AASB Exposure Draft

ED 316
December 2021

Non-current Liabilities with Covenants

Proposed amendments to AASB 101

Comments to the AASB by 3 February 2022

Australian Government
Australian Accounting Standards Board

How to Comment on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 3 February 2022. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 21 March 2022.

Formal Submissions

Submissions should be lodged online via the "Current Projects – Open for Comment" page of the AASB website as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

ISSN 1030-5882

AASB REQUEST FOR COMMENTS

The Australian Accounting Standards Board's (AASB's) policy is to incorporate International Financial Reporting Standards (IFRS Standards) into Australian Accounting Standards. Accordingly, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

   (a) not-for-profit entities; and

   (b) public sector entities, including GAAP/GFS implications;

2. whether the proposals would create any auditing or assurance challenges;

3. whether, overall, the proposals would result in financial statements that would be useful to users;

4. whether the proposals are in the best interests of the Australian economy; and

5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

November 2021

IFRS® Standards
Exposure Draft ED/2021/9

Non-current Liabilities with Covenants

Proposed amendments to IAS 1

Comments to be received by 21 March 2022

IASB®

IFRS®

Exposure Draft

Non-current Liabilities with Covenants

Proposed amendments to IAS 1

Comments to be received by 21 March 2022

Exposure Draft ED/2021/9 *Non-current Liabilities with Covenants* is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by 21 March 2022 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

ISBN: 978-1-914113-54-3

Copies of IASB publications may be ordered from the Foundation by emailing customerservices@ifrs.org or visiting our shop at https://shop.ifrs.org.

IFRS®

The Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office in the Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD.

CONTENTS

Introduction

Why is the Board publishing this Exposure Draft?

IAS 1 *Presentation of Financial Statements* requires that, for an entity to classify a liability as non-current, the entity must have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period (right to defer settlement).

In January 2020 the International Accounting Standards Board (Board) issued *Classification of Liabilities as Current or Non-current* (2020 amendments). The 2020 amendments clarified aspects of how entities classify liabilities as current or non-current; in particular, how an entity assesses whether it has the right to defer settlement of a liability when that right is subject to compliance with specified conditions (often referred to as 'covenants') within twelve months after the reporting period.

In response to questions from stakeholders, the IFRS Interpretations Committee (Committee) published a tentative agenda decision explaining how to apply the 2020 amendments to particular fact patterns. The tentative agenda decision explained that an entity does not have the right to defer settlement of a liability—and thus classifies the liability as current—when the entity would not have complied with specified conditions based on its circumstances at the end of the reporting period, even if compliance with such conditions were required only within twelve months after the reporting period.

Respondents to the tentative agenda decision raised concerns about the outcomes and potential consequences of the 2020 amendments in some situations. The Committee reported this feedback to the Board, highlighting new information that the Board had not considered when developing the amendments.

Proposal in this Exposure Draft

Having considered the new information, the Board decided to propose narrow-scope amendments to IAS 1. The proposed amendments would specify that conditions with which an entity must comply within twelve months after the reporting period do not affect classification of a liability as current or non-current. Instead, entities would present separately, and disclose information about, non-current liabilities subject to such conditions.

The proposed amendments would also defer the effective date of the 2020 amendments so that entities are not required to change their assessment of the classification of liabilities before the proposed amendments are in effect.

The Board concluded that the proposed amendments would improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with conditions, in addition to addressing concerns raised in response to the Committee's tentative agenda decision.

Next step

The Board will consider the comments it receives on the Exposure Draft and will decide whether to proceed with the proposed amendments. The Board plans to complete any resulting amendments in the second half of 2022.

Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the Board should consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Questions for respondents

Question 1—Classification and disclosure (paragraphs 72B and 76ZA(b))

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.