IFRS

STAFF PAPER

March 2019

**IASB® meeting**

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


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## Introduction

1. The Exposure Draft *Classification of Liabilities* published in February 2015 (Exposure Draft) proposed amendments to requirements in paragraphs 69–76 of IAS 1 *Presentation of Financial Statements*. Those requirements relate to classification of liabilities as current or non-current.

2. The Board discussed issues raised in responses to the Exposure Draft at its meetings in December 2015, February 2016 and November 2018.

## Papers for this meeting

3. The papers for this meeting discuss two remaining issues. Both issues relate to the proposal that an entity should classify a liability as non-current only if it has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

(a) **Agenda Paper 29A** discusses the classification of liabilities with equity-settlement features.

(b) **Agenda Paper 29B** discusses the classification of loans for which the entity's right to defer settlement is subject to lending conditions that will not be tested until after the end of the reporting period.

4. The Exposure Draft proposals are reproduced for reference in the appendix to this cover note.

# Appendix—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.

[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.

(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:

(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.