

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR 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 FRB or EFRAG FR 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 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) consider 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) agree to recommend to the EFRAG FRB a Final Endorsement Advice.

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](#) 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.

Summary of comments received on the Draft Endorsement Advice

- 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.
- 8 Therefore, EFRAG Secretariat suggests no changes to the assessment in EFRAG's Final Endorsement Advice, except for the following limited changes:
 - (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.

Questions for EFRAG FR TEG

- 9 Does EFRAG FR TEG agree to recommend the Final Endorsement Advice contained in agenda paper 03-02, to the EFRAG FRB?

Agenda Papers

- 10 In addition to this cover note, agenda paper 03-02 – Letter to the EC Providing Advice – Amendments to IAS 1 – has been provided for the session.

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