Exposure Draft – *Non-current Liabilities with Covenants*

Executive Summary

Project Type	Influencing
Project Scope	Limited (Narrow Scope Amendment)
Purpose of the paper	
This paper requests the Board's approval of the UKEB's comment letter for issuance to the IASB, the related Feedback Statement and Due Process Compliance Statement for publication on the UKEB's website.	
Summary of the Issue	
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 UKEB's Draft Comment Letter (DCL) supported the broad principles in the Exposure draft about classification and disclosure of certain non-current liabilities subject to specific conditions. It went on to raise a number of issues including, disagreeing with the requirement for separate presentation in the balance sheet, and concerns that certain proposals were likely to lead to diversity in practice. The outreach activities with UK stakeholders indicated similar concerns. During that outreach we identified additional concerns which are reflected in the final comment letter.	
Decisions for the Board	
The Board is asked for its: a) approval to issue the final comment letter to the IASB and publish on the UKEB website; b) approval to publish the feedback statement on the UKEB website; and c) approval of the Due Process Compliance Statement once finalised.	
Recommendation	
We recommend the Board approve the final comment letter for issuance to the IASB, the feedback statement for publication on the UKEB website, and approve the Due Process Compliance Statement once finalised.	
Appendices	
Appendix 1 Draft final comment letter Appendix 2 Draft feedback statement Appendix 3 Due Process Compliance Statement Appendix 4 High level summary of stakeholder feedback	

Background

1. In January 2020, the International Accounting Standards Board (IASB) issued an amendment to IAS 1 *Presentation of Financial Statements* (IAS 1) on Classification of Liabilities as Current or Non-current (2020 amendments). It was aimed at clarifying how to classify debt and other financial liabilities as current or non-current in particular circumstances.

2. In 2021, stakeholder concerns led to consideration by the IFRS Interpretations Committee (IFRIC) of the application of the 2020 amendments. Specifically, this was centred on classification when a company's right to defer settlement is subject to compliance with covenants within 12 months of the reporting date and the company is not compliant with such covenants at the reporting date. This led to an IFRIC tentative agenda decision (TAD) which stated that as the company would not have a right to defer settlement of the liability it would present the related liability as a current liability in its balance sheet. Respondents to the TAD were critical of the conclusion and highlighted unintended consequences arising from the 2020 amendment and the TAD which had not been considered when developing the amendments.

3. The IASB's response was a tentative decision to amend IAS 1 with respect to classification (as current or non-current), presentation and disclosures of liabilities where an entity's right to defer settlement for at least 12 months is subject to the entity complying with conditions after the reporting period. This was subsequently published as IASB Exposure Draft (ED) *Non-current Liabilities with Covenants* in November 2021 with a comment deadline of 21 March 2022.

4. In the ED, the IASB proposes to amend IAS 1 to specify that "specific conditions", with which a company must comply after the reporting date, do not affect the classification of a liability as current or non-current at that date. Instead, a company would be required to:

    a) present non-current liabilities with covenants separately on the face of its balance sheet; and

    b) disclose information in the notes about the covenants with which it must comply within 12 months of the reporting date.

5. Two IASB Board Members have provided an "alternative view" to the ED. Specifically they disagree with the proposal to require an entity to present separately, in its statement of financial position, non-current liabilities subject to such conditions. They also disagree with some of the additional note disclosures proposed in the ED.

UKEB draft comment letter – key themes

6. The UKEB's draft comment letter was open for public consultation from 3 February 2022 to 7 March 2022. The draft comment letter (DCL) noted that:

    a) We support a number of the proposals in the ED as we believe they will lead to clearer classification and disclosure of non-current liabilities with covenants that will assist users' decision making. These include that:

i. We agree with the proposed amendments removing the requirement to classify debt as a current liability where the entity is in technical breach of covenants for which compliance will be tested at a future date.

ii. We agree with the principle 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.

iii. We support the proposals for enhancing disclosure about non-current liabilities in the notes to the financial statements.

b) We are concerned about some of the proposals in the ED, including that:

i. We do not support the specific requirement for separate presentation in the Statement of Financial Position.

ii. We are concerned about the potential for unintended consequences of some of the ED's proposals. These include (but are not limited to):

- The meaning of "specified conditions".

- The application of the included guidance when determining if a liability is current.

UK stakeholder feedback

7. The UKEB Secretariat outreach on this project included meetings with 15 stakeholders from a range of organisations focused on the UKEB Draft Comment Letter. We received two comment letters responding to the UKEB's Invitation to Comment. The feedback was consistent with our own recommendations. A high-level summary of the feedback we received is included as Appendix 4 to this paper.
8. We did identify two additional areas of concern from the outreach activities that are included as recommended changes in the Final Comment Letter at Appendix 1 to this paper.

9. A number of stakeholders raised concerns about the specific items required to be disclosed about non-current liabilities subject to certain conditions in the exposure draft. Some stakeholders felt it emphasised information that may not be relevant. Others suggested it would lead to boilerplate disclosure. These matters go beyond those originally raised in our Draft Comment Letter, but represent a more fundamental concern with the requirements.

10. We have suggested that paragraph A7 of the Final Comment Letter be changed from that included in the Draft Comment Letter to focus on these more fundamental concerns that the specific disclosures requested may not provide relevant information. We recommend that the IASB develop disclosures that address the actual concerns underlying the amendments, that is, the existence of material conditions that would make a non-current liability repayable sooner that are at risk of being breached within the 12 months after reporting date.

11. One stakeholder noted that if entities are allowed to early adopt the 2020 amendments without also adopting the amendments from this exposure draft the classification of liabilities could be inconsistent from period to period. While we think it is unlikely that anyone would choose to do this, we agree it should be explicit in the transition requirements that early adoption of the 2020 amendments is conditional on adoption of amendments that are published because of this Exposure Draft. We have added paragraph A20 to the Final Comment Letter to address this.

12. A number of stakeholders shared issues they were considering for their organisation's own submissions to the IASB in response to this Exposure Draft. We have also reviewed the comment letters already uploaded to the IASB project page. Though there are some diverse views expressed, the majority raise similar issues to those included in the UKEB comment letter.

13. The feedback statement at Appendix 2 provides additional detail on outreach undertaken, feedback received and subsequent amendments to the UKEB's comment letter.

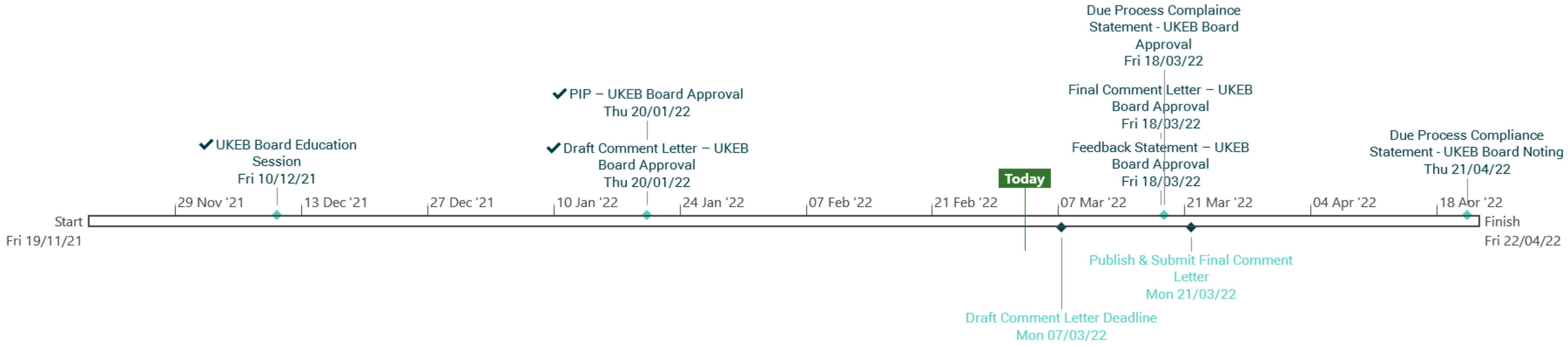
14. The draft compliance statement is included at Appendix 3.

Questions for the Board
a) Do Board members have any suggested amendments to the Final Comment Letter included at Appendix 1? b) Subject to any required amendments, does the Board approve the Final Comment Letter for issuance to the IASB and publication on the UKEB website? c) Do Board members have any suggested amendments to the Feedback Statement included at Appendix 2? d) Subject to any required amendments, does the Board approve the Feedback Statement for publication on the UKEB website? e) Do Board members have any suggested amendments to the draft Due Process Compliance Statement included at Appendix 3? f) Subject to any suggested amendments, does the Board approve the compliance statement for publication on the UKEB website once finalised?

Next Steps

15. The next project milestones are as follows:

Date	Milestone	Complete
19 November 2021	IASB Publish ED	✓
20 January 2022 **Board Meeting**	Approve PIP Approve Draft Comment Letter	✓
03 February 2022	Publish Draft Comment Letter. Deadline for responses 7 March 2022.	✓
18 March 2022 **Board Meeting**	Approve Final Comment Letter Approve Feedback Statement Approve Draft Compliance Statement	
21 March 2022	Submit Comment Letter to IASB Publish Feedback Statement on website.	
21 April 2022 **Board Meeting**	Final Compliance Statement to Board for noting.	
22 April 2022	Publish Compliance Statement on website.	


Due Process Complaince Statement - UKEB Board Approval
Fri 18/03/22
✔ PIP – UKEB Board Approval
Thu 20/01/22
Final Comment Letter – UKEB Board Approval
Fri 18/03/22
✔ UKEB Board Education Session
Fri 10/12/21
✔ Draft Comment Letter – UKEB Board Approval
Thu 20/01/22
Feedback Statement – UKEB Board Approval
Fri 18/03/22
Due Process Compliance Statement - UKEB Board Noting
Thu 21/04/22
Today
Start
Fri 19/11/21
29 Nov '21
13 Dec '21
27 Dec '21
10 Jan '22
24 Jan '22
07 Feb '22
21 Feb '22
07 Mar '22
21 Mar '22
04 Apr '22
18 Apr '22
Finish
Fri 22/04/22
Publish & Submit Final Comment Letter
Mon 21/03/22
Draft Comment Letter Deadline
Mon 07/03/22

Dr Andreas Barckow
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International Accounting Standards Board
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London
E14 4HD

XX March 2022

Dear Dr Barckow

Invitation to Comment: Exposure Draft – *Non-current Liabilities with Covenants* (proposed amendments to IAS 1)

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 Accounting Standards. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This letter 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.

There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS Accounting Standards[1]. In addition, UK law allows unlisted companies the option to use IFRS Accounting Standards and approximately 14,000 such companies currently take up this option[2].

We welcome the opportunity to provide comment on the IASB's Exposure Draft (ED) – *Non-current Liabilities with Covenants* (proposed amendments to IAS 1). Our response is based on in-house research and stakeholder feedback. Our main comments with regard to the ED are outlined below. For detailed responses to the questions in the ED please see Appendix 1.

[1] UKEB calculation based on LSEG and Eikon data. This calculation includes companies listed on the Main market as well as the Alternative Investment Market (AIM).
[2] UKEB estimation based on FAME, Companies Watch and other proprietary data

We support a number of the proposals in the ED as we believe they will lead to clearer classification and disclosure of non-current liabilities with covenants that will assist users' decision making.

1. We agree with the proposed amendments to paragraph 72A removing the requirement to classify debt as a current liability where the entity is in technical breach of covenants for which compliance is to be tested at a future date. The tentative IFRIC Agenda Decision that was the catalyst for this Exposure Draft had the potential to create significant unintended consequences, and confusion for users of financial statements, as was clearly outlined by many respondents to that decision.

2. We agree with the principle in paragraph 72B 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. However, we believe that this paragraph could be worded more clearly as discussed at paragraphs A1 – A5 in Appendix 1.

3. We agree with paragraph 72C(a), though we believe this principle is already implicit in the existing paragraphs.

4. We support ~~the proposals for~~ enhancing disclosure about non-current liabilities in the notes to the financial statements ~~in paragraph 76ZA(b) as they~~if it will provide useful information to enable users of financial statements to assess the risk that a liability classified as non-current could become repayable within twelve months. See our detailed response at paragraphs A6 – A7 in Appendix 1.

However, we are concerned about some of the proposals in the ED as follows:

1. We do not support the specific requirement for separate presentation in the Statement of Financial Position (paragraph 76ZA(a)). We believe that the current general requirements in IAS 1 *Presentation of Financial Statements* are sufficient. See our detailed response at paragraphs A8 – A12 in Appendix 1.

2. We are concerned about the potential for unintended consequences of some of the ED's proposals. These include (but are not limited to):

   a) The meaning of "specified conditions" (paragraph 72B). If the term is meant to have a particular meaning it needs to be defined, otherwise we suggest "conditions" should be used. See our detailed response at paragraphs A2 – A5 in Appendix 1.

   b) The application of paragraph 72C(b) when determining if a liability is current. We have encountered significant diversity in interpreting the intent of this paragraph and suggest paragraph 72C is deleted. See our detailed response at paragraphs A14 – A17 in Appendix 1.

Given that the ED is aimed at addressing specific concerns arising from the as yet unimplemented 2020 Amendments to IAS 1, to enable timely completion of the project we suggest that the IASB only proceed with amending paragraphs 72A, 72B (with clarifications as discussed) and enhancing disclosure on ~~covenants~~material conditions that could be breached leading to earlier repayment of non-current liabilities. Further standard setting should happen only if there is evidence of significant diversity in practice. ~~.~~Our discussions with the UK regulator responsible for corporate reporting review confirmed that classification of liabilities is not a frequently raised issue in their financial statement reviews.

If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix 1: Questions on Exposure Draft ED/2021/9 – Non-current Liabilities with Covenants

Question 1—Classification and disclosure (paragraphs 72B and 76ZA(b))

The IASB proposes to require that, for the purposes of applying paragraph 69(d) of IAS 1, specified conditions with which an entity must comply within twelve months after the reporting period have no effect on whether an entity has, at the end of the reporting period, a right to defer settlement of a liability for at least twelve months after the reporting period. Such conditions would therefore have no effect on the classification of a liability as current or non-current. Instead, when an entity classifies a liability subject to such 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, including:

a) the conditions (including, for example, their nature and the date on which the entity must comply with them);
b) whether the entity would have complied with the conditions based on its circumstances at the end of the reporting period; and
c) whether and how the entity expects to comply with the conditions after the end of the reporting period.

Paragraphs BC15–BC17 and BC23–BC26 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

Paragraph 72B

A1 We agree with the principle in paragraph 72B 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. However, we believe that this paragraph could be worded more clearly as discussed below.

A2 The amendments in paragraph 72B refer to "specified conditions", and notes that these may also be referred to as "covenants". We understand that neither 'specified conditions' nor 'covenants' are defined in the IFRS. Under English common law, as applied to contracts, the term 'covenant' means any condition in a contract, but we accept this may not be the case in other jurisdictions. We are concerned that this could lead to different interpretations of the conditions intended to be captured by these amendments.

A3 We would suggest the IASB consider either using the term "condition" or it defines what is meant by "specified conditions".

A4 We agree with paragraph 72B(a) that if an entity fails to comply with a ~~specified~~ condition at the end of the reporting period, which is only assessed after the reporting period (say once audited financial statements are produced), it should still be treated as a breach at the end of that reporting period. However, we suggest that this is most relevant to paragraph 74 and should be incorporated there.

A5 We believe then paragraph 72B could be made much simpler and clearer, perhaps along the lines of:

> 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 conditions related to circumstances in that 12-month period. For the purposes of applying paragraph 69(d), these future conditions do not affect whether that right exists at the end of the reporting period.

Paragraph 76ZA(b)

A6 We support in principle the proposals in paragraph 76ZA(b) ~~as we agree~~to the extent that the resulting information will enable users of financial statements to assess the risk that the liability could become repayable within twelve months.

A7 ~~We do note h~~However, we agree with ~~that~~ some stakeholders who are concerned ~~about the provision of the forward-looking information required by paragraph 76ZA(b)(iii). Those stakeholders agree with the Alternative View provided by IASB Board Members Mr Mackenzie and Dr Scott which states that "entities should not be required to provide forward-looking information with respect to future compliance with covenants" and that the other proposed disclosures should be sufficient to allow users to assess the risk that a condition may be breached.~~ that the specific requirements in subparagraphs 76ZA(b)(ii) - (iii) may be too prescriptive and require entities to disclose potentially irrelevant information while obscuring or omitting more useful information about potential breaches of debt conditions. ~~We have also heard concerns~~UK stakeholders are also concerned that the requirements may encourage boilerplate disclosure that does not support the original objective of the amendments. As such, we would recommend the IASB ~~consider carefully whether these specific disclosure requirements should be included is proposed requirement in light of all feedback received~~ develop disclosures that address the actual concerns underlying the amendments, that is, are there material conditions that would make a non-current liability repayable sooner that are at risk of being breached within the 12 months after reporting date.~~.~~

Question 2—Presentation (paragraph 76ZA(a))

The IASB proposes 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.

Paragraphs BC21–BC22 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, do you agree with either alternative considered by the IASB (see paragraph BC22)? Please explain what you suggest instead and why.

A8 We do not support the proposals in paragraph 76ZA(a) for separate presentation of non-current liabilities subject to conditions as described in paragraph 72B(b).

A9 Most non-current financial liabilities would be subject to conditions that must be complied with in the twelve months following the reporting date (for example, a requirement to make regular payments of principal and interest, meeting certain accounting ratios, or a material adverse change or change of control clause not being triggered). Furthermore, financial liabilities almost universally contain a cross-default provision, meaning if payment of any one financial liability is accelerated then all other financial liabilities with that provision are accelerated. Therefore, unless 'specified condition' is defined, most liabilities would require this separate presentation.

A10 If the IASB's intention is for most non-current liabilities to be presented in this way, then we are concerned that the requirement will be effectively meaningless and could result in boilerplate disclosures being given.

A11 Even if "specified condition" were to be defined, our views are also aligned with the Alternative View, in that a blanket requirement for separate disclosure on the face of the financial statements is not consistent with a principle-based approach to financial accounting:

> "The proposed presentation requirement does not represent a compelling case to forgo a principle-based approach. Under a principle-based approach, to provide the most relevant information to users of financial statements, an entity would apply principles to prioritise the information presented in the statement of financial position relative to disclosure in the notes" (paragraph AV3 of the Exposure Draft).

A12 We note that paragraph 55 of IAS 1 already requires disaggregation in the statement of financial position when it is relevant to an understanding of an entity's financial position. The current principles for disaggregation in IAS 1, and the expected improved principles for disaggregation proposed in the Primary Financial Statements project, in our view are sufficient to support appropriate presentation when required. When coupled with the proposal in this ED for disclosure in the notes to the financial statements we believe this would provide sufficient information to users to allow them to understand that some liabilities classified as non-current could be required to be paid earlier.

Question 3—Other aspects of the proposals

The IASB proposes to:

a) 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 for the purposes of applying paragraph 69(d) of IAS 1 (paragraph 72C);

b) require an entity to apply the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with earlier application permitted (paragraph 139V); and

c) defer the effective date of the amendments to IAS 1, Classification of Liabilities as Current or Non-current, to annual reporting periods beginning on or after a date to be decided after exposure, but no earlier than 1 January 2024 (paragraph 139U). Paragraphs BC18–BC20 and BC30–BC32 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Paragraph 72C

A13 We agree with paragraph 72C(a), though we believe this principle is already implicit in the existing paragraphs. We believe that it should already be clear under paragraph 69(d) that if a counter party has discretion to call a loan at any time without cause, then the entity does not have the right to defer settlement.

A14 We believe that paragraph 72C(b) would likely lead to diversity in practice. Stakeholders in the UK hold divergent views on what would or would not be captured by these requirements.

A15 Some stakeholders have highlighted that some general conditions found in many loan agreements may be "unaffected" by the entity's future actions and therefore could lead to them being classified as current in accordance with paragraph 72C(b). Two specific examples are loans subject to material adverse change clauses or change of control clauses, which are generally not considered to require current classification today.

A16 Other stakeholders have noted that there are many outcomes that can be affected by an entity's future actions which could lead to liabilities that are classified as current at this point in time being classified as non-current depending on the interpretation of the term "unaffected".

A17 We believe that significant redrafting or additional explanation would be required to address concerns with paragraph 72C(b). We are not aware that this paragraph addresses issues raised with IFRIC. We therefore suggest it may be better to remove paragraph 72C in its entirety and rely on existing principles and practice.

Other Aspects of the Proposal

A18 We believe that retrospective application of any amendments made on the basis of the Exposure Draft would be appropriate.

A19 We agree that the effective date of IAS 1, *Classification of Liabilities as Current or Non-current* should be deferred to no earlier than 1 January 2024, and subject to finalisation of these proposals.

~~A19~~A20 We recommend the IASB make early adoption of the 2020 Amendments to IAS 1 conditional on adoption of these amendments at the same time.

UKEB FEEDBACK STATEMENT

Exposure Draft: *Non-current Liabilities with Covenants*

[DRAFT FOR BOARD REVIEW]

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

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

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	1
Auditors & Accounting Firms	6
Regulators/Standard Setters	4
Users	1
Professional Bodies	2
Academics	1

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.

1. Classification and disclosure

IASB proposal	UKEB draft position	Further stakeholder views	UKEB final position
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.	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.	• General agreement with this principle. • Agreement that the meaning of "specified conditions" is unclear.	No change as consistent with the draft position.
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.	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.	• A number of stakeholders raised concerns about the specific items required to be disclosed. • Some stakeholders felt it emphasised information that may not be relevant. • Others suggested it would lead to boilerplate disclosure.	Redrafted letter to highlight these concerns. Continue to recommend the IASB carefully consider the specific disclosure requirements in light of feedback received.

UKEB

2. Presentation and Other Aspects

IASB proposal	UKEB draft position	Further stakeholder views	UKEB final position
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.	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.	• No stakeholder we spoke to supported separate presentation.	No change as consistent with the draft position.
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.	We believe the proposals are likely to lead to diversity in practice and have unintended consequences when it comes to classification. We recommended deletion of this paragraph.	• Stakeholders shared similar concerns, and raised a number of specific examples that they felt could result in unsatisfactory outcomes applying the proposals.	No change as consistent with the draft position.
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.	We agree with these proposals.	• One stakeholder noted that entities should not be allowed to early adopt the 2020 amendments without also adopting these amendments	We agree that entities should not be able to early adopt the 2020 amendments without also adopting these amendments.

UKEB

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.

Contact Us

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Influencing process: ED Non-current Liabilities with Covenants

Step	Required / Optional	Metrics or evidence	UKEB secretariat comments
IASB's due process document			
Exposure Draft ED *Non-Current Liabilities with Covenants*		**Published:** 19/11/2021 **Comment deadline**: 21/03/2022	

Project preparation			
Technical project added to UKEB technical work plan and discussed	Required	Project is included in the published technical UKEB Work Plan.	Yes
Project preparation and Project Initiation Plan (PIP)	Required	PIP created which includes: - Approach to influencing; - Proposed type of fieldwork; - Involvement of IASB staff; - Key milestones and timing; - Initial analysis based on desk based or other research.	Yes
	Required	Assessment of whether to set up an ad-hoc advisory group	Yes. Concluded an ad-hoc group was not necessary as it was not proportionate.
	Required	UKEB Board public meeting held to approve PIP	Yes, approved at 20/01/22 meeting
	Optional	UKEB Education or initial assessment	Yes, an education session at the 9/12/21 private Board meeting.

Communications			
Communications	Required	UKEB Board public meetings held to discuss technical project	Yes, **20/01/22** Approve PIP **20/01/22** Approve DCL and ITC questions; **18/03/22** Approve FCL, Approve FS, Approve CS.
	Required	Board meeting papers posted and publicly available on a timely basis.	Yes
	Required	Project website contains a project description and up to date information.	Yes

Outreach activities			
Fieldwork undertaken			
Public events, roundtables, workshops or interviews with specific groups of stakeholders	Optional	Numbers for stakeholder outreach and venues documented	Undertook 15 meetings with various stakeholders. Documented in Feedback Statement.

UKEB draft comment letter			
	Required	Draft comment letter approved for publication at UKEB public meetings	Yes, approved at 20/01/22 Board meeting
	Required	Draft comment letter, including deadline for responses, posted on UKEB Website for public consultation	Yes Published: 03/02/22 Comment deadline: 07/03/22
	Required	News Alert published to announce publication	Yes
	Required	Public responses on draft comment letter posted on website	Yes, Two comment letters were received from stakeholders. These have been published on the project page on the website.

UKEB final comment letter			
Final comment letter			
	Required	Final comment letter approved for publication at UKEB public meeting.	To be approved at the 18/03/22 Board meeting
	Required	Publish final comment letter on UKEB website and submit to IASB	Letter to be published after approval at Board meeting 21/03/22.
	Required	News Alert published to announce publication	To take place following posting to website.

Finalisation			
Feedback statement	Required	Draft Feedback Statement for discussion and review at UKEB public meeting	Feedback Statement to be approved at Board meeting 18/03/22.
	Required	Feedback Statement posted on UKEB Website	To take place following Board approval of the Feedback Statement.
	Required	News Alert published to announce publication	To take place following posting to website.
Compliance Statement	Required	Due process Compliance Statement approved by UKEB in public meeting	To consider at 18/03/22 Board meeting.
	Required	Due Process Compliance Statement posted on UKEB Website	To take place following Board approval of Compliance statement.

Conclusion
This ED was published on 19 November 2021 with a comment deadline of 21 March 2022. The timing of consultation activities was affected by the holiday season and year-end preparation/reporting and this may have particularly impacted engagement with preparers. Given the ED was a narrow-scope amendment a focus on targeted outreach and one-on-one discussions was deemed appropriate. We also engaged with a number of organisations, in addition to UKEB channels, to publicise the content of the Draft Comment Letter and seek feedback. We had good engagement with a range of stakeholders, which supported the development of both the Draft and Final Comment Letters. Overall, this project due process complies with the UKEB Due Process that is in place at the time of writing.

ED: Non-current Liabilities with Covenants: High-Level Summary of Stakeholder Feedback

Stakeholder type	Number of discussions	Key points Raised
Preparers	1	• Very concerned about these proposals • Agree it is imperative para 72A is amended • Do not support separate presentation, do not believe the proposed disclosure is particularly helpful. • Agree that 72C should be deleted
Auditors & Accounting Firms	6	• High degree of consistency with UKEB draft comment letter. • Consistent opposition to separate disclosure. • Some divergent views on meaning of "specific condition" • All firms expressed concerns about the application of paragraph 72C. • A number of firms were concerned the required disclosures would lead to boiler plating.
Regulators/Standard Setters	4	• High degree of consistency with UKEB draft comment letter. • One NSS noted that early adoption of the 2020 Amendments without adoption of these amendments would be non-sensical.
Users	1	• High degree of consistency with UKEB draft comment letter. • Expressed a view that the required disclosures did not address the key concerns. The relevant information is which covenants are at risk of bring breached.
Professional Bodies	2	• High degree of consistency with UKEB draft comment letter. • Uncertainty on the meaning of “condition”, “specific condition” and “covenants” • Wonder if the intention is that different paragraphs apply to different types of conditions.
Academics	1	• High degree of consistency with UKEB draft comment letter. • Concerns that cost / benefit does not seem to strike the right balance • Overly complex requirements • Provided helpful thoughts on wording of UKEB response