

# UK-adopted international accounting standards

## Non-current Liabilities with Covenants (Amendments to IAS 1)

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## Non-current Liabilities with Covenants (Amendments to IAS 1)

### **Amendments to IAS 1 *Presentation of Financial Statements***

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Paragraphs 60, 71, 72A, 74 and 139U are amended. Paragraphs 72B and 139W are added. Paragraph 76ZA is added immediately after paragraph 76. New text is underlined and deleted text is struck through. Paragraphs 69 and 75 are not amended but have been included for ease of reference.

### **Structure and content**

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#### **Statement of financial position**

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#### **Current/non-current distinction**

- 60** An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76B except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

...

#### **Current liabilities**

- 69** An entity shall classify a liability as current when:
- (a) it expects to settle the liability in its normal operating cycle;
  - (b) it holds the liability primarily for the purpose of trading;
  - (c) the liability is due to be settled within twelve months after the reporting period; or
  - (d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

**An entity shall classify all other liabilities as non-current.**

...

*Held primarily for the purpose of trading (paragraph 69(b)) or due to be settled within twelve months (paragraph 69(c))*

- 71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 72A–75–74 and 75.

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*Right to defer settlement for at least twelve months (paragraph 69(d))*

- 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 72B–75–73–75, 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.~~

- 72B An entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting period may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 69(d), such covenants:

- (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 covenant on or before the end of the reporting period. Such a covenant affects whether the right exists at the end of the reporting period even if compliance with the covenant is assessed only after the reporting period (for example, a covenant based on the entity's financial position at 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 covenant only after the reporting period (for example, a covenant based on the entity's financial position six months after the end of the reporting period).

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74 When an entity breaches a covenant 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 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.

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**76ZA** In applying paragraphs 69–75, an entity might classify liabilities arising from loan arrangements as non-current when the entity’s right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period (see paragraph 72B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, including:

- (a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.
- (b) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity’s circumstances at the end of the reporting period.

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### **Transition and effective date**

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139U *Classification of Liabilities as Current or Non-current*, issued in January 2020 amended paragraphs 69, 73, 74 and 76 and added paragraphs 72A, 75A, 76A and 76B. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2024—~~1 January 2023~~ retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period after the issue of *Non-current*

Liabilities with Covenants (see paragraph 139W), it shall also apply Non-current Liabilities with Covenants for that period. If an entity applies Classification of Liabilities as Current or Non-current those amendments for an earlier period, it shall disclose that fact.

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139W Non-current Liabilities with Covenants, issued in October 2022, amended paragraphs 60, 71, 72A, 74 and 139U and added paragraphs 72B and 76ZA. An entity shall apply:

- (a) the amendment to paragraph 139U immediately on issue of Non-current Liabilities with Covenants.
- (b) all other amendments for annual reporting periods beginning on or after 1 January 2024 retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall also apply Classification of Liabilities as Current or Non-current for that period. If an entity applies Non-current Liabilities with Covenants for an earlier period, it shall disclose that fact.

## APPENDIX—AMENDMENTS TO IAS 1 ISSUED IN 2020 AND 2022

*This appendix combines the amendments to IAS 1 Presentation of Financial Statements included in Classification of Liabilities as Current or Non-current, issued in January 2020, and Non-current Liabilities with Covenants, issued in October 2022.*

Paragraphs 60, 69, 71, 73, 74 and 76 are amended. Paragraphs 72A, 72B, 75A, 76ZA, 76A, 76B, 139U and 139W are added. Paragraph 139D is deleted. Headings are added before paragraphs 70, 71, 72A and 76A. New text is underlined and deleted text is struck through. Paragraphs 70, 72 and 75 are not amended but have been included for ease of reading.

### Structure and content

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#### Statement of financial position

...

#### Current/non-current distinction

- 60** An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76B except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

...

#### Current liabilities

- 69** An entity shall classify a liability as current when:
- (a) it expects to settle the liability in its normal operating cycle;
  - (b) it holds the liability primarily for the purpose of trading;
  - (c) the liability is due to be settled within twelve months after the reporting period; or
  - (d) it does not have ~~the an unconditional 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.**

*Normal operating cycle (paragraph 69(a))*

- 70 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

*Held primarily for the purpose of trading (paragraph 69(b)) or due to be settled within twelve months (paragraph 69(c))*

- 71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 72A–75-74 and 75.

- 72 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

- (a) the original term was for a period longer than twelve months, and
- (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

*Right to defer settlement for at least twelve months (paragraph 69(d))*

- 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 72B–75, must exist at the end of the reporting period.

- 72B An entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting period may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 69(d), such covenants:

- (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 covenant on or before the end of the reporting period. Such a covenant affects whether the right exists at the end of the reporting period even if compliance with the covenant is assessed only after the reporting period (for example, a covenant based on the entity’s financial position at 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 covenant only after the reporting period (for example, a covenant based on the entity’s financial position six months after the end of the reporting period).
- 73 ~~If an entity expects, and has the right, at the end of the reporting period discretion, 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. If the entity has no such right. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.~~
- 74 ~~When an entity breaches a covenant provision—of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have the an unconditional 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.~~
- 75A Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period. If a liability meets the criteria in paragraph 69 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting period, or even if the entity settles the liability between the end of the reporting period and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable

users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 17(c) and 76(d)).

76 ~~If in respect of loans classified as current liabilities~~, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 *Events after the Reporting Period*:

- (a) refinancing on a long-term basis of a liability classified as current (see paragraph 72);
- (b) rectification of a breach of a long-term loan arrangement classified as current (see paragraph 74); and
- (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current (see paragraph 75); and ending at least twelve months after the reporting period.
- (d) settlement of a liability classified as non-current (see paragraph 75A).

**76ZA** In applying paragraphs 69–75, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period (see paragraph 72B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, including:

- (a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.
- (b) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting period.

*Settlement (paragraphs 69(a), 69(c) and 69(d))*

**76A** For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

- (a) cash or other economic resources—for example, goods or services; or

(b) the entity's own equity instruments, unless paragraph 76B applies.

**76B** Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying IAS 32 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

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## Transition and effective date

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139D [Deleted]

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**139U** *Classification of Liabilities as Current or Non-current*, issued in January 2020 amended paragraphs 69, 73, 74 and 76 and added paragraphs 72A, 75A, 76A and 76B. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2024 retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period after the issue of *Non-current Liabilities with Covenants* (see paragraph 139W), it shall also apply *Non-current Liabilities with Covenants* for that period. If an entity applies *Classification of Liabilities as Current or Non-current* for an earlier period, it shall disclose that fact.

...

**139W** *Non-current Liabilities with Covenants*, issued in October 2022, amended paragraphs 60, 71, 72A, 74 and 139U and added paragraphs 72B and 76ZA. An entity shall apply:

- (a) the amendment to paragraph 139U immediately on issue of *Non-current Liabilities with Covenants*.
- (b) all other amendments for annual reporting periods beginning on or after 1 January 2024 retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall also apply *Classification of Liabilities as Current or Non-current* for that period. If an entity applies *Non-current Liabilities with Covenants* for an earlier period, it shall disclose that fact