Contact(s) Luci Wright lwright@ifrs.org +44 (0)20 7246 6914

Project **Annual Improvements—2010-2012 cycle**

Topic **IAS 1 *Presentation of Financial Statements*—current/non-current classification of debt (rollover agreements)**

Introduction

1. The IFRS Interpretations Committee (the Committee) received a request in October 2010 to clarify the meaning of 'unconditional right to defer settlement' in paragraph 69(d) of IAS 1 *Presentation of Financial Statements*.

Purpose of the paper

2. This paper will:
   - (a) provide background information and analysis of the issue;
   - (b) make a recommendation for:
     - (i) the proposed amendment to IAS 1 as presented in Appendix A;
     - (ii) an assessment of the proposed amendments against the criteria for inclusion in Annual Improvements; and
   - (c) ask the Board whether they agree with the recommendation.

Background and analysis of the issue

3. The original submission received by the Committee requested clarification of one of the criteria for classification of liabilities in paragraph 69 of IAS 1, as read with paragraph 73. Specifically, the submission asked for guidance on what an 'unconditional right to defer settlement' means.

4. In agenda paper 11 discussed at the Committee's November 2010 meeting[1], the Committee considered scenarios in which an agreement was reached before the reporting date to refinance an existing borrowing with:

   (a) the same lender;

   (b) a different lender; and with

   (c) the same terms and

   (d) different terms.

5. The debate concerned the classification of the existing debt at reporting date, under the different circumstances. There were mixed views among the Committee members as to whether the existing borrowing should be classified as current or non-current. Consequently, the Committee asked us to perform outreach with the National Standard Setters group to assess the level of diversity in practice, and to report the results back to its January 2011 meeting[2].

6. From the outreach responses received, we drew the following conclusions:

   (a) When IAS 1 paragraph 69(d) is read with paragraph 73, it seems that this is interpreted to mean that an existing liability that is due within 12 months after the reporting date may be classified as non-current, if it is renegotiated for at least another 12 months, *with the same lender at the same, or similar, terms*.

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[1] http://www.ifrs.org/NR/rdonlyres/3A756C3A-D1B0-41F1-AA68-9D78ABA08756/0/1011obs1111AIAS1.pdf
[2] http://www.ifrs.org/NR/rdonlyres/792110CF-3955-4006-9796-17F6B3265571/0/081101Obs08IAS1currentnoncurrentclassificationresultsofoutreach.pdf

(b) Where an existing liability that is due within 12 months after the reporting date is negotiated with a *new lender (regardless of the terms)*, it seems that paragraph 73 is interpreted not to apply, and the existing liability will be classified as current.

(c) As for the situation where an existing liability due within 12 months after the reporting date is renegotiated for at least another 12 months, *with the same lender at different terms,* some think that paragraph 73 applies—that is, the existing liability would be classified as non-current under these circumstances. Some think that it does not apply, that is the existing liability would be classified as current.

7. It was clear to the Committee that paragraph 73 needed to be clarified, to address the confusion that seemed to be arising in practice in circumstances such as those described in (c), above. We therefore recommended to the Committee that the wording of paragraph 73 of IAS 1 should be amended to clarify that it deals with situations in which an existing loan is renegotiated with the same lender, at the same or similar terms:

> If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Annual Improvements criteria assessment

8. For ease of reference the criteria are reproduced in full in Appendix B to this paper. We analyse below the proposed amendment against those criteria:

(a) The proposed amendment clarifies or corrects existing IFRSs.

The proposed amendment provides clarification in determining whether a liability renegotiated before the end of the reporting period, should be classified as current or non-current.

(b) *The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.*

The proposed amendment has a narrow and well-defined purpose—it is limited to instances where a liability is renegotiated before the end of the reporting period No consequential amendments are considered necessary.

(c) *It is probable that the IASB will reach a conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.*

We believe that the IASB could reach a conclusion on a timely basis on this issue.

(d) *If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.*

IAS 1 is the subject of the Financial Statement Presentation project. According to that project team, the general distinction between current and non-current has been considered, but has not been brought in front of the Board yet. The timing of when the FSP standard will be issued has not been decided yet. We think that, because of the delay to the FSP project, this issue should be addressed through Annual Improvements.

9. Consequently, we think that the proposed amendment is a candidate for Annual Improvements.

Transition provisions

10. We have considered the transition provisions in respect of paragraph 22 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, requiring retrospective application. However, given the sensitivity of the impact of the change and given that the proposed clarification may cause a change in loan renegotiations, we think that the proposed amendment to IAS 1 be applied prospectively as of the beginning of the annual period in which it is initially applied. The amendment would not need to be applied to comparative information that is provided for periods before initial application of the amendment.

Consequential amendments

11. We reviewed other IFRSs for possible consequences of the proposed improvements. We have not identified consequential amendments that would be triggered by the proposed improvements presented in this paper.

The Committee's recommendation to the Board

12. The Committee recommends that the Board should proceed with the proposed improvement described in paragraph 7 of this paper.

13. If the Board agrees with the Committee's recommendation, we propose a draft amendment to paragraph 73 of IAS 1 in Appendix A to this paper.

Question for the Board
Does the Board agree with the Committee's recommendation to amend paragraph 73 of IAS 1 through Annual Improvements?

Appendix A—Draft amendment to IAS 1 *Presentation of Financial Statements*

Proposed amendment to IAS 1 *Presentation of Financial Statements*

Paragraph 73 is amended (new text is underlined) and paragraph 139H is added.

73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, at the same or similar terms, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Transitional provisions and effective date

139H Paragraph 73 was amended by *Improvements to IFRSs* issued in [date]. An entity shall apply this amendment prospectively for annual periods beginning on or after 1 July 2013. Earlier application is permitted.

Basis for Conclusions on proposed amendment to IAS 1 *Presentation of Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Changes as a result of *Improvements to IFRSs* (2012)

BC1 The Board noted that Paragraph 73 of IAS 1 was not clear when read with the words ‘an unconditional right to defer settlement’ in paragraph 69(d). The Board noted that there was inconsistency in application of the principles when an existing loan was refinanced with the same lender. Consequently, the Board proposes to amend the wording of paragraph 73, to clarify that, for the paragraph to apply, and for an existing loan that is due within 12 months of the reporting date to be classified as non-current, that it must be refinanced with the same lender, at the same or similar terms.

Appendix B—Qualifying assessment criteria for Annual Improvements

For ease of reference, we reproduce below paragraph 65A of the *Due Process Handbook for the International Accounting Standards Board* as amended by the Trustees in February 2011:

65A In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.

(a) The proposed amendment has one or both of the following characteristics:

(i) clarifying—the proposed amendment would improve IFRSs by:

- clarifying unclear wording in existing IFRSs, or
- providing guidance where an absence of guidance is causing concern.

A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.

(ii) correcting—the proposed amendment would improve IFRSs by:

- resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or
- addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.

A correcting amendment does not propose a new principle or a change to an existing principle.

(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.

(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.

(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.