STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**Annual Improvements to IFRSs 2010-2012 cycle—Comment letter analysis**		
Paper topic	IAS 1 *Presentation of Financial Statements*—Current/non-current classification of liabilities		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. The Exposure Draft *Annual Improvements to IFRSs 2010-2012 cycle* published in May 2012 (hereafter, the ED) proposes to amend IAS 1 *Presentation of Financial Statements* to clarify that a liability is classified as non-current 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**.

Objective of this paper

2. The objective of this paper is to provide an analysis of the comment letters received on the proposal to amend IAS 1 and to obtain a decision from the IFRS Interpretations Committee (the 'Interpretations Committee') on whether this issue should be recommended to the IASB for inclusion in the final *Annual Improvements to IFRSs 2010-2012 cycle* planned to be issued in 2013.

Structure of this paper

3. This agenda paper:

   (a) provides background information on the issue;

   (b) analyses the comments received as part of the Exposure Draft process; and

   (c) proposes to the Interpretations Committee that it should not recommend confirming the proposed amendment to IAS 1 and that it should rediscuss this issue at a future meeting.

4. Appendix A provides some fact patterns illustrating the issue.

Background

Current guidance in IAS 1 regarding current/non-current classification of liabilities

5. IAS 1 provides the following guidance regarding the classification of liabilities as current or non-current:

> 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 right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73)**. 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.

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:

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

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

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, 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.

Issue that led to the proposed amendment

6. The Interpretations Committee was asked to clarify the criteria for classification of liabilities as current or non-current in paragraph 69(d), when read with paragraph 73. The issue is whether a liability should be classified as non-current in the following situations:

(a) The 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 a new lender (regardless of the terms)**.

(b) The 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**.

(c) The 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 different terms**.

7. Following outreach performed with National Standard-Setters, the IASB and the Interpretations Committee noted that diversity in practice arises only for the classification of a loan that is refinanced or rolled over with the same lender but on different terms. Indeed, the Interpretations Committee observed that:

(a) There is diversity in practice in circumstances in which the 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 but at different terms**.

(b) Nearly all the respondents said that the liability would be classified as **current** when 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 a new lender** (regardless of the terms). Indeed, in that case, respondents argued that the entity has, in substance, the right to replace the original liability by a new liability (rather than the right to defer the settlement of the original liability). In other words, the original liability is considered to be settled at the date of rollover or refinancing.

(c) Nearly all the respondents said that the liability would be classified as **non-current** when 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**. Indeed, in that case, respondents argued that the entity has, in substance, the right to defer the settlement of the original liability (or the right to extend the original liability at the date of rollover or

refinancing). In other words, the original liability is not considered to be settled at the date of rollover or refinancing.

8. Fact patterns illustrating the issue are shown in Appendix A.

The IASB's proposal to address the issues raised

9. The IASB and the Interpretations Committee both agreed to propose to link the classification requirements of financial liabilities in IAS 1 with the derecognition requirements of financial liabilities in IAS 39 *Financial Instruments: Recognition and Measurement*/IFRS 9 *Financial Instruments*. According to paragraphs 40 of IAS 39 and 3.2.2 of IFRS 9, an exchange between an existing borrower and lender of debt instruments with **substantially different terms, or a substantial modification of the terms of an existing liability,** shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. According to the Basis for Conclusions of the proposed amendment to IAS 1:

> BC1 …
>
> The Board observed that there is currently diversity in practice on the classification of liabilities when different loan terms apply. According to paragraph 3.2.2 of IFRS 9 and paragraph 40 of IAS 39, a substantial modification of the terms of an existing liability shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.
>
> BC2 As a result, the Board thinks that if an entity expects, and has the discretion to refinance, an existing loan on substantially different terms, then classification of the loan as non-current at the reporting date would not be consistent with the derecognition guidance for financial liabilities if this existing loan would be derecognised less than twelve months after the reporting date, and replaced by the new refinanced loan facility at that time.

> 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 twelve months of the reporting date to be classified as non-current, an entity must expect, and have the discretion to refinance, the loan for at least twelve months after the reporting period with the same lender, on the same or similar terms. In the Board's view, terms are similar if the amendment of the terms would be expected to result in no substantial change to the rights and obligations of the parties to the loan facility.

10. The proposed amendment to IAS 1 is shown below (new text is underlined):

> 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 <u>with the same lender, on the same or similar terms</u>, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period...

Comment letter analysis

11. The summary of the comments received is the following:

    (a) Most of the respondents agree that the liability should be classified as **current** when the 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 a **new lender**.

    (b) A majority of the respondents agree:

        (i) that the liability should be classified as **non-current** when the 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**; and

(ii) that the liability should be classified as **current** otherwise (ie when the refinancing or rollover is **with the same lender at different terms**).

(c) However, some respondents disagree with the proposed amendment regarding the 'same or similar terms' notion. They think that the derecognition requirements for financial liabilities in IFRS 9/IAS 39 are **not** consistent with the classification principles for financial liabilities in IAS 1. In particular, they think that the notion of 'settlement' in paragraph 69(d) of IAS 1 (on which classification is based) is different from the notion of 'extinguishment' in IFRS 9/IAS 39 (on which derecognition of financial liabilities is based). They think that a liability should be classified on the basis of the requirement to transfer cash.

(d) Most of the respondents ask for clarification of the notions of 'same lender' and 'same or similar terms'. They note that, although the objective of the IASB is to promote consistency between the derecognition requirements for financial liabilities in IFRS 9/IAS 39 and the classification principles for financial liabilities in IAS 1, the wording used in the proposed amendment to IAS 1 differs from the wording used in IFRS 9 and IAS 39. They question whether the notion of 'same or similar terms' is similar to the notion of 'substantially different terms' in IAS 39/IFRS 9. Some respondents think that if the IASB confirms the amendment to IAS 1, the wording used in paragraph 73 of IAS 1 should be consistent with, or refer to, the derecognition requirements for financial liabilities in IFRS 9/IAS 39 (ie paragraphs 40 of IAS 39 and B.3.2.2 of IFRS 9).

(e) Some respondents observe that, in many cases, the terms of the original loan do not give the borrower the right to roll over the loan. Instead, the borrower and the original lender agree a new loan facility (which is different from the original loan facility) that gives the borrower the right to roll over the original loan into the new loan facility when the original loan matures (see for example Fact pattern 2 in Appendix A). In that

case, those respondents observe that the current practice is to classify the original loan as non-current if the borrower expects, and has the discretion, to roll over the original loan into the new loan facility for at least twelve months after the reporting period, provided that the terms of the original loan and new loan are the same or similar. In other words, the 'existing loan facility' at the end of the reporting period as mentioned in paragraph 73 of IAS 1 (which gives the borrower the right to roll over the loan) is the new loan facility agreed before the end of the reporting period (and not the original loan facility). The respondents observe that the liability to repay the original loan is derecognised in accordance with the requirements in IAS 39/IFRS 9 at the date of rollover or refinancing, because the liability is extinguished when the original loan matures. Those respondents ask whether the intention of the IASB and the Interpretations Committee is:

(i) to classify as current all those liabilities that will be derecognised less than 12 months after the reporting date. In that case, those respondents think that the proposed amendment would significantly change the current practice; or

(ii) instead to use the requirements in IAS 39/IFRS 9 regarding exchange and modification of liabilities to assess whether the loan is refinanced or rolled over on the same or similar terms as this notion is defined in IAS 39/IFRS 9.

(f) Some respondents also note that if the classification requirements for financial liabilities in IAS 1 are tied to the derecognition requirements for financial liabilities in IAS 39/IFRS 9, the assessment of whether the terms are substantially different will include a quantitative analysis based on the so-called **'10 per cent test'**. Those respondents think that this test is not appropriate for classification purposes and would be burdensome to apply. In particular, the likelihood of classification of a liability as current would increase if the loan is refinanced for a longer period. This does not seem an appropriate outcome.

(g) Other respondents ask us to deal with other issues that are not addressed in the proposed amendment. In particular, they ask for clarification of the circumstances in which an entity is considered to have the discretion to refinance or roll over a liability. Some respondents also think that the IASB should change the wording of paragraph 73 and specify that the refinancing or rollover must be highly probable (rather than based on the entity's expectations).

Staff analysis and recommendation

12. After considering the comments received from respondents, we think that the Interpretations Committee should recommend that the IASB **does not confirm** the proposed amendment to IAS 1 in its current form, for the following reasons:

    (a) We think that the proposed amendment to IAS 1 is not clear in its current form. We note that the Basis for Conclusions of the proposed amendment seems to indicate that the classification of a financial liability should depend on whether the financial liability will be derecognised less than 12 months after the reporting date. We do not think that the intention of the Interpretations Committee is that all liabilities that are derecognised less than 12 months after the reporting period should be classified as current. We note that this would significantly change the current practice (see detailed analysis below).

    (b) We think that the classification requirements for financial liabilities in IAS 1 should **not be tied** to the derecognition requirements for financial liabilities in IAS 39/IFRS 9. Indeed, in that case, the assessment of whether the terms are the same or similar will include a quantitative analysis based on the so-called '10 per cent test'. We think that this test is not appropriate for classification purposes and would raise practical issues (see detailed analysis below).

    (c) We think that the primary objective of the amendment to IAS 1 should be to provide useful information to users of financial statements. We agree

that users of financial statements might be interested in knowing whether the loan was refinanced or rolled over on the same or similar terms. But we think that the assessment of whether the terms are the same or similar should be based on a qualitative analysis that is designed specifically for classification purposes. We think that the Interpretations Committee should develop, for classification purposes, a list of qualitative indicators that would be considered for assessing whether the terms are the same or similar. We also think that this qualitative analysis should be included in the Implementation Guidance of IAS 1.

(d) We note that there are a number of issues associated with the classification of financial liabilities that were not dealt with in the proposed amendment to IAS 1. We think that the classification of financial liabilities as current or non-current is an essential information for users of financial statements. We also think that the Interpretations Committee should deal with this issue as part of a narrow-scope project to amend IAS 1. We do not think that the Interpretations Committee should deal with this issue through an annual improvement.

13. Our detailed analysis is shown below.

The proposed amendment to IAS 1 is not clear in its current form

14. We note that the proposed amendment to IAS 1 can be understood in two different ways:

(a) Alternative A: the classification of a liability is based on whether it will be derecognised less than 12 months after the reporting date;

(b) Alternative B: the classification of a liability is based on whether the loan is refinanced or rolled over on the same or similar terms as this notion is defined in IAS 39/IFRS 9;

Alternative A: the classification of a liability is based on whether it will be derecognised less than 12 months after the reporting date

15. In that case, the classification of a liability is based on whether it will be derecognised (in accordance with the requirements of IAS 39/IFRS 9) less than 12 months after the reporting date. The liability is classified as current if it is derecognised less than 12 months after the reporting date and as non-current otherwise.

16. Although the Basis for Conclusions of the proposed amendment to IAS 1 (paragraph BC2) seems to indicate that the classification of financial liabilities should depend on whether the liability will be derecognised less than 12 months after the reporting date, we think that the intention of the Interpretations Committee is instead that the classification of financial liabilities should be based on:

    (a) whether the loan is refinanced or rolled over with the same lender; and

    (b) whether the loan is refinanced or rolled over on the same or similar terms as this notion is defined in IAS 39/IFRS 9 (see Alternative B below).

17. We note that if Alternative A were to be applied, this would significantly change the current practice. Indeed, in many cases, the terms of the original loan do not give the borrower the right to roll over the loan. Instead, the borrower and the original lender agree a new loan facility (which is different from the original loan facility) that gives the borrower the right to roll over the original loan into the new loan facility when the original loan matures (see for example Fact pattern 2 in Appendix A).

18. In that case, the current practice is to classify the original loan as non-current if the borrower expects, and has the discretion, to roll over the original loan into the new loan facility for at least twelve months after the reporting period, provided that the terms of the original loan and new loan are the same or similar. In other words, the 'existing loan facility' at the end of the reporting period as mentioned in paragraph 73 of IAS 1 (which gives the borrower the right to roll over the loan) is the new loan facility (and not the original loan facility).

19. However, if the IASB were to follow Alternative A, the liability to repay the original loan would be classified as current in the situations described above, even if the original loan is refinanced or rolled over (for at least 12 months after the reporting period) on the same or similar terms. Indeed, the liability to repay the original loan is derecognised in accordance with the requirements in IAS 39/IFRS 9 at the date of rollover or refinancing, because it is extinguished when the original loan matures.

20. For example, in Fact patterns 2 to 5 described in Appendix A of this paper, the liabilities would all be classified as current because the original liability is extinguished at the date the original loan matures and is therefore derecognised at this date.

21. Liabilities would be classified as non-current only when they are not derecognised less than 12 months after the reporting date, ie when:

    (a) the terms of the **original loan** give the borrower the right to roll over the loan on the same or similar terms for at least 12 months after the reporting period (ie the liability to repay the original loan is not extinguished at the date of refinancing or roll over; see Fact pattern 1 in Appendix A);

    (b) there is an **exchange** between an original loan and a new loan before the end of the reporting period with the same or similar terms and the maturity date of the loan is deferred for at least 12 months after the reporting date. See Fact pattern 6 in Appendix A ; or

    (c) there is a **modification** of the terms of the original loan before the end of the reporting period that is not considered to be substantial and the maturity date of the loan is deferred for at least 12 months after the reporting period.

Alternative B: the classification of a liability is based on whether the loan is refinanced or rolled over on the same or similar terms as this notion is defined in IAS 39/IFRS 9

22. In that case, the classification of a liability is based on whether:

(a) the loan is refinanced or rolled over with the same lender; and

(b) the loan is refinanced or rolled over on the same or similar terms as this notion is defined in IAS 39/IFRS 9.

23. The liability is classified as current if there is a change of lender or if the loan is refinanced or rolled over with the same lender on substantially different terms less than 12 months after the reporting date. The liability is classified as non-current if the loan is refinanced or rolled over for at least 12 months after the reporting date with the same lender on the same or similar terms (regardless of whether the liability to repay the loan that is refinanced or rolled over is derecognised at the date of refinancing or rollover). We think that the initial intention of the Interpretations Committee was to apply Alternative B (and not Alternative A), despite what is written in paragraph BC2 of the proposed amendment to IAS 1.

24. However, we do not think that the Interpretations Committee should follow Alternative B. Indeed, we do **not** think that the classification requirements for financial liabilities in IAS 1 should be tied to the derecognition requirements for financial liabilities in IAS 39/IFRS 9 (see section below).

25. If Alternative B were to be applied to the fact patterns presented in Appendix A, in Fact patterns 1, 2, 3 and 6, the liability would be classified as current if the loan is refinanced or rolled over on substantially different terms and as non-current otherwise. But the assessment of whether the terms are the same or similar would raise practical issues (see comments on the '10 per cent test' in the section below). In Fact pattern 5, the liability would be classified as current because the loan is rolled over with a new lender. In Fact pattern 4, there is an additional issue because the interest rate of the loan that is rolled over is not decided at the end of the reporting period.

The classification requirements for financial liabilities in IAS 1 should not be tied to the derecognition requirements for financial liabilities in IAS 39/IFRS 9.

26. If the classification requirements for financial liabilities in IAS 1 are tied to the derecognition requirements for financial liabilities in IAS 39/IFRS 9 (respectively

paragraphs 40 and 3.3.2), the assessment of whether the terms are the same or similar will include a quantitative analysis based on the so-called '10 per cent test'. We think that this test is not appropriate for classification purposes and would raise practical issues. Indeed, according to IAS 39/IFRS 9 (paragraphs AG32 of IAS 39 and B.3.3.6 of IFRS 9), the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least **10 per cent different** from the discounted present value of the remaining cash flows of the original financial liability.

27. We note that this test was initially developed for derecognition purposes (and not for classification purposes). We also note that if the Interpretations Committee decides to follow Alternative B described in the section above, entities would have to apply the '10 per cent test' for classification purposes, despite the fact that it is not needed for derecognition purposes. Indeed, as mentioned above, in many cases, the original loan that is rolled over or refinanced is extinguished when it matures, and the corresponding liability is therefore derecognised. In those cases, entities do not need to assess whether the loan is refinanced or rolled over on the same or similar terms within the context of the derecognition requirements (and therefore do not need to apply the '10 per cent test'). Entities only need to apply the '10 per cent test' within the context of the derecognition requirements when the original loan is replaced before it matures, or when the terms of the original loan are modified before it matures (such as in Fact pattern 6 described in Appendix A).

28. We also note that the application of the '10 per cent test' would raise practical issues, as mentioned by some of the respondents. For most rollover or refinancing agreements, the interest rate of the new loan is reset at the date of rollover or refinancing, ie after the reporting date. However, the '10 per cent test' would have to be performed at the reporting date for classification purposes. This raises the question of how the cash flows of the rolled-over loan would be decided. One solution would be to use forward rates, but this would add additional complexity for many entities.

29. Lastly, as noted by some respondents, the outcome of the '10 per cent test' does not seem to conform to the principles in IAS 1. Indeed, the '10 per cent test' is mainly based on the difference between the new interest rate and the original interest rate. This means that the likelihood of classification of a liability as current increases if the loan is rolled over or refinanced for a longer period (eg for 10 years instead of for 1 year). This does not seem an appropriate outcome. As a result, for all the reasons mentioned above, we do not think that the '10 per cent test' is appropriate for classification purposes.

Questions—proposed amendment to IAS 1
1. Does the Interpretations Committee agree to recommend that the IASB does not confirm the proposed amendment to IAS 1 in its current form? 2. Does the Interpretations Committee agree to recommend to the IASB that it should amend IAS 1 as part of a narrow-scope project? 3. In that case, does the Interpretations Committee agree to rediscuss this issue in a future meeting and to make some recommendations to the IASB about the scope of the project and the ways to address the issues regarding the classification of liabilities as current or non-current?

Appendix A: Fact patterns illustrating the issue

A1. We provide below several fact patterns that illustrate the issue.

Fact pattern 1

> Fact pattern 1: Entity A has an outstanding floating interest rate loan under a loan facility with Bank B that is due to be repaid 6 months after the end of the reporting period. Under the terms of the loan facility:
>
> - Entity A has the discretion to roll over the loan for another 12 months when the loan matures;
> - if Entity A decides to roll over the loan when it matures, the floating interest rate of the loan is reset to the floating market rate at the date of rollover.

A2. In Fact pattern 1, it should be noted that:

(a) the terms of the original loan facility give Entity A the right to roll over the loan when it matures. In other words, the 'existing loan facility' as mentioned in paragraph 73 of IAS 1 (which gives Entity A the right to roll over the loan) is the **original** loan facility;

(b) the interest rate reference of the loan is not changed (ie it remains the same floating rate reference). However, the interest rate is reset to market rates, ie the floating interest rate is adjusted to reflect the risk-free rate and the spread at the date of reset (including the debtor's credit risk, other risk components at the date of reset and margin elements).

Fact pattern 2

> Fact pattern 2: Entity A has an outstanding floating interest rate loan under a loan facility with Bank B that is due to be repaid 6 months after the end of the reporting period. Under the terms of this loan facility (referred to as the original loan facility), Entity A does **not** have the discretion to roll over the loan when the loan matures. Before the end of the reporting period, Entity A and Bank B agree a new loan facility that expires in 3 years. Under the terms of the new loan facility:
>
> - Entity A has the discretion to roll over the original loan into the new loan facility when the original loan matures (and to maintain the outstanding balance of the original loan for the term of the new loan facility, ie 3 years);

> - if Entity A decides to roll over the original loan into the new loan facility when the original loan matures, the floating interest rate of the loan is reset to the floating market interest rate at the date of roll over into the new loan facility; and
> - the other terms of the original loan are not modified.

A3. In Fact pattern 2, it should be noted that:

(a) the terms of the original loan facility do not give Entity A the right to roll over the loan when it matures. Instead, it is the terms of the new loan facility (agreed by Entity A and Bank B before the end of the reporting period) that give Entity A the right to roll over the original loan (into the new loan facility). In other words, the 'existing loan facility' as mentioned in paragraph 73 of IAS 1 (which gives Entity A the right to roll over the loan) is the **new** loan facility.

(b) The interest rate reference of the loan is not changed (ie it remains a floating rate reference). However, the interest rate is reset to market rates, ie the floating interest rate is adjusted to reflect the risk-free rate and the spread at the date of reset (including the debtor's credit risk, other risk components at the date of reset and margin elements).

Fact pattern 3

> Fact pattern 3: same fact pattern as Fact pattern 2, except that under the terms of the new loan facility:
>
> - if Entity A decides to roll over the original loan into the new loan facility when the original loan matures, the floating interest rate of the loan is reset to a fixed market interest rate at the date of rollover into the new loan facility.
> - There is a substantial change in covenants.

A4. In Fact pattern 3, it should be noted that the interest rate reference of the new loan facility is modified (from a floating interest rate to a fixed interest rate) and there is a substantial change in covenants.

Fact pattern 4

<u>Fact pattern 4:</u> same fact pattern as Fact pattern 2, except that under the terms of the new loan facility, if Entity A decides to roll over the original loan into the new loan facility when the original loan matures, Entity A has the choice of resetting the interest rate of the loan rolled over into the new loan facility at a fixed market interest rate, or at a floating market interest rate, at the date of rollover into the new loan facility.

A5. In Fact pattern 4, it should be noted that the interest rate of the loan that is rolled over into the new loan facility is not yet decided at the end of the reporting period (although there is an existing loan facility at the end of the reporting period that gives Entity A the right to roll over the loan when it matures).

Fact pattern 5

<u>Fact pattern 5:</u> same fact pattern as Fact pattern 2, except that the new loan facility is agreed with Bank C (and not with Bank B).

A6. In Fact pattern 5, it should be noted that the lenders are different, ie the existing loan and the new loan facility are with different banks.

Fact pattern 6

<u>Fact pattern 6:</u> Entity A has an outstanding fixed-interest-rate loan under a loan facility with Bank B that is due to be repaid 6 months after the end of the reporting period. Under the terms of this loan facility (referred to as the original loan facility), Entity A does **not** have the discretion to roll over the loan when the loan matures. Before the end of the reporting period, Entity A and Bank B agree to exchange the original loan (before it matures) for a new loan that expires in 3 years. Under the terms of the new loan facility:

- Entity A and Bank B agree that there is no transfer of cash at the date of exchange of the loans;
- the interest rate of the new loan is set to a market floating interest rate at the date of exchange; and
- Entity A agrees to pay a fee to Bank B at the date of exchange.

A7. In Fact pattern 6, it should be noted that the original loan is replaced by a new loan before the original loan matures. Another, similar, fact pattern would be a modification of the terms of the original loan (before the original loan matures).