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Classification of Liabilities as Current or Non-current and its Deferral of Effective Date, Amendments to IAS 1 Cover Note

Objective

- 1 The objective of this session is to:
 - (a) discuss and consider the impact of agenda topic *Classification of debt with covenants as current or non-current* that were discussed in the December IFRS Interpretations Committee (IFRS IC) meeting of December 2020 on the final endorsement advice;
 - (b) consider the comments received in response to EFRAG's Invitation to Comment on its draft endorsement advice of *Classification of Liabilities as Current or Non-current* ('Amendment to IAS 1') and *Deferral of Effective Date* ('the Amendments'); and
 - (c) discuss and agree to recommend to the EFRAG Board a final endorsement advice.

Background

- 2 On 6 November 2020 EFRAG has issued a draft endorsement advice letter and two invitations to comment relating to the endorsement for use in the EU of *Classification of Liabilities as Current or Non-current* and *Deferral of Effective Date* with a comment period (including extensions) ending 11 January 2021.
- 3 The objective of the Amendment to IAS 1 is to clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.
- 4 The Amendments become effective for annual periods beginning on or after 1 January 2023, with earlier application permitted.
- 5 EFRAG's overall preliminary assessment is that the Amendments satisfy the criteria for endorsement for use in the EU and therefore recommends its endorsement.
- 6 EFRAG requested comments on its draft endorsement advice ('DEA') before 7 December 2020, four comment letters were received. All of them agreed with EFRAG's preliminary assessment that the Amendments satisfy the criteria for endorsement for use in the EU and therefore recommended its endorsement.
- 7 After the issuance of the DEA, the IFRS IC were informed that stakeholders could find it difficult to determine whether it has '*the right to defer settlement*' when a long-term liability is subject to a condition (for example, a debt covenant) and the borrower's compliance with the condition is tested at dates after the end of the reporting period. Therefore, at its December 2020 meeting the IFRS IC discussed

this matter in [IFRS IC Agenda Paper AP2](#) by use of examples (refer to agenda paper 07-02). Some EFRAG TEG members in the joined EFRAG CFSS / TEG meeting indicated that the discussions in this meeting should be considered before issuing a final endorsement advice.

- 8 To receive further input on this IFRS IC [Tentative Agenda Decision](#) the EFRAG Secretariat extended the comment period on the DEA to 11 January 2021. The purpose was to receive comments by considering the IFRIC discussion and to allow to receive input from different jurisdictions.
- 9 Up until writing of this document, the EFRAG Secretariat received four additional comment letters. Two of them agreed with EFRAG's preliminary assessment and IFRS IC tentative decision discussed in IFRS IC Agenda Paper and therefore recommended its endorsement. However, two of them expressed reservations on issuing a final endorsement advice before taking into account the answers of the tentative agenda decision of the IFRS IC.
- 10 The EFRAG Secretariat prepared proposals to the endorsement advice taking not into and taking into consideration the discussions at the IFRS IC meeting (refer to agenda paper 07-04 and 07-05).

Questions for EFRAG TEG

- 11 Do you see any impact from the IFRIC discussion to be considered? Could you liaise as appropriate with your National Standard Setter as far as not directly represented on the EFRAG TEG whether the issue arising from the IFRIC agenda paper is important in your country?
- 12 Does EFRAG TEG think that the issued draft endorsement advice should change following the discussions in the IFRS IC meeting of December 2020? If yes, how?
- 13 Would EFRAG TEG agree with the proposals to the draft endorsement advice as per paper 07-05 that reflect aspects of the IFRIC discussion?
- 14 Does EFRAG TEG think that the EFRAG Secretariat should wait until the tentative agenda decision of the IFRS IC have been finalised before issuing the final endorsement advice or does EFRAG TEG agree to recommend to the EFRAG Board a final endorsement advice?
- 15 If EFRAG TEG think that the issued draft endorsement advice should not change following the discussions in the IFRS IC meeting of December 2020 does EFRAG TEG agree that the comments received have been appropriately considered in the proposed final endorsement advice (see paper 07-04)?

Agenda Papers

- 16 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 07-02 – IFRS IC Discussion - Classification of debt with covenants as current or non-current;
 - (b) Agenda paper 07-03 – Comment letter analysis;
 - (c) Agenda paper 07-04 – Final endorsement advice without IFRS IC discussion; and
 - (d) Agenda paper 07-05 – Proposals to the draft endorsement advice with IFRS IC discussion.