IFRS

STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**Classification of Debt with Covenants as Current or Non-current (IAS 1)**		
Paper topic	Comment letters on tentative agenda decision		
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Introduction

1. In January 2020, the International Accounting Standards Board (Board) issued *Classification of Liabilities as Current or Non-current*, which amended IAS 1 *Presentation of Financial Statements* and clarified how to classify debt and other financial liabilities as current or non-current in particular circumstances. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

2. In December 2020, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to informal feedback and enquiries about how an entity applies the IAS 1 amendments to particular fact patterns.

3. Specifically, the Committee discussed how an entity, applying paragraph 69(d) of IAS 1, determines whether it has the right to defer settlement of a liability for at least twelve months after the reporting period when (a) the right to defer settlement is subject to the entity complying with specified conditions; and (b) compliance with the specified conditions is tested at a date after the end of the reporting period. In the fact patterns discussed, it is assumed that the criteria in paragraph 69(a)–(c) of IAS 1 are not met.

4. The Committee discussed three fact patterns with a loan that requires an entity to maintain a particular working capital ratio—the table below summarises the three fact

patterns. In all three fact patterns, the entity is assessing whether it classifies the loan as current or non-current at the end of the reporting period (31 December 20X1).

		Case 1	Case 2	Case 3
Contract terms	Repayment date	31/12/20X6	31/12/20X6	31/12/20X6
	Testing dates	Each quarter-end	Each 31 March	31 December 20X1; then each 30 June
	Required working capital ratio	1.0	1.0	31 December 20X1: 1.0 Each 30 June: 1.1
Position at reporting date (31 December 20X1)	Working capital ratio	0.9	0.9	1.05
	Management expects to comply on testing dates?	Yes	Yes	Yes
	Additional information:	Before the reporting date, the entity obtained a waiver for three months	-	-

5. In all three fact patterns described in the tentative agenda decision, the Committee concluded that the entity is required to classify the loan as current because the entity does not have the right at the end of the reporting period (31 December 20X1) to defer settlement of the loan for at least twelve months after the reporting period.

6. In reaching its conclusion, the Committee noted that the entity's expectation in each of the three fact patterns that it will meet the condition tested after the reporting period does not affect its assessment of the criterion in paragraph 69(d) of IAS 1. Applying paragraphs 69(d) and 72A of IAS 1, the entity's right to defer settlement of a liability for at least twelve months after the reporting period must exist at the end of the reporting period.

7. The objective of this paper is to:

   (a) analyse the comments on the tentative agenda decision;

   (b) ask the Committee whether it agrees with our recommendation to report to the Board the Committee's technical analysis and conclusions on the matter together with respondents' comments on the outcomes of applying the IAS 1 amendments; and

(c) ask the Committee to decide whether to finalise (or not finalise) the agenda decision.

8. There are three appendices to this paper:

(a) Appendix A—proposed wording of the agenda decision;

(b) Appendix B—analysis of comments on other matters; and

(c) Appendix C—excerpts from IAS 1 as amended in January 2020.[1]

Comment letter summary

9. We received 36 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our website. This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Agenda Paper 3A.[2]

10. Most respondents agree (or do not disagree) with the Committee's technical analysis on all cases discussed—that is, applying the IAS 1 amendments to the three fact patterns, the entity classifies the liability as current at the end of the reporting period.

11. Some respondents disagree with the Committee's technical analysis in at least one of the cases. Most of these respondents say there is another possible reading of paragraph 72A of IAS 1. A few other respondents say it is unclear whether the explanation in paragraph BC48E of IAS 1 is relevant in assessing compliance with conditions based on financial position.

12. Although most respondents agree (or do not disagree) with the technical analysis, almost all respondents express concerns about the outcomes of applying the IAS 1

[1] This agenda paper discusses the relevant requirements in IAS 1 reflecting the amendments issued in January 2020. For Committee members' convenience, Appendix C reproduces those requirements with the IAS 1 amendments shown in marked-up text.

[2] At the date of posting this agenda paper, the Committee had received two late comment letters that are available on the website.

amendments, particularly in Cases 2 and 3. Most of these respondents suggest that the Committee not finalise the agenda decision but instead refer the matter to the Board.

13. Some respondents also raise comments on other matters, including:

    (a) how the amendments apply to other fact patterns—for example, loans with covenants based on cumulative financial performance and cashflows or loans with non-financial conditions; and

    (b) the due process regarding:

        (i) the Committee's discussion; and

        (ii) the requirements in paragraph 72A.

14. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

15. We have separately analysed comments on:

    (a) the Committee's technical analysis in the tentative agenda decision; and

    (b) the outcomes of applying the IAS 1 amendments as outlined in the tentative agenda decision and requests for standard-setting.

16. Appendix B to this paper summarises respondents' comments on other matters together with our analysis of those comments.

Technical analysis in the tentative agenda decision

The requirements in paragraph 72A

Respondents' comments

17. Most respondents agree (or do not disagree) with the Committee's technical analysis of all three cases discussed. In particular, they agree that, applying paragraph 72A to determine whether the criterion in paragraph 69(d) is met, an entity assesses at the reporting date whether it complies with specified conditions that will be tested in the twelve months after that date.

18. However, some respondents disagree with the Committee's analysis of the requirements in paragraph 72A for Case 2 and Case 3. They say paragraph 72A applies only in a specific situation—that is, to conditions requiring a specified ratio to be calculated using figures *as at the end of the reporting period* but *tested* at a later date—for example, a covenant based on the entity's financial position at the reporting date but as stated in audited financial statements, and those audited financial statements are available only after the reporting period. For example:

(a) the Malaysian Accounting Standards Board (MASB) says:

> In Case 3 in the Tentative Agenda Decision, the entity meets the working capital ratio requirement at the end of the reporting period (31 December 20X1) and is not in breach of any loan conditions at this date. Consequently, we consider that the entity complies with the loan conditions at the end of the reporting period. Paragraph 72A does not specify that the entity must comply with loan conditions at a subsequent date… Our existing understanding of the purpose of this sentence was to address the common scenario when the lender tests compliance at a future date based on the entity's financial situation as at the reporting date.

(b) ACTEO, AFEP and MEDEF say:

> Reading paragraph 72A, we note that the right should exist at the end of the reporting period, which also means that the obligation to comply with the condition should also exist at this date. With no obligation to comply at the end of the reporting period, the right to defer cannot be questioned.

Staff analysis

19. Paragraph 69(d) of IAS 1 requires an entity to assess whether it has '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). An entity is required to classify a liability as current if it does not have that right to defer settlement.

20. Paragraph 72A specifies how an entity determines whether it has the right to defer settlement when that right is subject to the entity complying with specified conditions. The paragraph states:

> … If the right to defer settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period…

21. Paragraph 72A therefore addresses circumstances in which the right to defer settlement 'is subject to the entity complying with specified conditions'. The wording in this paragraph refers not only to conditions with which an entity is required to comply on or before the reporting date, but to any condition to which the right to defer settlement is subject—that is, any condition with which the entity must comply after the reporting date, non-compliance with which makes the liability repayable within twelve months of the reporting date. In other words, although an entity is required to comply with a condition only after the reporting period, its right to defer settlement is still subject to compliance with that condition.

22. In the three cases considered by the Committee, the entity's right to defer settlement is subject to it complying with specified conditions—the entity must achieve a minimum working capital ratio at the specified testing dates within the twelve months after the reporting period. Paragraph 72A explains how to assess whether the entity has the right to defer settlement—the right to defer settlement exists only 'if the entity complies with those conditions *at the end of the reporting period*' (emphasis added). Therefore, the entity assesses its compliance, at the end of the reporting period, with all conditions to which its right to defer settlement is subject.

23. Paragraph 72A also states that 'the entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date'. We acknowledge that, if read in isolation, this sentence could be read to refer only to conditions required at the reporting date but that are verified (tested) at a later date for practical reasons. However, as discussed above, in our view the requirements in paragraph 72A as a whole specify how an entity determines whether it has the right to defer settlement when that right is subject to *any* specified condition, not only those that apply on or before the reporting date.

Relevance of paragraph BC48E

Respondents' comments

24. Paragraph BC48E of the Basis for Conclusions states:

> The Board considered whether to specify how management assesses an entity's compliance with a condition relating to the entity's cumulative financial performance (for example, profit) for a period extending beyond the reporting period. The Board concluded that comparing the entity's actual performance up to the end of the reporting period with the performance required over a longer period would not provide useful information—one of these measures would have to be adjusted to make the two comparable. However, the Board decided not to specify a method of adjustment because any single method could be inappropriate in some situations.

25. A few respondents say, if an entity is allowed to make adjustments when assessing conditions based on its cumulative financial performance as mentioned in paragraph BC48E, it is unclear why such adjustments are not allowed when assessing conditions based on the entity's financial position. For example, PwC says:

> The examples covered in the tentative agenda decision all include covenant tests of working capital ratios. These metrics are assumed to be calculated at a point in time. However, we think the distinction between a condition that can be assessed at a point in time versus an accumulating condition (as explained in BC48E of IAS 1) is arbitrary. Therefore we do not consider the current guidance and agenda decision to give sufficient clarity over covenant tests, whether these should be assessed as at the point in time at the end of the reporting period or whether judgement can be applied to make adjustments to assess these as accumulating conditions.

Staff analysis

26. In our view respondents have not raised new arguments that the Committee did not consider about the relevance of paragraph BC48E in the fact patterns described in the

tentative agenda decision. As discussed in paragraphs 35–36 of the [December 2020 agenda paper](), we think paragraph BC48E is not relevant in these fact patterns because:

(a) the Basis for Conclusion is not part of the Standard and does not contain requirements—it accompanies the Standard, explaining the reasons for the Board's decisions in developing the requirements in the Standard.

(b) the Board's observations in paragraph BC48E relate to the application of paragraph 72A to particular conditions relating to an entity's cumulative *financial performance*, not conditions relating to an entity's financial position. In our view it is clear from that explanation that the Board intended it to address particular conditions based on an entity's financial performance for a period extending beyond the reporting period (that is, when a condition includes a performance measure determined over a period longer than the period that has elapsed as at the reporting date). The Board did not intend it to address conditions based on the entity's financial position at a specified date.

Staff conclusion

27. Based on our analysis in paragraphs 17–26 and Appendix B to this paper, we continue to agree with the Committee's conclusion that, in all three cases described in the tentative agenda decision, the entity is required to classify the loan as current. Applying the requirements in paragraphs 69(d) and 72A of IAS 1, the entity does not have a right to defer settlement for at least twelve months because, at the reporting date, the entity does not comply with the specified conditions to which the right to defer settlement is subject. Accordingly, we continue to agree with the Committee's conclusion that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine how to classify the loan as current or non-current in the three fact patterns described in the tentative agenda decision.

Question 1 for the Committee
1. Does the Committee agree with the conclusion set out in paragraph 27 of this paper?

Outcomes of applying the amendments and requests for standard-setting

Respondents' comments

Outcomes and potential consequences of applying the amendments

28. Almost all respondents raise concerns about the outcomes of applying the IAS 1 amendments in at least one of the cases described in the tentative agenda decision.

29. Most respondents say the outcomes of applying the amendments do not faithfully represent the entity's financial position at the reporting date, particularly in Cases 2 and 3. They say the amendments therefore do not provide users of financial statements with useful information, with some saying the outcomes could be misleading or counterintuitive. In their view, the outcomes:

    (a) *do not reflect the intention behind the contract and its design*—the requirements ignore the design of conditions that are negotiated to cater for an entity's specific circumstances. For example, the contract may specify different conditions at different dates because the parties to the contract anticipate changes in the entity's financial position due to the seasonality of the business or growth of the entity's operations (for example, for start-up entities or entities undergoing restructuring). The requirements may therefore result in a current or non-current classification that reflects the expectations of neither the borrower nor the lender, and could result in frequent reclassifications between current and non-current.

    (b) *do not reflect the contractual rights and obligations of the parties*—classification is based on a compliance test that is not contractually required at the reporting date and that may result in a current classification even if, at the reporting date:

        (i) the lender does not have the contractual right to demand repayment; and

        (ii) the borrower does not have the contractual obligation to settle the liability at that date or within twelve months.

In Cases 2 and 3, the entity is not contractually obliged to comply with a covenant until a date after the reporting date and, therefore, does not have a contractual obligation to repay until the covenant is breached.

30. Some respondents say the IAS 1 amendments could cause other challenges. For example:

(a) to avoid a current classification, an entity might wish to obtain a waiver at the reporting date for a breach that has not yet occurred legally. Some say lenders are unlikely to agree to such a waiver.

(b) classifying a liability as current could have practical and commercial consequences, such as negatively affecting (i) an entity’s relationship with suppliers and lenders; and (ii) its ability to access financing and the cost of that financing. It could also create costs if an entity is required to renegotiate lending terms or decides to obtain a waiver to achieve a non-current classification.

(c) classifying a liability as current before a legal breach occurs would affect an entity’s financial position, which in turn could trigger current classification of other liabilities. It could also cause a legal breach of another liability subject to conditions based on the entity’s financial position at the reporting date or trigger ‘cross-default’ provisions. Some respondents also say it would affect an entity’s going concern assessment.

(d) the amendments ignore mitigating actions that an entity might undertake between the reporting date and the date compliance with the condition is tested. Respondents say this might result in actions being taken for reporting purposes and not business purposes.

31. Some respondents say entities might need to provide additional disclosures to explain the classification if they view the outcomes as counterintuitive.

Requests for standard-setting

32. Most respondents suggest that the Committee not finalise the tentative agenda decision but instead refer the matter to the Board. Some suggest that the Board reconsider the requirements before they become effective. A few suggest changing the

requirements so that an entity would classify liabilities as current or non-current either:

(a) based on management's expectations about the entity's compliance with conditions to be tested after the reporting period—these respondents say incorporating management expectations is consistent with other IFRS Standards (for example, the impairment test in IAS 36 *Impairment of Assets* or the measurement of provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*); or

(b) based only on compliance with conditions that are tested on or before the end of the reporting period—these respondents suggest that the Board address uncertainty about an entity's compliance with conditions to be tested in the future by requiring additional disclosures, not through classification as current or non-current.

Staff analysis

33. We acknowledge respondents' concerns about the outcomes and potential consequences of applying the IAS 1 amendments. We recommend reporting those concerns to the Board for its consideration. We note however that most respondents agree (or do not disagree) with the technical analysis. Comments on the outcomes of the amendments do not affect the analysis of whether the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the classification of the liability in the three fact patterns described in the tentative agenda decision.

34. The Board issued the IAS 1 amendments in January 2020 after undertaking research and public consultation over several years. We have therefore analysed whether in developing the IAS 1 amendments the Board considered comments similar to those now raised by respondents to the tentative agenda decision or whether such comments might provide the Board with new information.

Comments the Board considered

35. Some respondents to the draft amendments included in Exposure Draft *Classification of Liabilities* published in February 2015 made comments similar to some of those

made by respondents to the tentative agenda decision. In particular, the Board considered comments from stakeholders that suggested a current/non-current classification model based:

(a) on management's expectations about the entity's compliance with conditions to be tested after the reporting period (see paragraphs 36–38); or

(b) only on conditions that are tested on or before the end of the reporting period (see paragraphs 39–41).

Management's expectations

36. In developing the IAS 1 amendments, the Board specifically discussed whether management's expectations should affect classification of a liability as current or non-current. The Board decided against such a model because, among other reasons, it would place too much emphasis on management's intentions and expectations.[3]

37. A majority of respondents to the Exposure Draft agreed with the Board's approach. During redeliberations, the Board considered comments from respondents who suggested management's expectations be taken into account in determining classification, but the Board nonetheless confirmed its proposed approach.[4] In other words, the Board specifically decided that an entity's rights at the reporting date, rather than management's intentions or expectations, should determine whether the entity classifies a liability as current or non-current. Paragraph BC48C states (emphasis added) 'the Board added paragraph 75A, which explicitly clarifies that *classification is unaffected by management intentions or expectations*, or by settlement of the liability within twelve months after the reporting period'.

38. In developing the amendments, the Board therefore considered views similar to some of those expressed by respondents to the tentative agenda decision about the effect on classification of management's expectations.

[3] See paragraph BC16 of the Exposure Draft.

[4] See paragraphs 36–40 of Agenda Paper 12B for the Board December 2015 meeting.

Conditions tested on or before the end of the reporting period

39. During redeliberations of the draft amendments, the Board considered comments from stakeholders that questioned whether conditions to be tested only after the reporting period should affect whether an entity has the right to defer settlement. Similar to some respondents to the tentative agenda decision, some stakeholders suggested that such conditions should not affect classification at the reporting date because they could be breached only at a future date (that is, at the reporting date the entity is in compliance with the conditions required at that date).[5]

40. The Board considered these comments but nonetheless decided to require an entity to test compliance at the reporting date with specified conditions that could affect the right to defer settlement, even if the condition will be tested only after the reporting period.[6] The Board noted that this conclusion was consistent with views that it had included in paragraph BC4 of the Exposure Draft and decided to add it as a requirement to IAS 1 (this requirement was added as paragraph 72A of IAS 1). Paragraph BC4 of the Exposure Draft stated:

> The Board considered a number of examples of conditions that could be placed on exercising a right. The Board concluded that when a right is subject to a condition, it is whether the entity complies with that condition as at the end of the reporting period that determines whether the right should affect classification.

41. In developing the amendments, the Board therefore considered views similar to some of those expressed by respondents to the tentative agenda decision about the effect on classification of conditions tested after the reporting period.

Comments that might provide new information

42. Some of the comments raised by respondents to the tentative agenda decision might provide new information that the Board had not considered when developing the IAS 1 amendments, in particular comments about:

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[5] See paragraph 17(b) of Agenda Paper 12B for the Board February 2016 meeting.

[6] See IASB update for the Board February 2016 meeting.

(a) conditions designed to incorporate the effects of seasonality, business growth or restructuring (see paragraphs 43–44); and

(b) the information provided by classification as current or non-current (see paragraphs 46–49).

Conditions designed to incorporate the effects of seasonality, business growth or restructuring

43. As explained in paragraph 39, during redeliberations of the draft amendments, the Board considered how an entity assesses conditions that are tested after the reporting period. In reaching its decisions, the Board considered the staff view at that time that, in general:

(a) the objective of conditions tested after the reporting period is to protect the lender's interests and that, for the condition to be effective in doing so, the protection must be in place continuously; and

(b) the right to defer settlement is implicitly conditional on complying with the conditions specified by the lender, even if those conditions are tested only on a specified date or dates.[7]

44. The Board concluded that an entity should not ignore conditions to be tested after the reporting period when its right to defer settlement is subject to those conditions but, instead, determine whether it is in compliance with those conditions at the reporting date. As explained at the December 2020 Committee meeting, Board members view the requirements in paragraph 72A as an objective and relatively simple way of assessing an entity's compliance with conditions to be tested after the reporting period.

45. Feedback on the tentative agenda decision nonetheless provides information about covenants specifically designed to incorporate, for example, the expected effects of seasonality, business growth or restructuring. In developing the amendments, the Board did not specifically consider such covenants. This feedback may therefore

[7] See paragraphs 18–25 of Agenda Paper 12B for the Board February 2016 meeting.

provide new information about particular loan agreements that the Board had not considered.

Information provided by classification as current or non-current

46. The IAS 1 amendments resulted from a narrow-scope project that retained the principle in paragraph 69(d) regarding classification, but clarified its application in order to reconcile apparent contractions between paragraph 69(d)—which required an 'unconditional right' to defer settlement—and paragraph 73—which referred to an entity that 'expects, and has the discretion, to' refinance or roll over an obligation.

47. The classification requirements in IAS 1 necessarily require an entity to classify liabilities as either current or non-current (that is, the classification is binary). These requirements must be able to be applied consistently to all liabilities, irrespective of their terms and conditions which can vary widely.

48. We think feedback on the tentative agenda decision indicates that, irrespective of the basis for assessing whether an entity has the right to defer settlement, the information provided by a binary classification of liabilities as current or non-current, alone, might be insufficient to allow an understanding of an entity's financial position when an entity's right to defer settlement is subject to compliance with specified conditions after the reporting period.

49. The Board might wish to consider whether entities should be required to provide further information about such conditions and their effect on an entity's exposure to liquidity risk, in addition to the disclosures already required by IFRS 7 *Financial Instruments: Disclosures*.

Should the Committee finalise the agenda decision?

50. As discussed earlier in this paper, we continue to view the principles and requirements in IFRS Standards as providing an adequate basis for an entity to determine the classification of the liability in the three fact patterns described in the tentative agenda decision. On this basis, the criteria for finalising the agenda decision are met and, if the Committee agrees with our analysis in paragraphs 19–27 of this paper, it could decide to finalise the agenda decision. Indeed, it would be extremely unusual for the Committee not to finalise an agenda decision if the criteria to do so are met. The

agenda decision, if finalised, would provide clarity about how to read and apply paragraphs 69(d) and 72A of IAS 1.

51. With that said, in this particular circumstance there are reasons not to finalise the agenda decision:

(a) the tentative agenda decision provides clarity about amendments to IAS 1 that are not yet in effect—those amendments become effective for annual reporting periods beginning on or after 1 January 2023. Because the amendments are not yet in effect (and affect classification, rather than recognition or measurement that might require more complex systems changes), there is less urgency to finalising the agenda decision than might otherwise be the case.

(b) as discussed in paragraph 42, we think some of the feedback from respondents to the tentative agenda decision—in particular about loans with covenant ratios designed to incorporate, for example, the effects of seasonality—provides new information that the Board did not specifically consider when developing the amendments. We are recommending that the Committee reports to the Board respondents' comments on the outcomes of the amendments. If the Committee agrees with this recommendation, it may be better for the Committee not to finalise the agenda decision before the Board considers those comments.

(c) finalising the agenda decision would mean communicating that the Committee decided not to add a standard-setting project to the work plan. Such communication might be confusing if the Board were to decide to undertake any standard-setting.

52. Even if the agenda decision is not finalised, we emphasise that this should not be taken as implying that application of the amendments as set out in the tentative agenda decision is inappropriate. A decision to finalise (or not finalise) the agenda decision does not change the requirements in IAS 1. Not finalising the agenda decision therefore would neither change those requirements nor change the outcomes of applying them.

53. Irrespective of the Committee's decision to finalise (or not finalise) the agenda decision, we recommend reporting to the Board the Committee's technical analysis of the three fact patterns described in the tentative agenda decision, together with

respondents' comments on the outcomes of applying the amendments. In reporting the matter to the Board, we would report all comments received on the outcomes and potential consequences of applying the amendments, and in particular highlight those that might provide information the Board did not consider when developing the amendments.

Staff recommendation

54. Based on our analysis in paragraphs 17–53, we recommend reporting to the Board:

    (a) the Committee's technical analysis and conclusions on the matter; and

    (b) respondents' comments on the outcomes and potential consequences of applying the amendments, highlighting those that might provide new information to the Board.

55. Based on the feedback received and our analysis of it, the Committee is also asked to decide whether to finalise the agenda decision. Appendix A to this paper sets out the proposed wording of a final agenda decision, marked to include recommended changes to the tentative agenda decision based on respondents' comments (see Appendix B for further details).

Questions 2–4 for the Committee

2. Does the Committee wish to finalise the agenda decision set out in Appendix A? If yes, do Committee members have any comments on the wording of the agenda decision?
3. Does the Committee agree with our recommendation set out in paragraph 54?
4. In addition to respondents' comments on the outcomes, are there any other matters Committee members would wish to report to the Board with respect to the IAS 1 amendments?

Appendix A—proposed wording of the agenda decision

A1. If the Committee decides to finalise the agenda decision, we propose the following wording for that agenda decision (new text is underlined and deleted text is struck through).

Classification of Debt with Covenants as Current or Non-current (IAS 1 *Presentation of Financial Statements*)

In January 2020 the International Accounting Standards Board (Board) issued *Classification of Liabilities as Current or Non-current*, which amended IAS 1 *Presentation of Financial Statements* and clarified how to classify debt and other financial liabilities as current or non-current in particular circumstances (IAS 1 amendments). The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

In response to feedback and enquiries from some stakeholders, the Committee discussed how an entity applies the IAS 1 amendments to particular fact patterns. Specifically, the Committee discussed how an entity, applying paragraph 69(d) of IAS 1, determines whether it has the right to defer settlement of a liability for at least twelve months after the reporting period when (a) the right to defer settlement is subject to the entity complying with specified conditions; and (b) compliance with the specified conditions is tested at a date after the end of the reporting period. In the fact patterns discussed, it is assumed that the criteria in paragraph 69(a)–(c) of IAS 1 are not met.

Fact patterns

The Committee discussed three fact patterns with a loan that requires an entity to maintain a particular working capital ratio. In all fact patterns, the entity is assessing whether it classifies the loan as current or non-current at the end of the reporting period (31 December 20X1).

Case 1

An entity has a loan with the following contractual terms:

a. the loan is repayable in five years (ie at 31 December 20X6).

b. the loan includes a covenant that requires a working capital ratio above 1.0 at each 31 December, 31 March, 30 June and 30 September. The loan becomes repayable on demand if this ratio is not met at any of these testing dates.

c. the entity's working capital ratio at 31 December 20X1 is 0.9 but the entity obtains a waiver before the reporting date with respect to the breach at that date. The waiver is for three months. Compliance with the covenant on the other testing dates continues to be required.

d. the entity expects the working capital ratio to be above 1.0 at 31 March 20X2 (and the other testing dates in 20X2).

Case 2

The fact pattern is the same as Case 1 except:

a. instead of the condition described in Case 1, the covenant requires a working capital ratio above 1.0 at each 31 March (ie the ratio is tested only once a year at 31 March). The loan becomes repayable on demand if the ratio is not met at any testing date.

b. the entity’s working capital ratio at 31 December 20X1 is 0.9. The entity expects the working capital ratio to be above 1.0 at 31 March 20X2.

Case 3

The fact pattern is the same as Case 1 except:

a. instead of the condition described in Case 1, the covenant requires a working capital ratio above 1.0 at 31 December 20X1 and above 1.1 at 30 June 20X2 (and at each 30 June thereafter). The loan becomes repayable on demand if the ratio is not met at any of these testing dates.

b. the entity’s working capital ratio at 31 December 20X1 is 1.05. The entity expects the working capital ratio to be above 1.1 at 30 June 20X2.

Application of IAS 1 to the fact patterns

Paragraph 69(d) of IAS 1 specifies that an entity classifies a liability as current when ‘it does not 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’. Paragraphs 72A and 75 of IAS 1 provide related application requirements. Paragraph 72A states that ‘if the right to defer settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date’.

Case 1

The entity’s right to defer settlement of the loan for at least twelve months after the reporting period is subject to the entity complying with a specified condition—a working capital ratio above 1.0 at 31 March, 30 June, 30 September and 31 December 20X2. The entity does not comply with the condition at the end of the reporting period because its working capital ratio is 0.9.

The entity obtains a waiver from the lender but the waiver is for only three months after the reporting period. Paragraph 75 of IAS 1 states that ‘an 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’.

Accordingly, the Committee concluded that, applying paragraph 72A and 75 of IAS 1, the entity does not have the right at the end of the reporting period to defer settlement of the loan for at least twelve months after the reporting period.

Case 2

The entity’s right to defer settlement of the loan for at least twelve months after the reporting period is subject to the entity complying with a specified condition—a working capital ratio above 1.0 at 31 March 20X2.

~~Paragraph 72A of IAS 1 states that ‘if the right to defer settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date’.~~ The entity does not comply with the condition at the end of the reporting period because its working capital ratio is 0.9.

Accordingly, the Committee concluded that, applying paragraph 72A of IAS 1, the entity does not have the right at the end of the reporting period to defer settlement of the loan for at least twelve months after the reporting period.

Case 3

The entity's right to defer settlement of the loan for at least twelve months after the reporting period is subject to the entity complying with two specified conditions—a working capital ratio above 1.0 at 31 December 20X1 and a working capital ratio above 1.1 at 30 June 20X2.

~~Paragraph 72A of IAS 1 states that 'if the right to defer settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date'.~~ The entity has a working capital ratio of 1.05 at 31 December 20X1. Therefore the entity complies with the condition tested at that date (a working capital ratio above 1.0) but does not comply with the condition that will be tested at 30 June 20X2 (a working capital ratio above 1.1).

Accordingly, the Committee concluded that, applying paragraph 72A of IAS 1, the entity does not have the right at the end of the reporting period to defer settlement of the loan for at least twelve months after the reporting period.

Conclusion

In all three fact patterns described in this agenda decision, the Committee concluded that the entity is required to classify the loan as current because the entity does not have the right at the end of the reporting period (31 December 20X1) to defer settlement of the loan for at least twelve months after the reporting period.

In reaching its conclusion, the Committee noted that the entity's expectation that it will meet the condition tested after the reporting period does not affect its assessment of the criterion in paragraph 69(d) of IAS 1. Applying paragraphs 69(d) and 72A of IAS 1, the entity's right to defer settlement of a liability for at least twelve months after the reporting period must exist at the end of the reporting period.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for the entity to determine how to classify the loan as current or non-current in the three fact patterns described in the agenda decision. Consequently, the Committee ~~[~~decided~~]~~ not to add a standard-setting project to the work plan.

Appendix B—analysis of comments on other matters

B1. This appendix includes a summary of respondents' comments on other matters together with our analysis of these comments. We have separately analysed comments on:

(a) how the amendments apply to other fact patterns;

(b) due process; and

(c) other matters.

How the amendments apply to other fact patterns

Respondents' comments

B2. Some respondents note that the Committee only considered cases in which an entity is required to comply with conditions based on its financial position. These respondents suggest that the Committee also consider how an entity applies the IAS 1 amendments to fact patterns in which an entity's right to defer settlement is subject to:

(a) conditions based on cumulative financial performance or cash flows for a period extending beyond the reporting period—for example, a condition that requires a minimum amount of revenue for a 12-month period ending on 31 March for an entity reporting as at 31 December; and

(b) non-financial conditions (ie covenants that are not based on financial position, financial performance or cash flows)—for example, delivery of audited financial statements after the end of the reporting period or change of control clauses.

B3. These respondents say it is unclear how an entity assesses performance-based conditions because paragraph BC48E of the Basis for Conclusions (reproduced in paragraph 24 above) implies that an entity is allowed to make adjustments—either to the performance up to the end of the reporting period or to the required performance—in assessing whether it has a right to defer settlement.

Staff analysis

B4. In our view, considering how the IAS 1 amendments apply to fact patterns that include conditions such as those described above in paragraph B2 is beyond the scope of this tentative agenda decision. Nonetheless, we will report to the Board respondents' comments on the application of the amendments to conditions based on cumulative performance, cash flows and non-financial conditions.

Due process

Due process regarding the Committee's discussion

Respondents' comments

B5. A few respondents comment on how the matter was brought for the Committee's consideration. They note that the Committee did not receive a formal submission and ask whether the Committee's consideration of the matter is consistent with the *Due Process Handbook*.[8] One respondent says this could raise questions about the transparency of the process for deciding which questions the Committee discusses.

B6. Another respondent says it is helpful that matters are identified and discussed by the Committee before an amendment's effective date—in its view, this supports consistent application of the amendments once they are effective. However, a few respondents say the Committee should have performed more outreach, in particular with lenders and borrowers.

Staff analysis

B7. The Committee did not receive a formal submission on the matter. However, as part of the feedback on the Board's proposal in 2020 to defer the effective date of the IAS 1 amendments, the staff and Board were made aware that different interpretations were arising in practice on how to read and apply the amendments.[9] Stakeholders said

[8] Some respondents referred to paragraph 8.2 of the *Due Process Handbook* which states (emphasis added) '…the Interpretations Committee decides that a standard-setting project should not be added to the work plan to address *a question submitted* (see paragraphs 5.13–5.19) …'

[9] See paragraph 16–19 of the Agenda Paper 29A for the Board's June 2020 meeting.

these different interpretations could result in inconsistent application of the amendments. We then contacted stakeholders informally to understand common fact patterns for which concerns about inconsistent application arose and developed the three cases in the tentative agenda decision on the basis of the information received. The paper brought to the Committee in December 2020 explained this background and the reasons for the Committee to discuss the matter.

B8. In our view, discussing this matter is consistent with the Committee's objective of supporting consistent application of IFRS Standards and its role of assisting the Board in 'improving financial reporting through *timely* assessment, discussion and resolution of financial reporting issues identified to it within the IFRS framework' (emphasis added).[10] Indeed, in our view not addressing this matter once we were made aware of concerns about inconsistent application would have been inconsistent with the Committee's role and objective.

B9. Further, we note that paragraphs 5.13–5.19 of the *Due Process Handbook*—which describe the process for the identification of matters—do not restrict the matters that the Committee addresses to only those received through a formal submission. Paragraph 5.15 states that 'stakeholders are encouraged to submit application questions to the Interpretations Committee when they view it as important that the Board or the Interpretations Committee address the matter'. These paragraphs do not prohibit the Committee from considering other matters with the objective of supporting consistent application of IFRS Standards. The Committee has in the past considered other matters that were not formally submitted to it—for example, holdings of cryptocurrencies and interests and penalties related to income taxes.

B10. As discussed at the December 2020 Committee meeting, we decided not to perform outreach on this matter because:

(a) we were aware through informal discussions with stakeholders that the fact patterns described in the tentative agenda decision (or similar variations thereof) are common. Accordingly, we concluded that the matter could be prevalent.

[10] Paragraph 1.3 of the *Due Process Handbook*.

(b) the matter relates to the application of the IAS 1 amendments and, in the light of the effective date (annual reporting periods beginning on or after 1 January 2023), there was likely to be limited observable practice at this time.

B11. In our view, further outreach was unnecessary for the purposes of addressing the fact patterns in the tentative agenda decision. We note that the purpose of bringing the matter for discussion by the Committee was solely to support consistent application of the amendments by providing clarity about their application on a timely basis.

Due process regarding the requirements in paragraph 72A

Respondents' comments

B12. Some respondents comment on the development of the requirements in paragraph 72A. They note that paragraph 72A was not included in the Exposure Draft—exposed for comment—but added as part of the Board's redeliberations of the amendments. The Board did not re-expose the amendments.

B13. Some respondents also say the Basis for Conclusions on the IAS 1 amendments do not explain the Board's reasons for adding paragraph 72A.

Staff analysis

B14. Before the IAS 1 amendments, paragraph 69(d) of IAS 1 required an entity to classify a liability as current if the entity did not have an *unconditional* right to defer settlement of the liability for at least twelve months after the reporting period. The Exposure Draft proposed to clarify that condition by:

(a) replacing 'an unconditional right' with 'a right'; and

(b) making it explicit that only the rights in place at the end of the reporting period affect the classification of a liability.

B15. As explained in paragraph 40 of this paper, the Board decided to add paragraph 72A in response to comments from stakeholders that questioned whether conditions to be tested only after the reporting period should affect whether an entity has the right to defer settlement. The Board concluded that compliance with any conditions should be assessed at the reporting date, even if the condition is tested after that date. The

Board's conclusion aligns with views it had explained in paragraph BC4 of the Exposure Draft (reproduced in paragraph 40).

B16. Therefore, the requirements in paragraph 72A:

(a) were added in response to comments on the Exposure Draft; and

(b) align with the clarification to paragraph 69(d) and with explanations included in the Basis for Conclusion on the Exposure Draft.

B17. At its September 2019 meeting, the Board discussed the due process steps undertaken in developing the IAS 1 amendments and, having considered the re-exposure criteria in paragraphs 6.25–6.29 of the *Due Process Handbook*, concluded that the amendments do not require re-exposure. Changes to the draft amendments—including the addition of paragraph 72A—were made in response to requests from respondents to the Exposure Draft and clarified the proposals without fundamentally changing them.

Other matters

B18. The following table summarises respondents' comments on other matters together with our analysis of those comments.

Respondents' comments	**Staff analysis and conclusions**
1. Wording of the tentative agenda decision A few respondents comment on the wording of the tentative agenda decision: a. *rationale for conclusions in Case 1*—a few respondents say IAS 1 provides two reasons for classification of the liability as current in Case 1. They note that the tentative agenda decision refers only to paragraph 75, but paragraph 72A also applies because, at the end of the reporting period, the entity does not	*We propose to change the wording of the tentative agenda decision.* We agree with respondents' suggestions regarding Case 1 for the reasons given—Appendix A to this paper includes our proposed changes to the wording of the tentative agenda decision in this respect. Because the agenda decision refers extensively to the requirements in paragraph 72A (introduced by the amendments) and quotes the principle in paragraph 69(d) (as amended), we

Respondents' comments	**Staff analysis and conclusions**
comply with the specified conditions at each of the testing dates during the next twelve months. *b. references to amended requirements*—one respondent suggests stating explicitly that the agenda decision addresses only the amended requirements in IAS 1, not the requirements currently in effect.	think it is unnecessary to say anything further about the amended requirements.
2. Intent of removing the term 'unconditional' from paragraph 69(d) One respondent says the Committee's conclusions appear to be inconsistent with the Board's intent of removing the term 'unconditional' from paragraph 69(d). The respondent says the intention was for entities to more often classify liabilities as non-current.	*We recommend no change.* We disagree. As explained in paragraph 46 of this paper, the objective of the amendments was to clarify the classification requirements in IAS 1, in particular by reconciling apparent contradictions between paragraphs 69(d) and 73. The Board's objective was not to have more or less current or non-current liability classifications.
3. Meaning of 'substance' in paragraph 72A A few respondents suggest that the Committee clarify how to determine whether a right to defer settlement has 'substance' applying paragraph 72A. One of these respondents says some may argue that any counterintuitive classification outcome can be overridden based on the 'substance' requirement.	*We recommend no change.* We think it is beyond the scope of the tentative agenda decision to address how an entity determines whether a right to defer settlement has substance. Further, we note that such determination would not affect the classification in the cases described in the tentative agenda decision because, in those cases, the entity does not have a right to defer settlement. Only when an entity has such a right could its substance affect classification (ie

Respondents' comments	**Staff analysis and conclusions**
	if an entity has the right but the right does not have substance, the liability would be classified as current).
4. Relationship with other disclosure requirements A few respondents say classifying a liability as current without any actual breach of covenants could be viewed as inconsistent with other disclosure requirements—for example, the requirements regarding going concern in IAS 1 and liquidity risk disclosures in IFRS 7 based on contractual maturities.	*We recommend no change.* Applying the requirements in paragraph 69 of IAS 1, an entity might classify a liability as current even if the liability is not due to be settled within twelve months after the reporting date. We think the disclosure requirements in IFRS 7 complement the information provided by classification of a liability as current when, despite such classification, the liability is not due within twelve months. Paragraph 65 of IAS 1 explains that both information provided by classifying assets and liabilities as current or non-current and the information IFRS 7 requires an entity to disclose about maturity dates of financial assets and financial liabilities is useful. Further, if relevant to an understanding of an entity's going concern assessment, we would expect the entity to explain how the classification of liabilities applying paragraph 69 of IAS 1 has affected that assessment.
7. *Comment period* A few respondents say the comment period of 63 days was not sufficiently long for stakeholders to consider the matter. One	*We recommend no change.* Paragraph 8.2 of the *Due Process Handbook* states that the comment period for tentative agenda decisions is normally 60 days. The

Respondents' comments	**Staff analysis and conclusions**
respondent recommends that the Committee extend the comment period to ensure views from preparers, investors and lenders are appropriately included—this respondent views it as necessary because the comment period overlapped with a busy reporting period for many entities and because of challenges linked to the covid-19 pandemic.	comment period is not normally extended because of the timing of publication of a tentative agenda decision. We see no reason for an exception for this tentative agenda decision. The Committee received 36 comment letters by the comment letter deadline—and two late comment letters—representing the views of a wide a range of stakeholders. In our view, it is unnecessary to extend the comment period.
8. Conditions tested more than twelve months after the reporting date Paragraph 72A of IAS 1 states that 'the entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date'. One respondent says it is unclear from this wording whether an entity is required to assess compliance, at the reporting date, with conditions tested more than twelve months after the reporting date.	*We recommend no change.* As explained in paragraph 21 of this paper, paragraph 72A addresses circumstances in which the right to defer settlement 'is subject to the entity complying with specified conditions'. A condition tested more than twelve months after the reporting date does not affect an entity's right to defer settlement for twelve months. Therefore, such a condition would not affect classification of a liability as current or non-current.
9. Illustrative examples One respondent suggests that the cases in the tentative agenda decision be published as educational material or part of Illustrative Examples accompanying IAS 1.	*We recommend no change.* For the reasons explained in paragraphs B7–B11, we continue to think it is appropriate for the Committee to address the matter.

Appendix C—excerpts from IAS 1 as amended in January 2020

C1. We have reproduced excerpts from IAS 1 below. For Committee members' convenience, the amendments issued in January 2020 are shown in marked-up text (new text is underlined and deleted text is struck through).

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~~ the right at the end of the reporting period 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.

…

72A An entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and, as illustrated in paragraphs 73–75, must exist at the end of the reporting period. If the right to defer settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.

73 If an entity ~~expects, and~~ has the ~~discretion,~~ right, at the end of the reporting period, 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)~~ If the entity has no such right, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

74 When an entity breaches a ~~provision~~ condition 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~~ the right to defer its settlement for at least twelve months after that date.

75 However, an 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.

C2. We have reproduced paragraphs BC48B, BC48D and BC48E of the Basis for Conclusions on IAS 1 below.

BC48B The Board added to the classification principle in paragraph 69(d) and the example in paragraph 73 clarification that an entity's right to defer settlement must exist 'at the end of the reporting period'. The need for the right to exist at the end of the reporting period was already illustrated in the examples in paragraphs 74 and 75 but was not stated explicitly in the classification principle.

BC48D The Board considered whether an entity's right to defer settlement needs to be unconditional. The Board noted that rights to defer settlement of a loan are rarely unconditional—they are often conditional on compliance with covenants. The Board decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Accordingly, the Board:

(a) deleted the word ‘unconditional’ from the classification principle in paragraph 69(d); and

(b) added paragraph 72A to clarify that if an entity’s right to defer settlement is subject to compliance with specified conditions:

(i) the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period; and

(ii) the entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.

BC48E The Board considered whether to specify how management assesses an entity’s compliance with a condition relating to the entity’s cumulative financial performance (for example, profit) for a period extending beyond the reporting period. The Board concluded that comparing the entity’s actual performance up to the end of the reporting period with the performance required over a longer period would not provide useful information—one of these measures would have to be adjusted to make the two comparable. However, the Board decided not to specify a method of adjustment because any single method could be inappropriate in some situations.