

## STAFF PAPER

June 2022

## IASB Meeting

Project	Non-current Liabilities with Covenants (IAS 1)	
Paper topic	Classification as current or non-current	
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## Introduction and purpose

1. In November 2021, the International Accounting Standards Board (IASB) published the [Exposure Draft](#) *Non-current Liabilities with Covenants*, which proposed amendments to IAS 1 *Presentation of Financial Statements*. The comment period ended on 21 March 2022.
2. Agenda Paper 12A sets out the structure of the agenda papers for this meeting, the background of the proposed amendments and an overview of the feedback on the Exposure Draft.
3. The purpose of this paper is to:
  - (a) summarise feedback on the proposals on the classification of liabilities with covenants as current or non-current (including the proposed clarification in paragraph 72C of the Exposure Draft); and
  - (b) provide our analysis of that feedback and recommendations for the IASB.

## Structure of the paper

4. This paper includes:
  - (a) summary of staff recommendations (paragraph 6).
  - (b) summary of feedback, staff analysis and recommendations on:
    - (i) classification as current or non-current (paragraphs 7–27); and

- (ii) clarification in paragraph 72C (paragraphs 28–47).
  - (c) question for the IASB.
5. There are two appendices to this paper:
- (a) Appendix A—other comments.
  - (b) Appendix B—feedback from outreach activities.

### **Summary of staff recommendations**

6. Based on our analysis in this paper, we recommend that the IASB:
- (a) finalise the proposed amendments to paragraph 72A of IAS 1 and the addition of paragraph 72B—that is, confirm that only covenants with which an entity must comply on or before the reporting date would affect a liability’s classification as current or non-current.
  - (b) not provide further clarification or application guidance on:
    - (i) determining whether a right to defer settlement has substance; or
    - (ii) applying paragraphs 74–75 of IAS 1.
  - (c) not finalise the proposed clarification in paragraph 72C about situations in which an entity would have no right to defer settlement; instead, specify that the proposed requirements in paragraph 72B apply only to liabilities arising from loan arrangements.

### **Classification of liabilities as current or non-current**

#### ***Proposals in the Exposure Draft***

7. Paragraph 69(d) of IAS 1 requires that, to classify a liability as non-current, an entity must have the right at the reporting date to defer settlement of the liability for at least 12 months after that date (right to defer settlement).
8. Paragraph 72A of IAS 1 clarifies that:
- (a) an entity’s right to defer settlement must have substance and exist at the reporting date; and

(b) when an entity’s right to defer settlement is subject to the entity complying with covenants, the right exists at the reporting date only if the entity complies with those covenants at that date (even if the lender does not test compliance until a later date).

9. In the Exposure Draft, the IASB proposed to amend paragraph 72A so that it would no longer include the requirements outlined in paragraph 8(b) above. Instead, the IASB proposed to add paragraph 72B, which would state:

An entity’s right to defer settlement of a liability for at least twelve months after the reporting period may be subject to the entity complying with specified conditions (often referred to as ‘covenants’). For the purposes of applying paragraph 69(d), such conditions:

- (a) affect whether that right exists at the end of the reporting period—as illustrated in paragraphs 74–75—if an entity is required to comply with the condition on or before the end of the reporting period. This is the case even if compliance with the condition is assessed only after the reporting period (for example, a condition based on the entity’s financial position as of the end of the reporting period but assessed for compliance only after the reporting period).
- (b) do not affect whether that right exists at the end of the reporting period if an entity is required to comply with the condition only within twelve months after the reporting period (for example, a condition based on the entity’s financial position six months after the end of the reporting period).

10. Paragraph BC16 of the Exposure Draft explains the reasons for the proposals:

The [IASB] concluded that these proposals would:

- (a) avoid classification outcomes that might not provide useful information to users of financial statements (for example, for some entities whose business is highly seasonal);
- (b) make it unnecessary to specify how an entity assesses compliance with non-financial conditions or financial

performance conditions for the purposes of classifying a liability as current or non-current, thereby avoiding adding complexity to the requirements; and

- (c) address many of the concerns raised by respondents to the Committee’s tentative agenda decision.

## **Summary of feedback**

### *Paragraph 72B and whether a right to defer settlement has substance*

11. Almost all respondents agreed with the proposals on the classification of liabilities as current or non-current in paragraph 72B—that only covenants with which an entity must comply on or before the reporting date would affect whether a right to defer settlement exists at that date. In general, respondents said the proposals would:
  - (a) address stakeholders’ concerns about the outcomes of applying the amendments to IAS 1 in *Classification of Liabilities as Current or Non-current* (2020 amendments); and
  - (b) improve the clarity of how to classify liabilities subject to covenants and, together with additional disclosures, provide more useful information to investors.
  
12. However, a few respondents said the proposals might not reflect the economic substance of an entity’s financial position and may increase the risk of structuring. For example, the Dutch Accounting Standards Board (DASB) said an entity reporting on, say, 31 December, may change the date on which it is required to comply with a covenant from that date to 2 January—in this example, the DASB said the entity would classify the related liability as non-current on 31 December, even when the entity fails to comply with the covenant on 2 January.
  
13. A few respondents said it is unclear how an entity determines that its right to defer settlement has ‘substance’ as required by paragraph 72A, in particular in situations such as the one described in paragraph 12 above. For example, Deloitte said:

Whilst we agree that an entity should not classify a liability as current merely because it fails to comply at the reporting date with conditions that are only tested at a later date, we believe that facts and circumstances may indicate that these conditions

affect whether the right to defer settlement has substance. Accordingly, we recommend that guidance be added to IAS 1 to address the circumstances in which a right to defer settlement has not been contractually forfeited at the end of the reporting period but could, nonetheless, be considered to have no substance at that date. Examples of such circumstances include ... a covenant test date immediately after the end of the reporting period when a covenant would be breached based on financial information as at the reporting date...'

14. These respondents suggested that the IASB provide further guidance or illustrative examples to help an entity determine whether a right to defer settlement has substance.

*Interaction with paragraphs 74–75 of IAS 1*

15. Paragraphs 74–75 of IAS 1 include requirements that apply when an entity breaches a covenant of a long-term loan arrangement on or before the reporting date with the effect that the liability becomes payable on demand. In such situations:
  - (a) paragraph 74 requires an entity to classify 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; and
  - (b) paragraph 75 requires an entity to classify the liability as non-current if the lender agreed by the reporting date to provide a period of grace ending at least 12 months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
  
16. Some respondents said the interaction between the proposed requirements in paragraph 72B and the requirements in paragraphs 74–75 of IAS 1 is unclear when an entity:
  - (a) breaches a covenant on or before the reporting date; but
  - (b) agrees with the lender by the reporting date to provide a period of grace ending *within* 12 months after that date.

17. These respondents said, in the situation described above, an entity would classify the liability as *non-current* applying the proposed requirements in paragraph 72B(a) but as *current* applying the requirements in paragraph 75 of IAS 1.
18. Further, a few respondents said it is common for entities to agree with lenders to defer the date on which they must comply with a covenant with the aim of avoiding a contractual breach. In such situations, an entity does not contractually breach a covenant, but would have done so had the lender not agreed to defer the covenant test date. These respondents said there is diversity in the way entities classify liabilities as current or non-current in such circumstances and suggested that the IASB clarify the accounting. For example:
- (a) the European Securities and Markets Authority said:
- ...those liabilities subject to covenants which did not become payable on demand on or before the end of the reporting period solely because the lender has waived the formal calculation of the covenant should also be classified as current.
- (b) the Autorité des Normes Comptables acknowledged that questions about whether paragraph 75 of IAS 1 applies in these situations already exist, but suggested that the IASB nonetheless clarify the accounting as part of the proposed amendments.

*Requests for a comprehensive review of IAS 1*

19. A few respondents suggested the IASB consider the requirements for classification of liabilities as current or non-current more comprehensively as part of a separate project or as part of the Primary Financial Statements project. For example, EFRAG said:
- In EFRAG's view the root cause of the problem, that the IASB is working to solve through the 2020 amendment and the current ED, is paragraph 69(d) of IAS 1. Based on the proposed amendments, users will not have a clear view on the liquidity position of the entity – except if they are looking into the disclosures. While being aware that the project is a narrow-scope amendment and recommending IASB to finalise the current proposed amendment subject to EFRAG's recommendations, EFRAG also recommends to the IASB to

start discussing the root cause of the underlying issue located in paragraph 69: a conceptual solution should provide additional guidance on how to classify liabilities with conditional settlement terms other than covenants, and address the inconsistency of measurement and disclosures based on expectations and classification based on legal rights.

### **Staff analysis**

#### *Paragraph 72B and whether a right to defer settlement has substance*

20. Almost all respondents agreed with the proposals to amend paragraph 72A and add the requirements in paragraph 72B. We also continue to agree with the reasons for the proposals explained in paragraph BC16 of the Exposure Draft (reproduced in paragraph 10 of this paper).
21. As part of the 2020 amendments, the IASB decided to add a reminder in paragraph 72A that a right to defer settlement must have substance. It did so after considering situations in which an entity's right to defer settlement arises from a right to roll over a liability on terms that are potentially uneconomic—the IASB concluded that such a right would affect classification of a liability unless the right lacks substance.<sup>1</sup> Paragraph 4.61 of the *Conceptual Framework* states that 'a term has no substance if it has no discernible effect on the economics of the contract'.
22. In our view, the IASB should provide no further guidance about how an entity determines whether a right to defer settlement has substance—it would be beyond the scope of the proposed amendments. With respect to the specific example described in paragraph 12 above, we note that:
  - (a) it seems unlikely that a lender would agree to such a modification if there is no legitimate reason for it; and
  - (b) even if the lender were to agree to the modification, applying the proposed disclosure requirements discussed in Agenda Paper 12C, the entity would disclose (i) information about the covenants that would make

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<sup>1</sup> See [Agenda Paper 29](#) for the IASB's November 2018 meeting for further information.

management’s intentions evident to investors, and (ii) the fact that the entity has breached the covenant after the reporting date.

23. Based on our analysis in paragraphs 20–22 of this paper, we therefore recommend:
- (a) finalising the proposals to amend paragraph 72A and add the proposed requirements in paragraph 72B; and
  - (b) not to provide further guidance on how an entity assesses whether a right to defer settlement has substance.

*Interaction with paragraphs 74–75 of IAS 1*

24. In our view, the requirements in paragraphs 74–75 of IAS 1 do not contradict the proposed requirements in paragraph 72B(b):
- (a) paragraphs 74–75 of IAS 1 apply when an entity *has* breached covenants with which it must comply *before* the reporting date. In contrast, the proposed requirements in paragraph 72B(b) apply to covenants with which an entity must comply *after* the reporting date.
  - (b) paragraph 72B(a) addresses covenants with which an entity must comply *on or before* the reporting date and specifically refers to the requirements in paragraphs 74–75 of IAS 1. If the entity has breached such a covenant, it would apply the requirements in paragraphs 74–75, not the proposed requirements in paragraph 72B(b).
25. Further, respondents said questions already exist about whether an entity applies paragraphs 74–75 when it agrees with a lender to defer the date on which it must comply with a covenant before a contractual breach occurs. In our view, providing further clarification on the accounting in such situations would be beyond the scope of the proposed amendments. We therefore recommend not providing further clarification about how an entity applies paragraphs 74–75 of IAS 1.

*Requests for a comprehensive review of IAS 1*

26. Feedback on the Exposure Draft indicates that questions exist in some situations about how to apply the requirements on the classification of liabilities as current or non-current, and that some respondents think the IASB should reconsider the principle in paragraph 69(d), as well as related requirements in IAS 1. Considering the urgency of

finalising the amendments, we recommend that the IASB keep the narrow-scope focus of the amendments on improving the information provided about non-current liabilities with covenants whilst addressing stakeholders' concerns about the 2020 amendments.

27. Further, the IASB has recently completed its deliberations on its Third Agenda Consultation. As part of that consultation, the IASB considered feedback from respondents on the priority of financial reporting matters it could add to its work plan. In April 2022, the IASB decided on which projects to add to its work plan, research pipeline and reserve list for 2022–2026.<sup>2</sup> We therefore recommend no further work on the classification of liabilities as current or non-current at this stage.

## Clarification in paragraph 72C

### *Proposals in the Exposure Draft*

28. The IASB proposed to add paragraph 72C to IAS 1, which would state:

72C An entity does not have the right to defer settlement of a liability for at least twelve months (as described in paragraph 69(d)) if the liability could become repayable within twelve months after the reporting period:

- (a) at the discretion of the counterparty or a third party—for example, when a loan is callable by the lender at any time without cause; or
- (b) if an uncertain future event or outcome occurs (or does not occur) and its occurrence (or non-occurrence) is unaffected by the entity's future actions—for example, when the liability is a financial guarantee or insurance contract liability. In such situations, the right to defer settlement is not subject to a condition with which the entity must comply as described in paragraph 72B.

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<sup>2</sup> See further information in [IASB Update April 2022](#).

29. Paragraph BC18–BC19 of the Exposure Draft explain the reasons for the proposal:

BC18 The [IASB] decided to retain the scope of the 2020 amendments, which focused on liabilities for which an entity’s right to defer settlement is subject to compliance with conditions. Therefore, to avoid the proposed amendments being applied inappropriately to other liabilities, the [IASB] proposes [the clarification in paragraph 72C].

BC19 In both situations described in [paragraph 72C], there are no conditions with which the entity must or could comply in order to avoid settlement of a liability within twelve months after the reporting period. Accordingly, those situations are not within the scope of the proposed amendments.

### **Summary of feedback**

#### *The proposed clarification in paragraph 72C(a)*

30. Almost all respondents either agreed with, or did not comment on, the proposed clarification in paragraph 72C(a). A few respondents said that clarification is already evident from the requirements in IAS 1.

#### *The proposed clarification in paragraph 72C(b)*

31. Most respondents either disagreed with, or commented on, the proposed clarification in paragraph 72C(b). Respondents said, for many types of covenants, it is unclear whether an entity can influence the occurrence or non-occurrence of an event or outcome. These respondents therefore said entities would be likely to reach different conclusions when applying the requirements. For example, the Accounting Standards Council Singapore said:

We are concerned that significant diversity in practice could result from the application of proposed paragraph 72C(b), which would impair the comparability of financial statements. This is because the notion ‘unaffected by the entity’s future actions’ is likely to be susceptible to different interpretations by different stakeholders...Specifically, we think that an entity’s compliance with conditions may generally be affected to some extent by its actions, however insignificant or minor. Therefore, stakeholders

could reach different conclusions on whether or not an entity can affect the occurrence (or non-occurrence) of future events or outcomes.

32. Many respondents asked whether the proposed clarification in paragraph 72C(b) would capture a number of common protective clauses in loan arrangements—if yes, this would result in a large number of liabilities potentially being classified as current, which in their view would not provide useful information to investors. Respondents mentioned common protective clauses that allow a lender to demand early repayment upon the occurrence of a:
  - (a) change in the entity’s controlling shareholders;
  - (b) material adverse event or change in conditions;
  - (c) failure to submit audited financial statements to the lender; and
  - (d) default on other loan arrangements (cross default clauses).
  
33. In addition to the common protective clauses noted above, some respondents asked whether the proposed clarification in paragraph 72C(b) would capture other types of covenants found in loan arrangements—for example, completing an initial public offering (IPO) or maintaining a minimum external credit risk rating.
  
34. Some respondents said entities might be unable to apply the proposed clarification consistently because:
  - (a) the notion of an event or outcome being ‘unaffected by the entity’s future actions’ would be new in IFRS Accounting Standards, and the proposals provided limited guidance on how it should be applied; and
  - (b) the relationship between the proposed requirements in paragraph 72B(b) and paragraph 72C(b) is unclear—for example, some respondents said it is unclear whether these paragraphs address situations that are mutually exclusive.
  
35. Some respondents disagreed with the proposed clarification in paragraph 72C(b). For example, a few respondents said the clarification:
  - (a) is unnecessary to address stakeholders’ concerns about the outcomes of applying the 2020 amendments; and

- (b) would cause some liabilities to be classified as current, irrespective of (i) expected payment patterns (for example, reflecting a ‘worst case scenario’), and (ii) the fact that the counterparty has no right to demand payment within 12 months after the reporting date.
36. A few respondents also questioned the conceptual basis for distinguishing between covenants an entity can affect but not control, and those an entity cannot affect or control, for the purposes of classifying a liability as current or non-current. For example, the Canadian Accounting Standards Board said:
- In both situations, the entity cannot control the ultimate outcome of compliance with the covenant. Therefore, we think that drawing distinction between these two pools of covenants is unwarranted...
37. Most respondents suggested that the IASB either:
- (a) clarify the notion of an event or outcome being ‘unaffected by the entity’s future actions’ and provide further application guidance or illustrative examples—in particular, respondents suggested clarifying whether paragraph 72C(b) would capture the common protective clauses described in paragraph 32 of this paper; or
  - (b) remove the proposed clarification in paragraph 72C(b).
38. A few respondents suggested specifying that:
- (a) an entity classifies a liability as current only when the counterparty has an unconditional right, that exists at the reporting date, to demand payment within 12 months after that date; or
  - (b) the proposed clarification in paragraph 72C(b) does not apply when the likelihood of the future event or outcome occurring is remote.

*Insurance contract liabilities*

39. Some respondents disagreed with the inclusion of insurance liabilities as an example of a liability to which paragraph 72C(b) would apply. They said insurance liabilities should not be classified as current in all circumstances because that would not faithfully represent the financial position of insurers. For example, the Hong Kong Institute of Certified Public Accountants said:

An insurance contract usually has a long policy period, especially a life insurance contract, and its liability is determined as the present value of expected future cash flows (among others). Classifying the insurance liability as current would presume that all uncertain future events (e.g. claims) would happen within twelve months after the reporting period. This does not reflect the business substance of the insurance contracts and does not provide relevant information to users of financial statements.

40. Some respondents said the example is irrelevant because most insurers present their assets and liabilities in order of liquidity (rather than as current or non-current). However, a few said some groups with multiple lines of business have significant insurance operations and present assets and liabilities as current or non-current.
41. A few respondents said:
- (a) paragraph 132 of IFRS 17 *Insurance Contracts* requires an entity to disclose a maturity analysis for portfolios of insurance and reinsurance contracts liabilities reflecting the estimated timing of cash flows. These respondents said a similar approach for classifying liabilities as current or non-current would provide useful information to investors.
  - (b) classifying insurance liabilities as current would create a ‘disconnect’ with the classification of the related assets, which are classified in accordance with paragraph 66 of IAS 1.
42. These respondents suggested removing insurance contract liabilities as an example from paragraph 72C(b).

### **Staff analysis**

43. As explained in paragraphs BC18–BC19 of the Exposure Draft (reproduced in paragraph 29 of this paper), the IASB proposed to add paragraph 72C to clarify the scope of the proposed requirements in paragraph 72B and avoid those requirements being applied inappropriately to other liabilities. An entity would apply paragraph 72B only when its right to defer settlement is subject to the entity *complying* with covenants. The fact that an entity must comply with covenants implies that an entity

must act in accordance with the terms of the contract. Therefore, situations in which a liability could become repayable within 12 months irrespective of the entity's future actions would be outside the scope of paragraph 72B. Further, the IASB intended to clarify that the situations described in paragraph 72C and those in paragraph 72B were mutually exclusive by stating that, in the situations specified in paragraph 72C(b), the entity's right to defer settlement 'is not subject to a covenant with which the entity must comply as described in paragraph 72B.'

44. However, feedback indicates that the proposed clarification in paragraph 72C(b) would raise more questions about the covenants captured by that paragraph, instead of helping to clarify the scope of the proposed requirements in paragraph 72B. We therefore acknowledge that, if retained, it would be necessary to provide further application guidance or illustrative examples to ensure entities apply the clarification consistently, particularly because the notion of an event or outcome being 'unaffected by the entity's future actions' is not used in other IFRS Accounting Standards. Doing so would however add complexity to these narrow-scope amendments—in particular considering the wide range of covenants that exist in loan arrangements—and might fail to resolve the underlying challenges of applying the notion in paragraph 72C(b).
45. In our view, the IASB could go some way towards achieving its objective in proposing paragraph 72C—to clarify the scope of paragraph 72B—by using more specific wording in paragraph 72B referring only to the liabilities the IASB considered as part of this project—that is, liabilities arising from loan arrangements. For example, the IASB could leverage the existing wording in paragraph 74 of IAS 1, and specify that the proposed requirements in paragraph 72B applies only to liabilities arising from loan arrangements. We think doing so would:
  - (a) increase the consistency between the requirements in proposed paragraph 72B and paragraph 74 of IAS 1;
  - (b) be consistent with the observation in paragraph 72B that specified conditions are often referred to as 'covenants', because the term 'covenants' is commonly understood to apply only to loan arrangements; and
  - (c) help clarify that these paragraphs address a specific situation—namely, the effect of covenants in loan arrangements on the classification of the related

liabilities as current or non-current—rather than set out a broad principle to be applied to all liabilities.

46. Based on our analysis in paragraphs 43–45 of this paper, we therefore recommend that the IASB remove the proposed clarification in paragraph 72C(b) from the amendments and, instead, specify that the proposed requirements in paragraph 72B apply only to liabilities arising from loan arrangements.
47. If the IASB agrees with our recommendation above:
- (a) insurance contract liabilities would no longer be used as an example for the proposed clarification in paragraph 72C(b)—therefore, the comments in paragraphs 39–42 of this paper would no longer be applicable.
  - (b) it would be unnecessary to provide the proposed clarification in paragraph 72C(a). In our view, such clarification:
    - (i) would not, on its own, say much about the scope of the proposed requirements in paragraph 72B; and
    - (ii) can already be derived from existing requirements in IAS 1.

## Question for the IASB

### Question for the IASB

1. Does the IASB agree with the staff recommendations to:
  - (a) finalise the proposed amendments to paragraph 72A of IAS 1 and the addition of paragraph 72B—that is, confirm that only covenants with which an entity must comply on or before the reporting date would affect a liability’s classification as current or non-current?
  - (b) not provide further clarification or application guidance on:
    - (i) determining whether a right to defer settlement has substance; or
    - (ii) applying paragraphs 74–75 of IAS 1?
  - (c) not finalise the proposed clarification in paragraph 72C about situations in which an entity would have no right to defer settlement; instead, specify

that the proposed requirements in paragraph 72B apply only to liabilities arising from loan arrangements?

## Appendix A—other comments

A1. The following table summarises other matters raised by respondents together with our analysis and recommendation on these matters.

Respondents' comments	Staff analysis and conclusions
<p><i>1. Clarification in paragraph 72C(a)</i></p> <p>The Accounting Standards Committee of the Institute of Chartered Accountants of Sri Lanka said most loan arrangements in Sri Lanka include a demand clause in which the lender reserves the right to demand repayment at any time. The respondent said applying the proposed clarification in paragraph 72C(a) would result in most liabilities being classified as current.</p> <p>The Malaysian Accounting Standards Board said, in Malaysia, there have been legal cases in which a lender's right to demand repayment at any time without cause has not been upheld. They suggest clarifying that the enforceability of rights and obligations in a contract is a matter of law and that an entity disregards terms that have no commercial substance.</p>	<p><i>We recommend no further change.</i></p> <p>In our view, an entity would disregard contractual terms that are not enforceable or have no substance in applying the proposed clarification in paragraph 72C(a).</p> <p>Nonetheless, as discussed in paragraph 47(b) of this paper, we recommend that the IASB not finalise the proposed clarification in paragraph 72C(a), in which case these comments would no longer be applicable.</p>
<p><i>2. Disagreement with the requirements in paragraph 74–76</i></p> <p>The Comitê de Pronunciamentos Contábeis - CPC, the Consejo Mexicano de Normas de Información Financiera and the Group of Latin American Accounting Standard Setters said they have a long-standing disagreement with the requirements in paragraphs 74–76 of IAS 1. They disagree with an entity classifying a liability as current when it has breached covenants on or before the reporting date, even if the lender has agreed after the reporting date and before the financial statements are authorised for issue, not to demand payment as a consequence of</p>	<p><i>We recommend no change.</i></p> <p>In our view, reconsidering the requirements in paragraphs 74–76 of IAS 1 is beyond the scope of the proposed amendments. Any such reconsideration would need to be part of a comprehensive review of the classification requirements in IAS 1, which we do not recommend for the reasons explained in paragraphs 26–27 of this paper.</p>

<b>Respondents' comments</b>	<b>Staff analysis and conclusions</b>
<p>the breach. They said such requirements do not result in useful information and suggested that they be changed to allow an entity to classify liabilities as non-current in such situations.</p>	
<p><i>3. Use of 'covenant' and similar terms</i></p> <p>A few respondents noted that paragraph 72A uses the term 'specified conditions' and that the IASB proposed to state that these specified conditions are often referred to as 'covenants'. These respondents said IFRS Accounting Standards do not define these terms and therefore stakeholders could interpret them in different ways. They suggested either defining the term 'specified conditions' or using the term 'conditions' instead.</p>	<p><i>We recommend no change.</i></p> <p>We think it is important to explain that when the requirements say 'specified conditions', they mean 'covenants', and also to specify that these are conditions with which an entity is required to comply. When combined with the recommendation to specify that paragraph 72B applies to liabilities arising from loan arrangements, in our view the IASB's intended scope of paragraph 72B should be sufficiently clear. We therefore propose no further change in this respect.</p>

## **Appendix B—feedback from outreach activities**

- B1. In addition to feedback received in comment letters, we also obtained feedback on the proposals in the Exposure Draft from:
- (a) members of the Global Preparers Forum (GPF), the Accounting Standards Advisory Forum (ASAF) and the Capital Markets Advisory Committee (CMAC).
  - (b) members of the User Advisory Committee of the Canadian Accounting Standards Board, the Corporate Reporting Users' Forum and the EFRAG User Panel (collectively, investor groups).
- B2. The following paragraphs include a summary of the feedback on the proposals for classification of liabilities as current or non-current.<sup>3</sup>

### ***Feedback from GPF members***

- B3. GPF members welcomed the IASB's decision to propose amendments to IAS 1 in response to stakeholders' concerns about the outcomes of applying the 2020 amendments.
- B4. GPF members supported the IASB's proposals on the classification of liabilities as current or non-current. One GPF member said entities should be allowed to consider waivers obtained after the reporting date when classifying a liability as current or non-current.

### ***Feedback from ASAF members***

- B5. ASAF members welcomed the IASB's decision to propose amendments to IAS 1 in response to stakeholders' concerns about the outcomes of applying the 2020 amendments.
- B6. ASAF members generally agreed with the IASB's proposals on the classification of liabilities as current or non-current (paragraph 72B of the Exposure Draft).

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<sup>3</sup> We did not specifically ask for feedback on the proposed clarification in paragraph 72C.

- B7. Some ASAF members commented on the clarification in paragraph 72C. ASAF members said:
- (a) the notion of an ‘uncertain future event or outcome’ whose occurrence is ‘unaffected by the entity’s future actions’ is new. There is therefore a risk that stakeholders’ interpretations would vary.
  - (b) the paragraph could result in many liabilities being classified as current, particularly if the paragraph is interpreted to capture common clauses in loan arrangements.
- B8. ASAF members suggested the IASB either remove paragraph 72C from the amendments or provide further application guidance or illustrative examples.

***Feedback from CMAC members***

- B9. CMAC members generally supported the IASB’s proposals in the Exposure Draft. One CMAC member said the proposals would be an improvement over the existing requirements. Another CMAC member said the provision of information about covenants in the notes was more important than the classification of liabilities as current or non-current.

***Feedback from members of investor groups other than CMAC***

- B10. Most members generally agreed with (or did not comment on) the proposals on classification of liabilities as current or non-current. A few members said what is most important for their analyses is disclosure of information about covenants, and not so much classification of liabilities as current or non-current—for example, one member said classification as current or non-current is irrelevant for valuation purposes.