenda paper 07-02 – Final endorsement advice;

(b) Agenda paper 07-03 – IASB ED - IAS 1 - Classification of Liabilities as Current or Non-current – for background only.