Draft Endorsement Criteria Assessment

IAS 1 Narrow-Scope Amendments: *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants*

March 2023

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Introduction

Purpose

1. The purpose of this Draft Endorsement Criteria Assessment (DECA) is to determine whether the following amendments to international accounting standards meet the UK's statutory requirements for adoption:

   a) *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) (the 2020 Amendments), issued by the International Accounting Standards Board (IASB) in January 2020; and

   b) *Non-current Liabilities with Covenants* (Amendments to IAS 1) (the 2022 Amendments), issued by the IASB in October 2022.

2. The draft UK-adopted International Accounting Standard text for each Amendment is reproduced in Appendices A and B of this document respectively. For ease of reference the combined effect of the two Amendments is reproduced in Appendix C.

3. The 2020 and 2022 Amendments (the Amendments) have an effective date of 1 January 2024 with earlier application permitted.

4. The 2020 Amendments were published by the IASB in January 2020, but had not been adopted by the EU by the end of the UK's EU Exit Transition Period on 31 December 2020. Accordingly, they were not incorporated into domestic UK law as UK-adopted international accounting standards. The EU had not adopted the amendments due to stakeholder concerns about one of the requirements introduced by the 2020 Amendments. These concerns led to the IASB undertaking additional work to understand those concerns, ultimately leading to the 2022 Amendments.

5. The UKEB actively influenced the development of the 2022 Amendments. This included submitting a Final Comment Letter on 21 March 2022 in response to the IASB's Exposure Draft ED/2021/9 *Non-current Liabilities with Covenants*.

Joint assessment and adoption

6. This DECA considers the 2020 and 2022 Amendments and proposes they are adopted on a joint basis.

7. The Board considered the pros and cons of a number of approaches to adopting the 2020 and 2022 Amendments but proposes adoption on a joint basis. Alternative approaches considered included simply adopting each amendment separately or making modifications to the Amendments to effectively combine

them. Of the approaches considered, the joint approach appeared to be most consistent with the apparent intent of the Amendments and provided the most appropriate approach to assessing the Amendments.

8. In our view the joint approach is consistent with the intention of the IASB because the 2022 Amendments are intended to improve the application of the 2020 Amendments. They also include amendments that supersede elements of the 2020 Amendments.

9. The IASB's effective date requirements reinforce this view. Those entities that have already applied the 2020 Amendments must apply the 2022 Amendments immediately upon issuance of the 2022 Amendments. Those entities that have not applied the 2020 Amendments can now only apply them for an earlier period in conjunction with the 2022 Amendments.

10. The IASB has also provided a combined text of the two sets of Amendments (to make the joint effect of the two amendments clearer) as an appendix to the 2022 Amendments. While this does not form part of the mandatory text, its inclusion further suggests that the intention is for the Amendments to be jointly applied. This text is included in Appendix C.

11. In the UK legal context, Section 6(c) of the Interpretation Act 1978 states that words in the singular include the plural and words in the plural include the singular unless the contrary intention appears. On this basis, joint adoption is consistent with the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 (SI 2019/685), Regulation 7 of which outlines the basis upon which an International Accounting Standard can be adopted.

12. Given the nature of the Amendments, and the apparent intention of the IASB, this DECA determines that joint assessment of the Amendments is appropriate; and provides the most relevant approach to assessing the endorsement criteria in Regulation 7 of SI 2019/685.

13. This DECA therefore considers whether the 2020 and 2022 Amendments taken as a package meet the UK's statutory requirements for adoption as set out in Regulation 7 of SI 2019/685.

Background to the Amendments

14. The Amendments clarify the requirements for classification of liabilities and add disclosure requirements for non-current liabilities with covenants to IAS 1 *Presentation of Financial Statements.* These Amendments are part of the IASB's continuous effort to maintain and improve international accounting standards.

15. Section 2 in this DECA provides a brief description of the Amendments.

Exclusions from the adoption assessment

16. Both the 2020 and 2022 Amendments include amendments to the Basis for Conclusions to IAS 1. The 2022 Amendments also include amendments to IFRS Practice Statement 2 *Making Materiality Judgements.* The IFRS Practice Statement 2 amendments add a reference to the new disclosure requirements to an existing example (Example P) that addresses assessing whether information about covenants is material.

17. UK-adopted international accounting standards comprises only the mandatory[1] sections of standards, therefore amendments to the Basis for Conclusions and IFRS Practice Statement 2 are not adopted by the Board and are excluded from the DECA.

Structure of the assessment

18. We have presented our analysis in the following sections:

    a) **Section 1:** describes UK statutory requirements for adoption of new or amended international accounting standards; and

    b) **Section 2:** discusses how the Amendments meet the criteria in Section 1.

Do the Amendments lead to a significant change in accounting practice?

19. A standard adopted by the UKEB under Regulation 6 of SI 2019/685 that it considers is likely to lead to a 'significant change in accounting practice', is subject to the requirements in paragraph 3 of Regulation 11 of SI 2019/685 that the UKEB:

    a) "carry out a review of the impact of the adoption of the standard; and

    b) publish a report setting out the conclusions of the review no later than 5 years after the date on which the standard takes effect (being the first day of the first financial year in respect of which it must be used)".

20. **Section 2** of the DECA discusses whether the Amendments lead to a significant change in accounting practice and [tentatively] concludes that they do not.

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1 Mandatory pronouncements are IFRS Standards, IAS Standards, Interpretations and mandatory application guidance. Non-mandatory guidance includes basis for conclusions, dissenting opinions, implementation guidance and illustrative examples, together with the IFRS practice statements.

1. Section 1: UK statutory requirements for adoption

UK statutory requirements

1.1 Paragraph 1 of Regulation 7 of SI 2019/685 requires that an international accounting standard only be adopted if:

a) "the standard[2] is not contrary to either of the following principles—

i. an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;

ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;

b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and

c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management."

1.2 This DECA assesses the criteria above in the following order:

a) Whether the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management (Regulation 7(1)(c)).

b) Whether the Amendments are not contrary to the principle that an entity's accounts must give a true and fair view (Regulation 7(1)(a)).

2 The term "standard" includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (SIC-IFRIC interpretations) issued or adopted by the International Accounting Standards Board (IASB). This DECA relates to amendments to those standards.

c) Whether use of the Amendments is likely to be conducive to the long term public good in the UK (Regulation 7(1)(b)). Regulation 7(2) of SI 2019/685 includes specific areas to consider for this assessment. They are:

i. whether the Amendments are likely to improve the quality of financial reporting;

ii. the costs and benefits that are likely to result from the use of the Amendments; and

iii. whether the Amendments are likely to have an adverse effect on the economy of the UK, including on economic growth.

Relevance, Reliability, Understandability and Comparability[3]

1.3 Information is **relevant** if it is capable of making a difference in the decision-making of users[4] or in their assessment of the stewardship of management. The information may aid predictions of the future, confirm or change evaluations of the past, or both.

1.4 Financial information is **reliable** if, within the bounds of materiality, it:

a) can be depended on by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;

b) is complete; and

c) is free from material error and bias.

1.5 Financial information should be readily **understandable** by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence.

1.6 Information is **comparable** if it enables users to identify and understand similarities in, and differences among, items. Information about an entity should be comparable with similar information about other entities and with similar information about the same entity for another period.

1.7 In conducting our overall assessment against the technical accounting criteria we are required to adopt an absolute, rather than a relative, approach. This means that this assessment is an absolute one against the criteria (do the Amendments provide information that is understandable, relevant, reliable and comparable?)

3 These descriptions are based on the qualitative characteristics of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in April 2001. These qualitative characteristics became part of the criteria for endorsement and adoption of IFRS in the EU's IAS Regulation (1606/2002), and, subsequently, in SI 2019/685.

4 In the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB, the users of financial reports include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. While the UK has not adopted this *Framework*, in this document 'users' is taken to have a similar meaning.

rather than a relative one (do the Amendments provide information that is more understandable, relevant, reliable and comparable than current, or any other, accounting?). When an assessment of any individual aspect or requirement of the Amendments uses comparative language (e.g. 'enhances comparability'), this does not mean that our objective is to reflect a real comparison in relative terms. Instead, our objective is to explain that any individual aspect or requirement of the Amendments has the potential to "enhance" one or more of the qualitative characteristics. Consideration of whether the Amendments are likely to improve the quality of financial reporting is separate from this assessment and is included within the UK long term public good assessment in Section 2.

True and fair view assessment

1.8 As noted above, the first adoption criterion set out in Regulation 7(1) of SI 2019/685 requires that an international accounting standard can be adopted only if:

> "the standard is not contrary to either of the following principles—
>
> a) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
>
> b) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; [....]"

1.9 For the sake of brevity, we refer to our assessment against this endorsement criterion as 'the true and fair view assessment' and to the principles set out in Regulation 7(1)(a) as the 'true and fair principle'. However, these abbreviated expressions do not imply that our assessment has considered anything other than the full terms of the endorsement criterion set out above.

1.10 The duty of the UKEB under Regulation 7(1)(a) is to determine generically, before a standard is applied to a set of accounts, whether that standard is 'not contrary' to the true and fair principle. In other words, it is an ex-ante assessment. We have therefore considered whether the Amendments contain any requirement that would prevent accounts prepared using the Amendments from giving a true and fair view.

1.11 Our approach is to determine whether the Amendments are not contrary to the true and fair principle in respect of any of the specific items identified in Regulation 7(1)(a) (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. A holistic approach has been taken to this assessment, considering the impact of the Amendments taken as a whole, including its interaction with other UK-adopted international accounting standards.

1.12 For the purposes of our assessment, we consider the requirement in IAS 1 for financial statements to 'present fairly the financial position, financial performance and cash flows of an entity'[5] to be equivalent to the Companies Act 2006 requirement for accounts to give a true and fair view.

1.13 Our assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, which requires directors to be satisfied that a specific set of accounts gives a true and fair view of an undertaking's or group's assets, liabilities, financial position and profit or loss.

[Draft Adoption decision]

1.14 **[Section 2** of this DECA discusses how the Amendments meet the statutory endorsement criteria set out in this **Section 1**.

1.15 On the basis of these assessments, and subject to any stakeholder feedback, the UKEB [tentatively] concludes that the Amendments meet the statutory endorsement criteria. The UKEB is therefore of the view that it will adopt the Amendments for use in the UK.]

5 Paragraph 15 of IAS 1 *Presentation of Financial Statements*.

2. Section 2: Description and assessment of the Amendments

2020 and 2022 Amendments to IAS 1	
Title and issue date of final amendments	***Classification of Liabilities as Current or Non-current*** **(Amendments to IAS 1) issued January 2020.** ***Non-current Liabilities with Covenants*** **(Amendments to IAS 1) issued October 2022.**
Origin	In January 2020, the IASB issued narrow-scope amendments to IAS 1 *Classification of Liabilities as Current or Non-current* (the 2020 Amendments). The Amendments were focussed on clarifying one of the criteria in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least twelve months after the reporting period. In 2021, stakeholder concerns about one of the paragraphs introduced in the 2020 Amendments led to the IASB publishing further amendments to IAS 1 *Non-current Liabilities with Covenants* (the 2022 Amendments) in October 2022. The background to both the 2020 and 2022 Amendments can be found in the November UKEB meeting, Agenda Paper 7.
What has changed?	When considered on a joint basis the 2020 and 2022 Amendments make the following changes to IAS 1: **Clarify classification of liabilities** • Amend paragraph 69(d), clarifying that for a liability to be classified as non-current the entity must "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". • Add paragraphs 72A–72B and amend paragraphs 73–74 to clarify the meaning of the "right to defer settlement for at least twelve months", especially when a loan has covenants that must be complied with in the next twelve months. • Add paragraph 75A to make clear that classification is unaffected by management's intention to settle a liability earlier. It also notes that in such circumstances disclosure

	may be necessary to enable users to understand the impact of the liability on the entity's financial position. **Clarify that early settlement of a non-current liability after reporting date is a non-adjusting post balance sheet event** • Amend paragraph 76 to clarify that voluntary early settlement of a non-current liability between the end of the reporting period and the date when the financial statements are authorised for issue should be accounted for as a non-adjusting post balance sheet event in accordance with IAS 10 *Events after the Reporting Period*. **Enhance disclosures for non-current liabilities with covenants** • Add paragraph 76ZA which requires additional disclosures "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". Disclosures include information on the covenants, and facts and circumstances that indicate an entity may have difficulty complying with the covenants. **Clarify the meaning of 'settlement' in paragraph 69** • Add paragraphs 76A–76B to clarify the meaning of 'settlement' in the context of IAS 1 paragraphs 69(a), 69(c) and 69(d), including in circumstances where settlement is achieved through the transfer of an entity's own shares. There are no consequential amendments to any other IFRS Accounting Standards.
Transition requirements	The 2020 and 2022 Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2024. Early application is permitted, as long as both Amendments are applied at the same time. If an entity applies the Amendments for an earlier period, it shall disclose that fact. The Amendments should be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Technical criteria assessment	
Relevance and reliability	Relevant financial information is capable of making a difference in the decisions made by users. Reliable financial information is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent. **Clarify classification of liabilities** The classification of liabilities as current or non-current is relevant to users. It affects assessments of solvency and liquidity which impact the decisions made by users. These amendments are expected to make it clearer which liabilities are current or non-current, including those with covenants that could cause earlier repayment, thus providing more relevant information. This is also expected to more faithfully depict the nature of these liabilities, enhancing the reliability of information provided. **Clarify that early settlement of a non-current liability after reporting date is a non-adjusting post balance sheet event** The Amendments explicitly clarify that the settlement of a non-current liability after the reporting period does not change the classification of a liability as non-current at the reporting date. The classification of such a liability as non-current makes it clear to the users that management has chosen early settlement; information that is both relevant and more faithfully represents the underlying nature of the liability. **Enhance disclosures for non-current liabilities with covenants** The enhanced disclosures may provide more information on the potential impact of covenants for an entity, if material[6]. Such disclosures more faithfully represent the risks associated with the liability and are expected to enable users to understand the risk that non-current liabilities with covenants could become repayable within twelve months and help them assess the potential impact for their decision-making. Materiality[6] continues to apply as an overarching principle that circumscribes the extent of the requirements and avoids excessive disclosure which might otherwise obscure other material information. **Clarify the meaning of 'settlement' in paragraph 69** The Amendments clarify the meaning of 'settlement', and address classification of compound financial instruments. Settlement is an

6 See IAS 1 Paragraph 31.

	important element of determining classification of liabilities as current or non-current, and the clarifications are expected to more faithfully represent the underlying nature of a liability, and so provide relevant information.
Understandability	Financial information should be readily understandable by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence. **Clarify classification of liabilities** The Amendments make it clearer which liabilities should be classified as current, and therefore which should otherwise be non-current. This is expected to help preparers, users and other stakeholders develop a better understanding of the nature of liabilities classified as current and non-current. **Clarify that early settlement of a non-current liability after reporting date is a non-adjusting post balance sheet event** The Amendments explicitly clarify that the settlement of a non-current liability after the reporting period does not change the classification of a liability as non-current at the reporting date. This is expected to help users understand the underlying classification of a liability and the subsequent decisions of management including impacts on cash flow. **Enhance disclosures for non-current liabilities with covenants** The additional disclosures complement the liquidity disclosure requirements in IFRS 7 *Financial Instrument: Disclosures* and are expected to enable users to better understand entities' liquidity and solvency risks. **Clarify the meaning of 'settlement' in paragraph 69** The clarification of the meaning of the word 'settlement' enables all stakeholders to have a consistent understanding of what 'settlement' means in paragraph 69.
Comparability	Comparability enables users to identify and understand similarities in, and differences among, items. **Clarify classification of liabilities** The Amendments enhance consistency of the classification of liabilities through enhancing clarity of the requirements. This is expected to increase comparability across different entities and financial reporting periods for the same entity.

	Clarify that early settlement of a non-current liability after reporting date is a non-adjusting post balance sheet event The explicit clarification is expected to result in a consistent understanding of specific post balance sheet events on classification of liabilities thus leading to comparable financial reporting across different entities and financial reporting periods for the same entity. **Enhance disclosures for non-current liabilities with covenants** The disclosure requirements specify information that must be disclosed in relation to non-current liabilities with covenants. This is expected to result in more consistent disclosure related to covenants which enables easier comparison by users. **Clarify the meaning of 'settlement' in paragraph 69** Clarifying the meaning of 'settlement' when it relates to IAS 1 paragraph 69 enables all stakeholders to have a consistent understanding of what settlement means in that context. Therefore, it is expected to enhance consistent application and result in more comparable financial information. **Transition Requirements** Retrospective application of the Amendments, as required by the transition requirements, enhances comparability as it enables users to compare entities' financial position across financial reporting periods and across reporting entities upon adoption.
Conclusion	The 2022 Amendments are intended to improve the application of the 2020 Amendments and include amendments that supersede previously issued requirements. We consider that the two Amendments, if applied jointly, meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.

Amendment is not contrary to the true and fair view requirement	
Description	The 2020 and 2022 Amendments, when considered jointly: a) clarify the classification of liabilities; b) clarify that early settlement of a non-current liability after reporting date is a non-adjusting post balance sheet event; c) enhance disclosures for non-current liabilities with covenants; and d) clarify the meaning of 'settlement' in paragraph 69. As discussed above, the Amendments are expected to enhance the relevance, reliability, understandability and comparability of financial information. Reliability includes the notion of faithful representation of the economic substance of transactions and events. The technical accounting criteria assessment underpins the overall true and fair view assessment.
Conclusion	Our assessment has not identified any requirement of the Amendments, when considered jointly, either alone or in conjunction with international accounting standards adopted for use in the UK, that would prevent individual or group accounts prepared using the Amendments from giving a true and fair view of the undertaking's or group's assets, liabilities, financial position and profit or loss. We are satisfied, therefore, that the circumstances in which the application of the Amendments would result in accounts which did not give a true and fair view would be extremely rare. Overall, we conclude that the Amendments are not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.
UK long term public good	
Description of entities that will be impacted	The Amendments to IAS 1 have the potential to affect most companies that apply UK-adopted international accounting standards. There are approximately 1,500 entities with equity listed in the London Stock Exchange (Main Market and AIM) that prepare their financial statements in accordance with UK-adopted international accounting standards[7]. In addition, UK law permits unlisted companies the option to use UK-adopted international

7 Based on LSEG and Reuters-Eikon data accessed in December 2021

	accounting standards and approximately 14,000 companies apply this option[8].
Do the amendments improve financial reporting?	The 2020 and 2022 Amendments, when considered jointly: a) clarify the classification of liabilities; b) clarify that early settlement of a non-current liability after reporting date is a non-adjusting post balance sheet event; c) enhance disclosures for non-current liabilities with covenants; and d) clarify the meaning of 'settlement' in paragraph 69. As discussed above in the technical accounting criteria assessment, these Amendments are expected to enhance the relevance, reliability, understandability and comparability of financial information. Consequently, it is expected that the Amendments will improve financial reporting when applied on a joint basis.
Costs for preparers and users	Preparers: Given that the Amendments to IAS 1 are narrow in scope, we estimated preparers' adoption costs by conducting a qualitative assessment of the costs likely to be borne by preparers, including limited outreach. We assessed whether preparers would face material costs related to: • familiarisation; • design of data collection processes; • IT system changes; • governance processes; • external audit; and • other costs. We do not expect preparers to face material **one-off familiarisation costs** related to the clarified classification requirements of liabilities. IAS 1 already requires preparers to classify liabilities as current or non-current. The new disclosure requirements in the Amendments may lead to some costs to develop the specific disclosures for the first reporting period. In most cases, the disclosure changes are limited and unlikely to add material additional familiarisation costs on an ongoing basis. The Amendments do not affect recognition or measurement and require an entity to apply its own judgement to determine whether

8 Based on FAME, Companies Watch and proprietary data

	the liabilities are current or non-current. Limited outreach suggests that processes already largely exist to identify and capture loan covenants. It is therefore not expected that entities will incur material additional costs related to the **design of data collection processes** or related to **IT system changes.** We do not expect that other costs (i.e. **governance processes, external audit costs and other**) will be material as in most cases the additional disclosures required would be limited in nature and relate to information already captured by governance and audit processes. <u>Users</u>: We do not expect that **one-off familiarisation costs for users** will be material as IAS 1 already requires the classification of liabilities as current or non-current. The additional disclosures are expected to be straightforward to interpret and unlikely to require significant changes to data collection or IT systems for users.
Benefits for users and preparers	<u>Users</u>: The revised guidance is expected to enhance users' ability to understand and compare the classification of liabilities by different reporting entities. By enhancing the understandability and enabling a more consistent application across entities and financial reporting periods, users benefit from having comparable financial information to compare financial positions of different reporting entities and of the same entity across different financial reporting periods. In addition, users are likely to benefit from more relevant entity-specific disclosures about non-current liabilities with covenants. This is expected to enable a better understanding of the nature of an entity's liabilities. Information about non-current liabilities, including covenant information, is included in some companies' management disclosures already, indicating there is a market-driven information need. However, these management disclosures may not necessarily be consistent. The revised guidance requires the disclosures of basic covenant information and is expected to enhance the usefulness of the disclosures. <u>Preparers</u>: The revised guidance provides greater clarity for preparers on the classification of liabilities, treatment of early settlement of a non-current liability and meaning of 'settlement', and the revised guidance provides greater clarity for preparers on what should be disclosed about non-current liabilities with covenants.

Whether the amendments are likely to have an adverse effect on UK economy	The Amendments are limited in scope and expected to bring improved financial reporting when compared to current guidance. More specifically, the Amendments are expected to enhance the understandability and transparency of reporting to investors, as they clarify the classification of liabilities and add disclosure requirements for non-current liabilities with covenants. We have not identified any factors that would indicate that these Amendments would lead to changes that are detrimental to the UK economy. As a result, the UKEB believes that these Amendments are not likely to have any adverse effect on the UK economy, including on economic growth. As such, the Amendments are likely to be conducive to the UK long term public good in that improved financial reporting improves transparency.
Conclusion	Having considered all relevant aspects, including the costs and benefits of implementing the two Amendments jointly, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

Do the Amendments lead to a significant change in accounting practice?

2.1 The UKEB is required to assess whether or not the Amendments are likely to lead to a 'significant change in accounting practice' and therefore meet the criteria for a post-implementation review.

2.2 The Amendments to IAS 1 do not fundamentally change the basic requirements in IAS 1 or introduce new principles. They clarify the classification of liabilities and add limited disclosure requirements about non-current liabilities with covenants.

2.3 Whilst the above changes will in principle be applicable to most companies that use UK-adopted international accounting standards to produce their accounts, the Amendments are largely a clarification of existing guidance. As a result, the UKEB [tentatively] concludes that the Amendments are not likely to lead to a significant change in accounting practice and do not meet the criteria for a post-implementation review under Regulation 11 in SI 2019/685.

Appendix A: Draft *Classification of Liabilities as Current or Non-current Amendments to IAS 1* [2020 Amendments]

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Amendments to IAS 1 *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*

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

Structure and content

...

Statement of financial position

...

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 ~~an unconditional~~ <u>the</u> right <u>at the end of the reporting period</u> 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.

<u>*Normal operating cycle (paragraph 69(a))*</u>

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 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 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.

73 If an entity ~~expects, and~~ has the ~~discretion,~~ right, at the end of the reporting period, 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. ~~However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing)~~ If the entity has no such right, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

74 When an entity breaches a ~~provision~~ 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 ~~an unconditional~~ 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.

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 ~~In respect of loans classified as current liabilities, if~~ 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 ~~ending at least twelve months after the reporting period.~~ classified as current (see paragraph 75); and

(d) settlement of a liability classified as non-current (see paragraph 75A).

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.

...

Transition and effective date

...

139D [Deleted]

...

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 2022 retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Appendix B: Draft *Non-current Liabilities with Covenants Amendments to IAS 1* [2022 Amendments]

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1. The IFRS Foundation and the UK Endorsement Board ("UKEB") (pursuant to the delegation by the Secretary of State in the International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609), grant users of the UK-adopted international accounting standards' (Users) the permission to reproduce the 'UK-adopted international accounting standards' for

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   Professional Use: means use of 'UK-adopted international accounting standards' in the User's professional capacity in connection with the business of providing accounting services for the purpose of application of IFRS as adopted by the UK for preparation of financial statements and/or financial statement analysis to the User's clients or to the business in which the User is engaged as an accountant.

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2. For any application that falls outside Professional Use, Users shall be obliged to contact the UKEB and the IFRS Foundation for a separate individual licence under terms and conditions to be mutually agreed.

3. Except as otherwise expressly permitted in this notice, Users shall not, without prior written permission of the UKEB and the Foundation, have the right to license, sublicense, transmit, transfer, sell, rent, or otherwise distribute any portion of the 'UK-adopted international accounting standards' to third parties in any form or by any means, whether electronic, mechanical or otherwise either currently known or yet to be invented.

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Amendments to IAS 1 *Presentation of Financial Statements - Non-current Liabilities with Covenants*

Amendments to IAS 1 *Presentation of Financial Statements*

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

...

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 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~~.

...

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).

...

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.

...

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.

...

Transition and effective date

...

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.

...

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 C: Consolidated Text of 2020 and 2022 Amendments

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   (i) the User's Professional Use, or

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   Professional Use: means use of 'UK-adopted international accounting standards' in the User's professional capacity in connection with the business of providing accounting services for the purpose of application of IFRS as adopted by the UK for preparation of financial statements and/or financial statement analysis to the User's clients or to the business in which the User is engaged as an accountant.

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2. For any application that falls outside Professional Use, Users shall be obliged to contact the UKEB and the IFRS Foundation for a separate individual licence under terms and conditions to be mutually agreed.

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4. Users are not permitted to modify or make alterations, additions or amendments to or create any derivative works from the 'UK-adopted international accounting standards' save as otherwise expressly permitted in this notice.

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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

...

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.

...

Transition and effective date

...

139D [Deleted]

...

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

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