

# UKEB FEEDBACK STATEMENT

Exposure Draft: *Non-current Liabilities with Covenants*

March 2022

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations.

This feedback statement relates to a comment letter that forms part of those influencing activities and is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

# CONTENTS

Purpose of this feedback statement	04
The IASB's Exposure Draft	05
Outreach approach	06
UKEB and stakeholder views	07-08

# Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB's outreach activities on the IASB's Exposure Draft: *Non-current Liabilities with Covenants* and explains how the UKEB's comment letter addressed those views.



# The IASB's Exposure Draft

The IASB Exposure Draft aims to improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with conditions (e.g. covenants) and addresses concerns about the classification of such a liability as current or non-current.

The proposed amendments specify that conditions with which an entity must comply within twelve months after the reporting period do not affect classification of a liability as current or non-current. Instead, entities would present separately, and disclose information about, non-current liabilities subject to such conditions.

The Exposure Draft also proposes deferring the effective date of the 2020 amendment *Classification of Liabilities as Current or Non-Current* (Amendments to IAS 1) to at least 1 January 2024.



# Outreach approach - Example

The UKEB's outreach activities took place between December 2021 and March 2022.

The outreach approach was underpinned by the UKEB's guiding principles of thought leadership, transparency, independence and accountability.

Given the IASB's ED related to a narrow scope amendment the Board took a proportionate and targeted approach to outreach on the IASB proposals and the UKEB's Draft Comment Letter.

In total 15 meetings were held with a variety of stakeholders, including some representative bodies.

Stakeholder type	Number of meetings
Preparers (including 1 Representative Organisation)	1
Auditors & Accounting Firms	6
Professional Accountancy Bodies	2
Regulators/Standard Setters	4
Users	1
Academics	1

Representative Organisations / Professional Bodies represent the views of multiple members.

We also received two comment letters responding to the UKEB's Invitation to Comment on its Draft Comment Letter.

The outreach activities with UK stakeholders indicated similar concerns with the IASB's ED to those identified in the UKEB Draft Comment Letter. We also identified additional concerns with both the disclosure and transition requirements.

All comments and views were considered in reaching the UKEB final views on the questions raised.

# I. Classification and disclosure

IASB proposal	UKEB draft position	Further stakeholder views	UKEB final position
<p>That the classification of a liability as current or non-current should be based on conditions that exist at the end of the reporting period, even if that compliance is only tested later.</p>	<p>We agree in principle with this approach. However, we believe that “specified conditions” either needs to be defined or the term “condition” should be used. We also recommend some redrafting for clarity.</p>	<ul style="list-style-type: none"> <li>• General agreement with this principle.</li> <li>• Agreement that the meaning of “specified conditions” is unclear.</li> </ul>	<p>No change as consistent with the draft position.</p>
<p>When an entity classifies a liability subject to conditions as non-current, it would be required to disclose information in the notes that enables users of financial statements to assess the risk that the liability could become repayable within twelve months.</p>	<p>We support the proposals as we agree that the resulting information will enable users of financial statements to assess the risk that the liability could become repayable within twelve months. However, we note some stakeholders are concerned about the provision of the forward-looking information.</p>	<ul style="list-style-type: none"> <li>• A number of stakeholders raised concerns about the specific items required to be disclosed.</li> <li>• Some stakeholders felt it emphasised information that may not be relevant.</li> <li>• Others suggested it would lead to boilerplate disclosure.</li> </ul>	<p>Redrafted letter to highlight these concerns. Recommend deletion of specific disclosure requirements.</p>

## 2. Presentation and Other Aspects

IASB proposal	UKEB draft position	Further stakeholder views	UKEB final position
<p>To require an entity to present separately, in its statement of financial position, liabilities classified as non-current for which the entity's right to defer settlement for at least twelve months after the reporting period is subject to compliance with specified conditions within twelve months after the reporting period.</p>	<p>We do not support this proposal for a number of reasons. These include concerns that few liabilities would not meet these conditions, and that such a requirement is not consistent with a principle-based approach to financial accounting.</p>	<ul style="list-style-type: none"> <li>No stakeholder we spoke to supported separate presentation.</li> </ul>	<p>No change as consistent with the draft position.</p>
<p>To clarify circumstances in which an entity does not have a right to defer settlement of a liability for at least twelve months after the reporting period.</p>	<p>We believe the proposals in paragraph 72C(b) are likely to lead to diversity in practice and have unintended consequences when it comes to classification. We recommended deletion of paragraph 72C.</p>	<ul style="list-style-type: none"> <li>Stakeholders shared similar concerns, and raised a number of specific examples that they felt could result in unsatisfactory outcomes applying the proposals.</li> </ul>	<p>No change as consistent with the draft position.</p>
<p>To require retrospective application of the amendments and defer the effective date of the 2020 amendments to IAS 1 to no earlier than 1 January 2024.</p>	<p>We agree with these proposals.</p>	<ul style="list-style-type: none"> <li>One stakeholder noted that entities should not be allowed to early adopt the 2020 amendments without also adopting these amendments</li> </ul>	<p>We agree that entities should not be able to early adopt the 2020 amendments without also adopting these amendments.</p>



# Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on IASB's Exposure Draft *Non-Current Liabilities with Covenants* and should not be relied upon for any other purpose.

The views expressed in this feedback statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

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