

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Amendments to IAS 1) Cover Note

Objective

1. The objectives of this session are to:
 - a. provide the Board with a summary of the comments received in response to EFRAG's Invitation to Comment on its Draft Endorsement Advice on the IASB's Amendments to IAS 1 Presentation of Financial Statements: Non-current Liabilities with Covenants (Including Amendments of IAS 1: Classification of Liabilities as Current or Non-Current and Amendments of IAS 1: Classification of Liabilities as Current or Non-Current - Deferral of Effective Date) ('the Amendments'); and
 - b. discuss and approve the Final Endorsement Advice on the Amendments.

Background of the project

2. The Amendments, which were issued respectively in October 2022, January 2020 and July 2020, aim to clarify the notion of settlement, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification, specify how an entity classifies a liability arising from a loan arrangement with covenants as current or non-current, and regulate the disclosures to be provided when an entity has loan arrangements with covenants that could require the loan arrangement to become payable within twelve months after the reporting period.
3. The Amendments will apply retrospectively for annual periods beginning on or after 1 January 2024, with earlier application permitted.
4. The European Commission issued a letter requesting advice on the endorsement of the Amendments on 15 November 2022. The letter contains a standard request for



advice on the endorsement that does not identify specific issues or areas to investigate.

5. EFRAG issued its Draft Endorsement Advice (“DEA”) on 22 December 2022, which was open for consultation until 1 March 2023. In the letter, EFRAG’s preliminary assessment was that the Amendments satisfied the criteria for endorsement for use in the EU and therefore EFRAG recommended their endorsement.

Feedback from constituents on the DEA

6. EFRAG received 7 comment letters from respondents representing national standard-setter (five), one user and one preparer’s organisation (see list of respondents and links to the comment letters in Appendix 1).
7. All respondents agreed with EFRAG’s initial assessment with no further comments.

EFRAG FR TEG discussion

8. At its meeting on 16 March 2023, EFRAG FR TEG reviewed the feedback received in response to the DEA and considered the Final Endorsement Advice (“FEA”) to be recommended to the EFRAG FRB, including the following limited changes compared to the DEA:
 - a. the addition, in the first page of the cover letter to the European Commission, of the standard paragraph how EFRAG has consulted on its draft endorsement advice (see mark-up);
 - b. Removing references to ‘initial’ assessments or ‘draft’ letter to the EC wherever relevant; and
 - c. Removing the note to constituents at the beginning of Appendix 2.
9. EFRAG FR TEG advises the EFRAG FRB to approve the Final Endorsement Advice (“FEA”) on the Amendments as attached in the Agenda Paper 09-02.

Questions for EFRAG FR Board

10. Does EFRAG FR Board agree to approve the Final Endorsement Advice contained in agenda paper 09-02?

Next steps

11. EFRAG to submit the FEA to the EC.

Agenda Papers

12. In addition to this cover note, agenda papers for this session are:
 - a. Agenda paper 09-02 – Letter to the EC Providing Advice – Amendments to IAS 1 (clean); and
 - b. Agenda paper 09-03 – Letter to the EC Providing Advice – Amendments to IAS 1 (mark-up).



Appendix I: List of respondents

1. The comment letters were received from the following organisations (links to the letters are provided with the respondents' names):

Respondent	Type	Country
Instituto de Contabilidad y Auditoría de Cuentas (ICAC)	National Standard Setter	Spain
Austrian Financial Reporting and Auditing Committee (AFRAC)	National Standard Setter	Austria
Norsk Regnskapsstiftelse (NASB)	National Standard Setter	Norway
Organismo Italiano di Contabilità (OIC)	National Standard Setter	Italy
Martin Radosvetov Petrov	User	Bulgaria
German Insurance Association (GDV)	Preparers' organisation	Germany
Comissão de Normalização Contabilística (CNC)	National Standard Setter	Portugal

