

UKEB FEEDBACK STATEMENT

Amendments to IAS 1

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

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

Endorsement Criteria Assessment (ECA)

July 2023

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 on the development of new standards, amendments and interpretations.

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Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB's public consultation on the draft Endorsement Criteria Assessment (ECA) of Amendments to IAS 1 *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* and *Non-current Liabilities with Covenants (Amendments to IAS 1)* (the Amendments) and where relevant explains how the UKEB has addressed those views in the final ECA.



Description of the Amendments to IAS 1

Clarify classification of liabilities

- Clarify 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”.
- 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.
- Clarify that classification is unaffected by management’s intention to settle a liability earlier and note that in such circumstances disclosure may be necessary to enable users to understand the impact of the liability on the entity’s financial position.

Description of the Amendments to IAS 1

Clarify that early settlement of a non-current liability after reporting date is a non-adjusting post balance sheet event

- 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

- Require 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” are required.
- 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

- Clarify the meaning of ‘settlement’ in the context of IAS 1 paragraphs 69(a), 69(c) and 69(d), including where settlement may be achieved through the transfer of an entity’s own shares as part of a compound financial instrument.

Background to the endorsement project

The IASB issues amendments to international accounting standards to maintain and improve the IFRS Accounting Standards.

The IASB finalised and published *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* in January 2020 and *Non-current Liabilities with Covenants (Amendments to IAS 1)* in October 2022.

Both Amendments have an effective date of 1 January 2024 with earlier application permitted.

The Board was not formed when the 2020 Amendments were developed but the IASB received a substantial amount of feedback to the Exposure Draft ED/2015/1 *Classification of Liabilities*. Fourteen out of 87 comment letters received by the IASB were from stakeholders based in the UK.

The UKEB actively influenced the development of the 2022 Amendments. This influencing included submitting a [Final Comment Letter](#) in March 2022 in response to the IASB's Exposure Draft ED/2021/9 – *Non-current Liabilities with Covenants*.

For the project to consider the Amendments for adoption, the UKEB:

- approved the Project Initiation Plan at its January 2023 meeting; and
- approved the Draft Endorsement Criteria Assessment (DECA) at its February 2023 meeting.

Due to the narrow-scope nature of the Amendments, the UKEB's consultation activities were focused on obtaining responses to the DECA.

UKEB public consultation on the draft ECA

- The DECA was published for consultation for 91 days, between 9 March 2023 and 8 June 2023.
- During the consultation period, the UKEB and its Secretariat promoted awareness of the DECA and encouraged stakeholders to respond through News Alerts, LinkedIn posts and the UKEB website. We also emailed UK stakeholders who had submitted comments on the IASB's Exposure Drafts of both the 2020 and 2022 Amendments.
- We discussed the amendments with the following UKEB's advisory groups:
 - Accounting Firms & Institutes Advisory Group
 - Investor Advisory Group
 - Preparer Advisory Group
- A total of eight responses were received by the UKEB from stakeholders.
- Stakeholder submissions received were made public on the UKEB website.

Stakeholder type	Number of responses
Accounting firms	5
Academic	1
Preparer	1
Professional body	1
Total	8

- All stakeholder comments were considered in reaching the UKEB's final assessment of the Amendments.

Overall assessment

Respondents to the DECA concur with the UKEB's assessment based on the adoption criteria in paragraph 1 of Regulation 7 SI 2019/685 and are fully supportive of the adoption of the Amendments.



Detailed assessment–Comments from respondents

Amendments to IAS 1 <i>Classification of Liabilities as Current or Non-current (Amendments to IAS 1)</i> <i>Non-current Liabilities with Covenants (Amendments to IAS 1)</i>		
UKEB tentative assessment	Stakeholder Views	UKEB final assessment
Technical criteria assessment		
<p>The DECA tentatively concluded that the Amendments met 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 Regulation 7(1) of SI 2019/685.</p>	<ul style="list-style-type: none"> All respondents were supportive of the UKEB’s tentative conclusion. One respondent, who did agree with the UKEB’s tentative conclusion and advocated for adoption of the amendments, raised a specific issue in relation to paragraphs 76A(b) and 76B. They suggested that the presentation requirements, when applied to settlement of liabilities with an entity’s own equity, may not always provide insight into the solvency and liquidity of an entity. 	<p>Given that all respondents were supportive of the UKEB’s tentative conclusion, the assessment remains substantively unchanged. However, additional wording to address the point on settlement of liabilities with an entity’s own equity was added to the ECA. It concludes that it still conveys meaningful information.</p>
True and fair view assessment		
<p>The DECA tentatively concluded that the Amendments were not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.</p>	<ul style="list-style-type: none"> All respondents were supportive of the UKEB’s tentative conclusion. One respondent, who did agree with the UKEB’s tentative conclusion, raised a specific issue. (See Technical criteria assessment above). 	<p>Given that all respondents were supportive of the UKEB’s tentative conclusion the assessment remains the same.</p>

Detailed assessment–Comments from respondents

Amendments to IAS 1 <i>Classification of Liabilities as Current or Non-current (Amendments to IAS 1)</i> <i>Non-current Liabilities with Covenants (Amendments to IAS 1)</i>		
UKEB tentative assessment	Stakeholder Views	UKEB final assessment
UK long term public good		
<p>The DECA tentatively concluded that, having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, the Amendments were likely to be conducive to the long term public good in the UK as required by SI 2019/685.</p>	<p>All respondents were supportive of the UKEB’s tentative conclusion. One respondent, who did agree with the UKEB’s tentative conclusion, raised specific issues on the benefits for users and for preparers. They noted that the new requirements may not provide ‘absolute clarity’ in some circumstances. Also, they are not mandated for the entities that present their statements of financial position based on liquidity and these entities may not provide the same level of information.</p>	<p>Given that all respondents were supportive of the UKEB’s tentative conclusion the assessment remains the same. Any concerns about entities not providing the same level of information if they present their statements of financial position based on liquidity are expected to be mitigated by the existing requirements of IAS 1 paragraph 60 that only allows this to be done if the information provided is “reliable and more relevant”.</p>

Detailed assessment–Comments from respondents

Amendments to IAS 1 <i>Classification of Liabilities as Current or Non-current (Amendments to IAS 1)</i> <i>Non-current Liabilities with Covenants (Amendments to IAS 1)</i>		
UKEB tentative assessment	Stakeholder Views	UKEB final assessment
Significant change in accounting practice?		
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 postimplementation review under Regulation 11 in SI 2019/685.	All respondents were supportive of the UKEB's tentative conclusion. One respondent, who did agree with the UKEB's tentative conclusion, suggested that the Amendments have the potential to have a significant impact on the presentation of financial liabilities for some entities.	Given that all respondents were supportive of the UKEB's tentative conclusion the assessment remains substantively same. Regarding the specific feedback from one of the respondents, the UKEB will continue to monitor the impact of these amendments as part of its horizon scanning activities.

Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on the Draft Endorsement Criteria Assessment of the Amendments to IAS 1 *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* and *Non-current Liabilities with Covenants (Amendments to IAS 1)* and should not be relied upon for any other purpose.

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

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



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