

## STAFF PAPER

June 2022

## IASB Meeting

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| Project     | Non-current Liabilities with Covenants (IAS 1) |  |
| Paper topic | Transition and effective date deferral         |  |
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

**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 transition for the amendments and the proposal to defer the effective date of the amendments in *Classification of Liabilities as Current or Non-current*, issued in January 2020 (2020 amendments); 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 5).

- (b) summary of feedback, staff analysis and recommendations on:
  - (i) transition (paragraphs 6–17); and
  - (ii) deferral of effective date (paragraphs 18–24).
- (c) question for the IASB.

## Summary of staff recommendations

5. Based on our analysis in this paper, we recommend that the IASB:
  - (a) require an entity to apply the proposed amendments retrospectively in accordance with IAS 8.
  - (b) allow an entity to early adopt the proposed amendments or the 2020 amendments only if the entity early adopts both amendments at the same time.
  - (c) defer the effective date of the 2020 amendments to align it with the effective date of the proposed amendments (to be decided at a future meeting, but no earlier than annual reporting periods beginning on or after 1 January 2024).

## Transition

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

6. The IASB proposed to require an entity to apply the proposed amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with earlier application permitted (paragraph 139V of the Exposure Draft).
7. Paragraph BC30 of the Exposure Draft explains the reasons for the proposal:
 

The [IASB] proposes to require entities to apply the proposed amendments retrospectively in accordance with IAS 8 ... because:

  - (a) classifying a liability as current or non-current on the same basis in current and prior periods would result in more comparable, and thus more useful, information for users of

financial statements than not reclassifying comparative amounts.

(b) applying the amendments retrospectively is not expected to be onerous for entities. Although entities would be required to identify retrospectively liabilities with applicable conditions in order to present them separately ... the [IASB] expects that entities would already be aware of those conditions and many would be actively monitoring compliance with them.

### ***Summary of feedback***

8. Almost all respondents agreed with, or did not comment on, the proposal to require an entity to apply the amendments retrospectively in accordance with IAS 8. However, a few respondents commented on:
- (a) retrospective application of the proposed disclosure requirements; and
  - (b) the interaction with the transition requirements in the 2020 amendments.

#### *Retrospective application of the proposed disclosure requirements*

9. A few respondents disagreed with the proposal to require an entity to apply the proposed disclosure requirements retrospectively. These respondents suggested:
- (a) providing relief for liabilities that were settled after the date of initial application; or
  - (b) requiring either prospective application of the amendments or retrospective application only for the proposed requirements on separate presentation.
10. These respondents said:
- (a) the information an entity would provide by retrospectively applying the proposed requirements in paragraphs 76ZA(b)(ii)–(iii) is not meaningful; or

- (b) it might be difficult or impracticable to provide such information without hindsight because it would reflect assessments and expectations based on conditions existing at the previous reporting date.<sup>1</sup>

*Interaction with transition requirements in the 2020 amendments*

11. A few respondents suggested:
  - (a) clarifying that the proposed amendments and the 2020 amendments be adopted together as a package. For example, the Canadian Accounting Standards Board said it would not be possible to early adopt the proposed amendments without also early adopting the 2020 amendments. Therefore, the respondent recommended allowing early adoption only if entities adopt both amendments at the same time.
  - (b) providing transition requirements for entities that have early adopted the 2020 amendments (for example, allowing prospective application of the proposed amendments).

**Staff analysis**

*Retrospective application of the disclosure requirements*

12. If the IASB agrees with our recommendation in Agenda Paper 12C, an entity would no longer be required to disclose the information that would have been required by paragraph 76ZA(b)(ii)–(iii). This would address respondents’ concerns about applying those proposed requirements retrospectively.
13. Furthermore, we note that paragraph 38 of IAS 1 states that:

Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period’s financial statements. *An entity shall include comparative information for narrative and descriptive information if it is relevant to*

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<sup>1</sup> Paragraph 76ZA(b)(ii)–(iii) would require entities to disclose whether the entity would have complied with the conditions at the reporting date and whether and how the entity expects to comply with the conditions in the future.

*understanding the current period's financial statements.*

[Emphasis added]

14. Applying paragraph 38 of IAS 1, an entity would disclose the information required by the disclosure proposals for comparative periods only if such information is relevant to understanding the entity's current period's financial statements.
15. We therefore recommend that the IASB confirm its proposal to require an entity to apply the proposed amendments retrospectively in accordance with IAS 8.

*Interaction with transition requirements in the 2020 amendments*

16. We agree with respondents that it is not possible to early adopt the proposed amendments without also early adopting the 2020 amendments. Furthermore, because the IASB would be amending the requirements in the 2020 amendments, in our view entities should not be allowed to early adopt the 2020 amendments in isolation. We therefore recommend that the IASB allow an entity to early adopt the proposed amendments and the 2020 amendments only if the entity early adopts both amendments at the same time.
17. In our view it is unnecessary to provide specific transition requirements for entities that have early adopted the 2020 amendments.

**Deferral of effective date**

***Proposals in the Exposure Draft***

18. The IASB proposed to defer the effective date of the 2020 amendments to annual reporting periods beginning on or after a date to be decided after exposure, but no earlier than 1 January 2024 (paragraph 139U).
19. Paragraph BC32 of the Exposure Draft explains the reasons for this proposal:

The [IASB]'s proposals would amend some of the requirements introduced by the 2020 amendments before those requirements are in effect. The [IASB] is therefore also proposing to defer the effective date of the 2020 amendments ... to avoid an entity potentially having to change its assessment of the classification of liabilities twice within a relatively short period.

### **Summary of feedback**

20. All respondents either agreed with, or did not comment on, the proposal to defer the effective date of the 2020 amendments.
21. A few respondents suggested specifying when the change to the effective date of the 2020 amendments itself becomes effective. These respondents said this would avoid the 2020 amendments becoming inadvertently effective from 1 January 2023 in jurisdictions that require any amendments to accounting standards to have an effective date. The New Zealand Accounting Standards Board suggests specific wording the IASB could use.
22. Some respondents commented on the possible effective date of annual reporting periods beginning on or after 1 January 2024. These respondents said, depending on whether some of the proposals in the Exposure Draft are finalised, entities might require more time to implement the amendments.

### **Staff analysis**

23. We recommend finalising the proposal to defer the effective date of the 2020 amendments. If the IASB agrees with this recommendation, the effective date of both the proposed amendments and the 2020 amendments would be no earlier than annual reporting periods beginning on or after 1 January 2024. We will consider respondents' suggestions on the wording of the requirements on transition and the effective date when drafting any final amendments.
24. The IASB will discuss the effective date of the proposed amendments—which will be the same as the revised effective date of the 2020 amendments—at a future meeting. The IASB will set the effective date considering the applicable requirements in the *Due Process Handbook*, including the requirement to allow sufficient time for entities to prepare for the new requirements.

**Question for the IASB****Question for the IASB**

1. Does the IASB agree with the staff recommendations to:
  - (a) require an entity to apply the proposed amendments retrospectively in accordance with IAS 8?
  - (b) allow an entity to early adopt the proposed amendments or the 2020 amendments only if the entity early adopts both amendments at the same time?
  - (c) defer the effective date of the 2020 amendments to align it with the effective date of the proposed amendments (to be decided at a future meeting, but no earlier than annual reporting periods beginning on or after 1 January 2024)?