



International Accounting Standards Board
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Cc
Efrag

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Exposure Draft ED/2021/9

Non-current liabilities with covenants

Thank you for the opportunity to respond to the ED. The Swedish Enterprise Accounting Groups agrees that information regarding material conditions that a reporting entity has to comply with to defer settlement of long-term liabilities should be required. However, the disclosure requirements in the ED are too far reaching. We also think the Board should reconsider the requirement to separately disclose liabilities with covenants that need to be reached within twelve months on the face of the statement of financial position. We have provided more detailed comments to the specific question posed in the ED in the appendix below.

Kind regards

CONFEDERATION OF SWEDISH ENTERPRISE

Sofia Bildstein-Hagberg
Secretary of the Swedish Enterprise Accounting Group

The Swedish Enterprise Accounting Group, SEAG, is a preparer network that represents around 50 industrial and commercial corporates, most of them listed. The largest members of SEAG are active through sales or production in more than 100 countries.

Appendix

Question 1—Classification and disclosure

The Board proposes to require that, for the purposes of applying paragraph 69(d) of IAS 1, specified conditions with which an entity must comply within twelve months after the reporting period have no effect on whether an entity has, at the end of the reporting period, a right to defer settlement of a liability for at least twelve months after the reporting period. Such conditions would therefore have no effect on the classification of a liability as current or non-current. Instead, when an entity classifies a liability subject to such conditions as non-current, it would be required to disclose information in the notes that enables users of financial statements to assess the risk that the liability could become repayable within twelve months, including:

- (a) the conditions (including, for example, their nature and the date on which the entity must comply with them);
- (b) whether the entity would have complied with the conditions based on its circumstances at the end of the reporting period; and
- (c) whether and how the entity expects to comply with the conditions after the end of the reporting period.

Paragraphs BC15–BC17 and BC23–BC26 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We believe it is reasonable to require disclosure of the conditions that the entity has to comply with to defer settlement of liabilities if material, as proposed in paragraph 76ZA (b) (i). Regarding the proposed requirement in the same paragraph (b) (ii) to disclose information on whether the entity has complied with the conditions at the reporting date, we believe that this is justifiable only if this cannot be assessed based on other information provided in the financial report. Information that is forward looking, as proposed in (b) (iii) should not be required as it may violate capital market regulations.

Question 2—Presentation

The Board proposes to require an entity to present separately, in its statement of financial position, liabilities classified as non-current for which the entity's right to defer settlement for at least twelve months after the reporting period is subject to compliance with specified conditions within twelve months after the reporting period.

Paragraphs BC21–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, do you agree with either alternative considered by the Board (see paragraph BC22)? Please explain what you suggest instead and why.

We do not agree with the proposal to separately disclose non-current liabilities for which deferral of settlement for twelve months after the reporting period is subject to specified conditions. In our experience, a considerable portion of lending agreements contain conditions that may be interpreted as such covenants that would require separate disclosure. Thus, it is doubtful whether the additional category of liabilities would provide stakeholders with useful information.

Question 3—Other aspects

The Board proposes to:

(a) clarify circumstances in which an entity does not have a right to defer settlement of a liability for at least twelve months after the reporting period for the purposes of applying paragraph 69(d) of IAS 1 (paragraph 72C);

(b) require an entity to apply the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with earlier application permitted (paragraph 139V); and

(c) defer the effective date of the amendments to IAS 1, Classification of Liabilities as Current or Non-current, to annual reporting periods beginning on or after a date to be decided after exposure, but no earlier than 1 January 2024 (paragraph 139U). Paragraphs BC18–BC20 and BC30–BC32 of the Basis for Conclusions explain the Board's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

We have no comments to these proposals.