IFRS

STAFF PAPER

July 2019

IASB® meeting

Project	**Classification of Liabilities as Current or Non-current (Amendments to IAS 1)**
Paper topic	Cover paper

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Introduction

1. The Exposure Draft *Classification of Liabilities* (Exposure Draft) proposed amendments to paragraphs 69–76 of IAS 1 *Presentation of Financial Statements*. Those paragraphs specify requirements for classifying of liabilities as current or non-current.

2. At this meeting, the Board will continue its discussion of comments on the Exposure Draft proposals.

Papers for this meeting

3. There are two papers for this meeting:

   (a) **Agenda Paper 29A** discusses comments on the proposals for classifying liabilities with equity-settlement features;

   (b) **Agenda Paper 29B** discusses comments on the proposals for transition and early application.

Other information

4. The Exposure Draft proposals are reproduced in Appendix A to this paper.

5. The Board discussed comments on aspects of the Exposure Draft proposals at its meetings in December 2015, February 2016, November 2018 and March 2019. Its tentative decisions at those meetings are reproduced in Appendix B to this paper.

Next steps

6. If the Board reaches decisions on the topics to be discussed at this meeting, the staff will next ask the Board review the due process carried out on this project, decide whether to give staff permission to begin the balloting process, and select an effective date for the amendments. These matters would be discussed at a future meeting.

Appendix A—Proposals in Exposure Draft *Classification of Liabilities*

[Draft] Amendments to IAS 1 *Presentation of Financial Statements*

Paragraphs 69 and 71 are amended. Paragraphs 72–76 have been amended and reorganised so that similar examples are grouped together. Consequently, paragraphs 74–76 are deleted and paragraphs 72 and 73 have been renumbered as 73R(b) and 72R(a) respectively. Paragraph 139Q is added. Deleted text is struck through and new text is underlined. Paragraph 70 is not amended but has been included for ease of reference. The paragraphs that have been reorganised so that similar examples are grouped together are shown in the following table:

Source paragraph reference	Destination reference
72	73R(b)
73	72R(a)
74	73R(a)
75	72R(b)
76	73R(c)

Current liabilities

69 **An entity shall classify a liability as current when:**

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) it does not have ~~an unconditional~~ <u>a</u> right <u>at the end of the reporting period</u> to defer settlement of the liability for at least twelve months after the reporting period (see paragraph ~~73~~ <u>72R</u>). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

<u>For the purposes of classification as current or non-current, settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services that results in the extinguishment of the liability.</u>

70 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs ~~75~~ 72R(b) and ~~74~~ 73R(a).

72R The following are examples of circumstances that create a right to defer settlement that exists at the end of the reporting period and, thus, affect the classification of the liability in accordance with paragraph 69(d).

(a) [Existing paragraph 73.][1] If an entity ~~expects, and~~ has the ~~discretion,~~ right to ~~refinance or~~ roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. ~~However, when refinancing or rolling~~ When the entity does not have the right to roll over the obligation ~~is not at the discretion of the entity, (~~because, for example, there is no arrangement ~~for refinancing~~ in place at the end of the reporting period for rolling over the obligation~~)~~, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

(b) [Existing paragraph 75.] ~~However,~~ When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable within twelve months after the reporting period, the entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

73R The following are examples of circumstances that do not create a right to defer settlement that exists at the end of the reporting period.

(a) [Existing paragraph 74.] When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have ~~an unconditional~~ a right to defer its settlement for at least twelve months after that date.

(b) [Existing paragraph 72.] An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

[1] These references to the existing paragraphs of IAS 1 were not in the Exposure Draft. They are added to this appendix for ease of reference.

(i) the original term was for a period longer than twelve months, and

(ii) an agreement to refinance, or to reschedule the payments of an existing loan, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

(c) [Existing paragraph 76.] In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are ~~disclosed as~~ non-adjusting events in accordance with IAS 10 *Events after the Reporting Period* and do not affect classification at the end of the reporting period:

(i) refinancing on a long-term basis;

(ii) rectification of a breach of a long-term loan arrangement; and

(iii) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.

An entity discloses non-adjusting events in accordance with IAS 10.

74–76 [Deleted]

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Transition and effective date

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139Q [Draft] *Classification of Liabilities* (Amendments to IAS 1), issued in [date to be inserted after exposure] amended paragraphs 69 and 71 and amended and reorganised paragraphs 72–76. Paragraphs 74–76 are deleted and paragraphs 72 and 73 have been renumbered as 73R(b) and 72R(a) respectively. Some paragraphs have been reorganised so that similar examples are grouped together. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure] retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Appendix B—Subsequent tentative decisions

	Tentative decisions
IASB *Update* December 2015	**Comment letter analysis (Agenda Paper 12B)** • No decisions were made.
IASB *Update* February 2016	**Conditions tested after the end of the reporting period (Agenda Paper 12B)** • The Board tentatively decided that: (a) compliance with any conditions in the lending agreement should be assessed as at the reporting date; (b) any requirement in the lending agreement to test compliance with those conditions at a date after the end of the reporting period should not change the requirement for classification to be based on an assessment of compliance as at the end of the reporting period; (c) the proposed amendments should require that compliance with a condition as at the end of the reporting period should determine whether a right that is subject to that condition should affect classification (as described in paragraph BC4 of the ED); (d) when an agreement includes a periodic review clause, in which the lender has the right to demand repayment, the entity has a right to defer settlement only up to the date of the periodic review; and (e) the Board's proposals, that classification of a liability is based on rights in existence at the end of the reporting period and compliance with any conditions is assessed as at the end of the reporting period, should not be amended in respect of a periodic review clause.
IASB *Update* November 2018	**Implications of proposals for particular facts and circumstance (Agenda Paper 29)** • The Board tentatively decided that, as proposed in the Exposure Draft, IAS 1 should require an entity to classify a liability as current if the entity does not have a right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period.

	• The Board tentatively decided to add to IAS 1 a reminder that an entity's right to defer settlement must have substance. • The Board tentatively decided to clarify in IAS 1 that: (a) an entity's right to defer settlement is not affected by: i. management's expectations about whether the entity will exercise that right; and ii. settlement of a liability between the end of the reporting period and the date the financial statements are authorised for issue; and (b) although these factors do not affect the classification of a liability, an entity may need to disclose information about them to comply with the disclosure requirements of IFRS Standards. • The Board discussed differences between the requirements of IAS 1 and proposed requirements on the classification of debt being developed by the US Financial Accounting Standards Board and tentatively decided not to consider further amendments to IAS 1.
IASB *Update* March 2019	**Liabilities with equity-settlement features (Agenda Paper 29A)** • The Board tentatively decided to clarify the IAS 1 requirements for classifying liabilities with equity-settlement features by: (a) clarifying the circumstances in which an obligation to transfer the entity's own equity instruments affects the classification of a liability: (b) clarifying that the existing and proposed references to equity instruments are to the entity's own equity instruments. (c) aligning the terminology—referring to the 'transfer to the counterparty' (not 'issue') of the entity's own equity instruments. The term transfer would apply to any means of delivering the entity's equity instruments to the counterparty, including issuing new instruments. **Lending conditions tested after the reporting period (Agenda Paper 29B)** • The Board tentatively decided not to add further guidance on how to test compliance with conditions linked to the entity's financial performance.