This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Proposals to EFRAG's Draft Letter to the European Commission Regarding Endorsement of Classification of Liabilities as Current or Non-current and Deferral of Effective Date, Amendments to IAS 1 *Presentation of Financial Statements*

John Berrigan
Director General, Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels

[date] [Month] 2020

Dear Mr Berrigan,

Endorsement of Classification of Liabilities as Current or Non-current and Deferral of the Effective date

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of International Accounting Standards, EFRAG is pleased to provide its opinion on:

- *Classification of Liabilities as Current or Non-current, Amendments to IAS 1,* issued by the IASB on 23 January 2020. According to the IASB Basis for Conclusions paragraph BC48A the IASB made these amendments 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. These amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2022, with earlier application permitted. If entities apply the amendments earlier, they shall disclose that fact; and

- *Classification of Liabilities as Current or Non-current—Deferral of Effective Date, Amendment to IAS 1,* issued by the IASB on 15 July 2020. In accordance with paragraph 139U of Amendments to IAS 1, the effective date of the amendments issued on 23 January 2020 and described above is moved to 1 January 2023.

(collectively 'the Amendments'). Exposure Drafts of the Amendments were issued on 10 February 2015 and 4 May 2020 respectively. EFRAG provided its comment letters on those Exposure Drafts on 22 June 2015 and 3 June 2020 respectively. A description of the two Amendments is included in Appendices 1.1 and 1.2 to this letter.

In order to provide our endorsement advice as you have requested, we have first assessed whether the Amendments would meet the technical criteria for endorsement, in other words whether the Amendments would provide relevant, reliable, comparable and understandable information required to support economic decisions and the assessment of stewardship, lead to prudent accounting and are not contrary to the true and fair view principle. We have then assessed whether the Amendments would be conducive to the European public good. We provide our conclusions below.

Do the Amendments meet the IAS Regulation technical endorsement criteria?

EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting.

EFRAG has also assessed that the Amendments do not create any distortion in their interaction with other IFRS Standards and that all necessary disclosures are required. Therefore, EFRAG has concluded that the Amendments are not contrary to the true and fair view principle. EFRAG's reasoning is explained in Appendices 2.1 and 2.2 to this letter.

Are the Amendments conducive to the European public good?

EFRAG has assessed that the Amendments would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified that the Amendments could have any adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that endorsing the Amendments is conducive to the European public good. EFRAG's reasoning is explained in Appendices 3.1 and 3.2 to this letter.

In EFRAG's assessment of whether the Amendments would be conducive to the European public good, EFRAG has assessed whether the Amendments would improve financial reporting, would reach an acceptable cost-benefit trade-off, and whether the Amendments could affect economic growth.

Our advice to the European Commission

As explained above, we have concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, that they raise no issues regarding prudent accounting and that they are not contrary to the true and fair view principle. We have also concluded that the Amendments are conducive to the European public good. Therefore, we recommend the Amendments for endorsement without further delay.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix 1.1: Understanding the changes brought about by the Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

Background of the Amendments

1 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'.

2 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.

3 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*.

4 On 24 September 2019 the IASB met to finalise the Amendments and decided:

(a) not to re-expose the amendments; and

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

5 On 23 January 2020 the IASB issued the Amendments.

The issue and how it has been addressed

6 IAS 1 requires a company to classify a liability as current unless, among other things, the company has an unconditional right to defer settlement of the liability for at least twelve months. Sometimes preparers of financial statements find it difficult to interpret this requirement. As a result, entities may classify similar liabilities differently, making it hard for investors to understand and compare the financial positions of different entities.

7 To remedy this issue, the Amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

8 According to the IASB's Basis for Conclusions in paragraphs BC48A the IASB made the amendments in response to a request to reconcile apparent contradictions between paragraph 69(d) and paragraph 73 of IAS 1. Therefore, the amendments provide more guidance on certain existing requirements. However, they could result in some companies reclassifying some liabilities from current to non-current, and vice versa; in particular as a result of this possible reclassification, this could affect some

[1] Refer to Appendix 1.2 where the effective date have been amended.

company's loan covenants. The effective date is January 2022[2]. Early application of the amendments is permitted.

What has changed?

9 The Amendment 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. The amendments 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 (IAS 1 paragraph 69(d) and example in IAS 1 paragraph 73). The Amendments include:

(a) specifying within the classification principle that an entity's right to defer settlement must exist at the end of the reporting period;

(b) deleting the word 'unconditional' from the classification principle as the rights are often conditional on compliance with covenants and instead adding a paragraph (IAS 1 paragraph 72A) to clarify that if an entity`s right to defer settlement is subject to compliance with specified conditions;

(c) adjusting the example in IAS 1 paragraph 73, to align the example and the classification principle and to align the terminology used;

(d) noting that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;

(e) providing more guidance on when a liability is settled; and

(f) refining requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments (in other words, by converting the liability to equity) by moving the statement about counterparty conversion options from IAS 1.69(d) to a new paragraph and clarifying scope.

10 Finally, it proposes that retrospective application should be required, and that early application should be permitted.

When do the Amendments become effective?

11 An entity shall apply the Amendments for annual periods beginning on or after 1 January 2022[3] retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies the Amendments for an earlier period, it shall disclose that fact.

[2] As amended in July 2020

[3] Amended in July 2020 to annual periods beginning on or after 1 January 2023

Appendix 1.2: Understanding the changes brought about by the Amendments - Deferral of Effective Date

Background of the Amendments

1 The Amendments in Appendix 1.1 were issued in January 2020, effective for annual reporting periods beginning on or after 1 January 2022. However, in response to the covid-19 pandemic, the IASB provided entities with more time to implement any classification changes resulting from the Amendments by deferring the effective date by one year to annual reporting periods beginning on or after 1 January 2023.

The issue and how it has been addressed

2 The covid-19 pandemic has put a lot of pressure on entities in meeting their reporting deadlines. For some entities the Amendments may result in the need to adjust their current practice of classification of some liabilities and this may have operational consequences, such as when adjustments to loan covenants are needed as a result of the different presentation. In these circumstances, considering the additional operational complexities due to the ongoing pandemic, the IASB proposed to defer the effective date by one year. By deferring the effective date, the IASB provided valuable operational relief to entities in implementing the Amendments.

What has changed?

3 There were no changes to the original Amendments mentioned in Appendix 1.1 other than the deferral of the effective date.

When do the Amendments become effective?

4 An entity shall apply the Amendments for annual periods beginning on or after 1 January 2023 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies the Amendments for an earlier period, it shall disclose that fact.

Appendix 2.1: EFRAG's technical assessment on the Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

Does the accounting that results from the application of the Amendments meet the technical criteria for endorsement in the European Union?

1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (The IAS Regulation), in other words that the Amendments:

(a) are not contrary to the principle set out in Article 4 (3) of Council Directive 2013/34/EU (The Accounting Directive); and

(b) meet the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

2 Article 4(3) of the Accounting Directive provides that:

The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

3 The IAS Regulation further clarifies that *'to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise - this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive'* (Recital 9 of the IAS Regulation).

4 EFRAG's assessment as to whether the Amendments would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.

5 In its assessment, EFRAG has considered the Amendments from the perspectives of both usefulness for decision-making and assessing the stewardship of management. EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.

6 EFRAG's assessment on whether the Amendments are not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether it meets all other technical criteria and whether they lead to prudent accounting. EFRAG's assessment also includes assessing whether the Amendments do not interact negatively with other IFRS Standards and whether all necessary disclosures are required. Detailed assessments are included in this appendix in the following paragraphs:

(a) relevance: paragraphs 7 to 0;

(b) reliability: paragraphs 10 to 12;

(c) comparability: paragraphs 13 to 15;

(d) understandability: paragraphs 16 to 18;

(e) whether overall, they lead to prudent accounting: paragraphs 19 to 20; and

(f) whether they would not be contrary to the true and fair view principle as noted in paragraphs 21 to 24.

Relevance

7 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.

8 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

9 EFRAG notes that liquidity ratios are widely used in analysing financial statements, therefore the classification between current and non-current is important.

10 EFRAG were informed that following the issuance of the Amendments 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.

11 However, EFRAG noted that IAS 1 together with the Amendments are clear that an entity's expectation that it will meet the condition tested after the reporting period does not affect its assessment of the criterion in paragraph 69(d) of IAS 1. Therefore, applying paragraphs 69(d) and 72A of IAS 1, the entity's right to defer settlement of a liability for at least twelve months after the reporting period must exist at the end of the reporting period (emphasis added).

12 EFRAG observes that the assessment is performed solely based on data observed at the reporting date. EFRAG notes that this ~~and~~ could potentially disregard the contractual terms specified in the loan arrangement and the requirements may result in a changed classification for entities that have a seasonal or cyclical business or are subject to specific circumstances over time. Those entities usually negotiate loans whose covenants are adjusted to reflect such a seasonality or cyclicality or specific circumstances.~~.~~ ~~Therefore, the Amendments provide a simple approach to how an entity assesses the effects of covenants on the classification of its liabilities at the reporting date and accordingly, could result in a consistent implementation of the Amendments. EFRAG notes that simplicity should not be achieved at the expense of useful information.~~ EFRAG notes that for seasonal businesses ~~it can create a problem~~liabilities might be classified as current when the covenants are not achieved at year end but after year end, because of the seasonal fluctuations the covenant could be achieved and vice versa.

13 However, EFRAG assesses that:

(a) the amendments give a simple approach and certainty on how to do the test as at reporting date improves consistency in reporting~~taking into account expectations are subject to a lot of judgement which can affect the auditability of the information~~; and

(b) as the Amendments reconcile an apparent contradiction between paragraph 69(d) and paragraph 73 of IAS 1 and gives improved guidance on how to make the distinction between the current and non-current classification it is assessed to enhance relevance~~the information prepared as at year end would take into account the seasonal fluctuations of the previous period~~.

14 EFRAG also notes that should an entity renegotiate any of the terms (which includes covenants) of a financial instrument, that fact should be disclosed as per IFRS 7 *Financial Instruments: Disclosures*.

~~9 As the Amendments provides more guidance on how to make the distinction between the current and non-current classification it is assessed to enhance relevance.~~

Reliability

~~10~~15 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent, or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

~~11~~16 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

~~12~~17 EFRAG acknowledges that the Amendments bring about faithful presentation for the classification of liabilities as it removes the inconsistencies in the terms used in paragraph 73 and paragraph 63 of IAS 1. Therefore, EFRAG assesses that it could enhance reliability.

Comparability

~~13~~18 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

~~14~~19 EFRAG has considered whether the Amendments result in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they are similar.

~~15~~20 EFRAG acknowledges that without the Amendments preparers of financial statements sometimes find it difficult to interpret the requirement of having an '*unconditional right to defer settlement of the liability for at least twelve months*'. This resulted in entities classifying similar liabilities differently, making it hard for investors to understand and compare the financial positions of different entities. EFRAG assesses that the Amendments result in the appropriate treatment and, thus, contribute to comparability of the resulting information.

Understandability

~~16~~21 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting, and the willingness to study the information with reasonable diligence.

~~17~~22 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

~~18~~23 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of the Amendment is understandable, is whether that information will be unduly complex. Please refer to the assessment above on relevance, reliability and comparability.

Prudence

~~19~~24 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated, and liabilities or expenses are not understated.

~~20~~25 EFRAG did not identify any aspects of the Amendments that would affect prudence.

True and Fair View Principle

~~21~~26 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Standards, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

~~22~~27 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Standards and are designed to enhance the consistent application of existing requirements of IAS 1. Accordingly, EFRAG has assessed that the Amendments do not lead to unavoidable distortions or significant omissions and therefore do not impede financial statements from providing a true and fair view.

~~23~~28 EFRAG has concluded that the appropriate disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss are required.

~~24~~29 As a result, EFRAG concludes that the application of the Amendments would not lead to information that would be contrary to the true and fair view principle.

Conclusion

~~25~~30 Accordingly, for the reasons set out above, EFRAG's assessment is that the Amendments meet the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 2.2: EFRAG's technical assessment on the Classification of Liabilities as Current or Non-current against the endorsement criteria - Deferral of Effective Date

Notes to Constituents:

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments. In it, EFRAG assesses how the Amendments satisfy the technical criteria set out in the Regulation (EC) No 1606/2002 for the adoption of international accounting standards. It provides a detailed evaluation for the criteria of relevance, reliability, comparability and understandability, so that financial information is appropriate for economic decisions and the assessment of stewardship. It evaluates separately whether the Amendments lead to prudent accounting and finally considers whether the Amendments would not be contrary to the true and fair view principle.

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS Standards in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS Standard or Interpretation against the technical criteria for European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRS Standards or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Amendments meet the technical criteria for endorsement in the European Union?

~~26~~31 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (The IAS Regulation), in other words that the Amendments:

(a) are not contrary to the principle set out in Article 4 (3) of Council Directive 2013/34/EU (The Accounting Directive); and

(b) meet the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

~~27~~32 Article 4(3) of the Accounting Directive provides that:

The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

~~28~~33 The IAS Regulation further clarifies that *'to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise - this principle being considered in the light of the said Council*

Directives without implying a strict conformity with each and every provision of this Directive' (Recital 9 of the IAS Regulation).

~~29~~34 EFRAG's assessment as to whether the Amendments would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.

~~30~~35 In its assessment, EFRAG has considered the Amendments from the perspectives of both usefulness for decision-making and assessing the stewardship of management. EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.

~~31~~36 EFRAG's assessment on whether the Amendments are not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether it meets all other technical criteria and whether they lead to prudent accounting. EFRAG's assessment also includes assessing whether the Amendments do not interact negatively with other IFRS Standards and whether all necessary disclosures are required. Detailed assessments are included in this appendix in the following paragraphs:

(a) relevance: paragraphs 7 to 33;

(b) reliability: paragraphs 34 to 36;

(c) comparability: paragraphs 37 to 39;

(d) understandability: paragraphs 40 to 42;

(e) whether overall, they lead to prudent accounting: paragraphs 43 to 44; and

(f) whether they would not be contrary to the true and fair view principle as noted in paragraphs 45 to 48.

Relevance

~~32~~37 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.

~~33~~38 The original effective date of the Amendments was 1 January 2022. However, the covid-19 pandemic has put pressures that could make it more challenging to implement any changes in classification of liabilities as current or non-current resulting from the application of these Amendments. The pressures caused by the covid-19 pandemic could also delay the start and extend the duration of any renegotiation of loan covenants resulting from those changes. Consequently, EFRAG considers the operational relief provided to entities by deferring the effective date of the Amendments by one year to annual reporting periods beginning on or after 1 January 2023, with earlier application permitted seems relevant.

Reliability

~~34~~39 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent, or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

~~35~~40 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

~~36~~41 As earlier application of the Amendments is permitted, EFRAG thinks that the deferral of the effective date will not impact the reliability of the information provided.

Comparability

~~37~~42 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

~~38~~43 EFRAG has considered whether the Amendments result in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they are similar.

~~39~~44 With regard to the deferral of the effective date, EFRAG notes that there could be different classifications between entities that will early apply the Amendments and those that do not. However, EFRAG observes that entities that do early apply the Amendments need to disclose that fact. Therefore, EFRAG considers that comparability will not be significantly impacted. EFRAG also assesses that the accounting pronouncements of standards issued not yet effective in IAS 8 will further mitigate information that is not comparable.

Understandability

~~40~~45 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting, and the willingness to study the information with reasonable diligence.

~~41~~46 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

~~42~~47 EFRAG notes that the accounting pronouncements in IAS 8 relating to standards issued not yet effective will be applicable before the deferred effective date. Under this requirement entities will have to indicate the possible effect of the Amendments. Therefore, EFRAG assesses that the deferral of the effective date will not impact understandability.

Prudence

~~43~~48 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated, and liabilities or expenses are not understated.

~~44~~49 EFRAG did not identify any aspects of the Amendments that would affect prudence.

True and Fair View Principle

~~45~~50 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Standards, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

~~46~~51 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Standards and are designed to complement IAS 1. Accordingly, EFRAG has assessed that the Amendments do not lead to unavoidable distortions or significant omissions and therefore do not impede financial statements from providing a true and fair view.

~~47~~52 EFRAG has concluded that the appropriate disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss are required.

~~48~~53 As a result, EFRAG concludes that the application of the Amendments would not lead to information that would be contrary to the true and fair view principle.

Conclusion

~~49~~54 Accordingly, for the reasons set out above, EFRAG's assessment is that the Amendments meet the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 3.1: Assessing whether the Amendments are conducive to the European public good - Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

Introduction

~~50~~55 EFRAG considered whether it would be conducive to the European public good to endorse the Amendments. In addition to its assessment included in Appendix 2.1, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of the Amendments. In doing this, EFRAG considered:

(a) Whether the Amendments improve financial reporting. This requires a comparison of the Amendments with the existing requirements and how they fit into IFRS Standards as a whole;

(b) The costs and benefits associated with the Amendments; and

(c) Whether the Amendments could have an adverse effect to the European economy, including financial stability and economic growth.

~~51~~56 These assessments allow EFRAG to draw a conclusion as to whether the Amendments are likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the Amendments will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether the Amendments are likely to improve the quality of financial reporting

~~52~~57 EFRAG notes that the Amendments are designed to simplify specific aspects of the guidance on how to classify debt and other liabilities as current or non-current.

~~53~~58 EFRAG has therefore concluded that the Amendments are likely to improve the quality of financial reporting.

EFRAG's analysis of the costs and benefits of the Amendments

~~54~~59 EFRAG first considered the extent of the work. For some Standards or Interpretations, it might be necessary to carry out some extensive work, in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, as they are narrow in scope, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work.

Cost for preparers

~~55~~60 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments.

~~56~~61 The Amendments should be applied retrospectively. The Amendments simplify the existing, requirements for classification; however, they may result in changes in accounting policies in some cases. Therefore, some entities may already be applying IAS 1 in a way that is identical or very similar to that required by the Amendments, and for those entities it is likely that there will be little if any incremental cost involved.

~~57~~62 On balance, EFRAG's assessment is that the Amendments will not result in increased costs to preparers, i.e., it is likely to be cost neutral.

Costs for users

~~58~~63 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments.

~~59~~64 The Amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

~~60~~65 Overall, EFRAG's assessment is that implementation of the Amendments will not result in increased costs to users; that is, it is likely to be cost neutral.

Benefits for preparers and users

~~61~~66 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments.

~~62~~67 Overall, EFRAG's assessment is that users are likely to benefit from the Amendments, as the information resulting from it will remove inconsistency and increase comparability between entities and therefore will enhance their analysis.

Conclusion on the costs and benefits of the Amendments

~~63~~68 EFRAG's overall assessment is that the benefits of enhanced consistency of application and increased comparability are likely to outweigh costs associated with complying with the Amendments.

Conclusion

~~64~~69 EFRAG believes that the Amendments will generally bring improved financial reporting when compared to current guidance. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

~~65~~70 EFRAG has not identified that the Amendments could have any adverse effect to the European economy, including financial stability and economic growth.

~~66~~71 Furthermore, EFRAG has not identified any other factors that would mean endorsement is not conducive to the public good.

~~67~~72 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, EFRAG assesses that endorsing the Amendments is conducive to the European public good.

Appendix 3.2: Assessing whether the Amendments are conducive to the European public good - Deferral of Effective Date

Introduction

~~68~~73 EFRAG considered whether it would be conducive to the European public good to endorse the Amendments. In addition to its assessment included in Appendix 2.2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of the Amendments. In doing this, EFRAG considered:

(a) Whether the Amendments improve financial reporting. This requires a comparison of the Amendments with the existing requirements and how they fit into IFRS Standards as a whole;

(b) The costs and benefits associated with the Amendments; and

(c) Whether the Amendments could have an adverse effect to the European economy, including financial stability and economic growth.

~~69~~74 These assessments allow EFRAG to draw a conclusion as to whether the Amendments are likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the Amendments will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether the Amendments are likely to improve the quality of financial reporting

~~70~~75 EFRAG notes that the Amendments in Appendix 1.1 are designed to clarify specific aspects of the guidance on how to classify debt and other liabilities as current or non-current. Also, the Amendments in Appendix 1.2 to defer the effective date with one year could improve the quality of the information provided as it allows entities with more time to prepare and implement the Amendments.

~~71~~76 EFRAG has therefore concluded that the Amendments are likely to improve the quality of financial reporting.

EFRAG's analysis of the costs and benefits of the Amendments

~~72~~77 EFRAG first considered the extent of the work. For some Standards or Interpretations, it might be necessary to carry out some extensive work, in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, as they are narrow in scope, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work.

Cost for preparers

~~73~~78 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments.

~~74~~79 EFRAG notes that the effective date of the Amendments has been deferred. Therefore, EFRAG acknowledges that this could negatively impact preparers that already started with implementation. However, EFRAG assesses that those preparers would not be negatively impacted as the information prepared is also necessary to comply with the requirements of IAS 8 on the accounting pronouncements for standards issued not yet effective.

~~75~~80 On balance, EFRAG's assessment is that the Amendments will not result in increased costs to preparers, i.e., it is likely to be cost neutral.

Costs for users

~~76~~81 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments.

~~77~~82 EFRAG's assessment is that implementation of the Amendments will not result in increased costs to users; that is, it is likely to be cost neutral.

Benefits for preparers and users

~~78~~83 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments.

~~79~~84 The deferral of effective date will bring benefits for the preparers as they would have more time to prepare for the effective date of the Amendments, thus avoiding operational complications during the current pandemic crisis.

~~80~~85 The information resulting from it will remove potential inconsistency and increase comparability between entities and therefore will enhance their analysis. With the deferral of the effective date, EFRAG is aware that users are only to benefit from the Amendments one year later. However, this is mitigated by the fact that early adoption is allowed and by the fact that entities that do not early adopt the Amendment is required should disclose the information for standards issued not yet effective as per IAS 8.

~~81~~86 Therefore, EFRAG assessment is that users are likely to benefit from the Amendments.

Conclusion on the costs and benefits of the Amendments

~~82~~87 EFRAG's overall assessment is that the benefits of increased comparability are likely to outweigh costs associated with complying with the Amendments.

Conclusion

~~83~~88 EFRAG believes that the Amendments relating to the change in the effective date will generally bring improved financial reporting when compared to current guidance. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

~~84~~89 EFRAG has not identified that the Amendments relating to the change in the effective date could have any adverse effect to the European economy, including financial stability and economic growth.

~~85~~90 Furthermore, EFRAG has not identified any other factors that would mean endorsement is not conducive to the public good.

~~86~~91 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments relating to the change in the effective date, EFRAG assesses that endorsing the Amendments is conducive to the European public good.