13 July 2023
Agenda Paper 4

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)* –Adoption package

Executive Summary

Project Type	Endorsement
Project Scope	Narrow-scope
Purpose of the paper	
The Board are asked to consider the Endorsement Criteria Assessment (ECA) for 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 the Feedback Statement. The Board are also asked to approve the individual documents included as part of the 'adoption package' for the project, followed by a tentative vote on the adoption of the Amendments at this meeting. The vote will be formalised by Board members signing the voting form that will be made available to them after this meeting.	
Summary of the Issue	
A Project Initiation Plan (PIP) for the endorsement project was approved at the January 2023 Board meeting. All UKEB work and outreach on the Amendments has now been completed and the results incorporated in the adoption package presented to the Board at this meeting. This paper requests the Board's approval of the individual documents included as part of the 'adoption package' for the project to assess 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)* for adoption. The Amendments have an effective date of 1 January 2024 with earlier application permitted.	

The documents included as part of the adoption package are: • A final Endorsement Criteria Assessment (ECA); • A Feedback Statement; • A draft Due Process Compliance Statement; • A draft Adoption Statement for the Amendments; and • The text of the UK-adopted international standards: o *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*; and o *Non-current Liabilities with Covenants (Amendments to IAS 1)* Following the tentative vote on the adoption of the Amendments at this meeting, the vote will be formalised by Board members signing the voting form that will be made available to them after this meeting.
Decisions for the Board
1. Subject to any changes identified at this meeting, does the Board approve: a) the final amended ECA (Appendix A)? b) the Feedback Statement (Appendix B)? c) the draft Due Process Compliance Statement (Appendix C)? 2. Does the Board tentatively approve the adoption 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)* for use in the UK?
Recommendation
We recommend the Board approves the relevant documents in the adoption package and tentatively approves the adoption 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)*.
Appendices
Appendix A Final Endorsement Criteria Assessment (ECA) Appendix B Feedback Statement Appendix C [Draft] Due Process Compliance Statement Appendix D [Draft] Adoption Statement 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)* Appendix E *Annex* to the Adoption Statement: Text of the UK-adopted international accounting standard (*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*)

Appendix F	*Annex* to the Adoption Statement: Text of the UK-adopted international accounting standard (*Non-current Liabilities with Covenants (Amendments to IAS 1)*)
Appendix G	IAS 1 Paragraphs 76A–76B Settlement

Introduction

1. The International Accounting Standards Board (IASB) issues narrow-scope amendments to international accounting standards as part of its continuous effort to maintain and improve International Financial Reporting Standards (IFRS) and to support its consistent application. Proposals for amendments often arise from questions submitted to the IFRS Interpretations Committee.

2. The IASB's proposals were set out in Exposure Drafts (the EDs):

    a) ED/2015/1 *Classification of Liabilities* (the 2015 ED), issued in February 2015 and led to the Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* (the 2020 Amendments) issued in January 2020; and

    b) ED/2021/9 *Non-current Liabilities with Covenants* (the 2021 ED), issued in November 2021 and led to the Amendments to IAS 1 *Non-current Liabilities with Covenants* (the 2022 Amendments) issued in October 2022.

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 2021 ED.

6. 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.

7. Given the nature of the Amendments, and the apparent intention of the IASB, we determine 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.

UK Endorsement Board

Endorsement of the Amendments

Exclusions

8. The 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.

9. 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 draft ECA.

UKEB endorsement project work

10. The UKEB approved a Project Initiation Plan (PIP) for the endorsement project at its January 2023 Board meeting. At its February 2023 meeting, the Board approved the Draft Endorsement Criteria Assessment (DECA) for the Amendments for stakeholder consultation. The DECA set out the UKEB's provisional assessment of whether the Amendments met the UK's statutory requirements for adoption. The DECA was published on 9 March 2023 and was open for comment until 8 June 2023.

11. Eight formal responses were received from stakeholders comprising accounting firms, accounting and audit representative organisations, preparers and academics. All respondents were supportive of the adoption of the Amendments to IAS 1.

12. Details of the stakeholder comments are included in the Feedback Statement at Appendix B. The Secretariat made minor amendments to the ECA as a result of the stakeholder responses to the DECA. The amendments address comments on compound financial instruments as well as the potential impact on financial reporting. These amendments did not change the overall assessment.

13. The changes to the text of the DECA are shown as tracked changes in the document presented to the Board.

14. In response to a question raised by a Board Member at the June 2023 Board meeting a more comprehensive discussion of IAS 1 Paragraphs 76A and 76B,

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. This categorisation is set out in the Introduction to the IASB yearly Bound Volumes.

which were added by the 2020 Amendments, is included as Appendix G to this paper.

15. A draft Due Process Compliance Statement (DPCS) is included at Appendix C and sets out the process followed during this endorsement project and its compliance with UKEB due process. A final DPCS will be presented for noting at the September 2023 Board meeting.

16. The Secretariat has now completed its assessment of the Amendments for adoption for use in the UK from the effective date of 1 January 2024.

Questions for the Board–ECA, Feedback Statement and DPCS
1. Subject to any changes identified at this meeting, does the Board approve: a) the final amended ECA (Appendix A)? b) the Feedback Statement (Appendix B)? c) the draft Due Process Compliance Statement (Appendix C)?

Project closure

17. In accordance with UKEB's Due Process Handbook, the project closure process for endorsement projects comprises the following steps[2]:

a) preparation of an 'adoption package' for the Amendments; and

b) voting on the adoption of the Amendments.

Adoption package

18. The individual documents included in the adoption package[3] for the Amendments are:

a) final amended ECA (Appendix A);

b) the Feedback Statement (Appendix B);

c) Adoption Statement for the Amendment (Appendix D); and

d) The texts of the UK-adopted international accounting standards (Amendments to IAS 1) (Appendices E and F).

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2 Paragraph 6.30 of the Due Process Handbook.
3 Paragraph 6.31 of the Due Process Handbook.

Voting on the adoption of the Amendments

19. Decisions on the adoption of a standard or amendment are made at public Board meetings and follow the requirements of paragraphs 5.2–5.5 in Section 5 of the UKEB's Terms of Reference (ToR)[4].

20. At this public meeting Board members are asked to provide a tentative vote on the adoption of the Amendments based on the discussion of the adoption package. This vote will be indicative only and will be formalised via members signing the formal voting form that will be made available to them after the meeting.

21. We are aware that following the July 2023 meeting Board members will be asked to vote on IAS 1 amendments and IAS 12 *Income Taxes* amendments. Given the effective dates of the amendments, voting on the IAS 12 amendments is a matter of urgency while the IAS 1 amendments are less urgent to finalise.

22. Board members are asked whether they would prefer the voting forms for the IAS 1 and IAS 12 amendments to be sent concurrently on 14 July. Alternatively, the voting form for the IAS 1 amendments could be delayed, and sent the following week, around 19 July.

23. In either case Board members will be requested to submit their IAS 1 voting form within five working days. Paragraph 5.3 of the Board's Terms of Reference requires that the outcome of that written vote will be made public within 3 working days of that formal vote.

Question for the Board – Voting on the adoption of the Amendments
2. Do Board members prefer voting forms for IAS 1 are sent on 14 July or around 19 July?
3. Does the Board tentatively approve the adoption of the Amendments to IAS 1 for use in the UK?

Project milestones and next steps

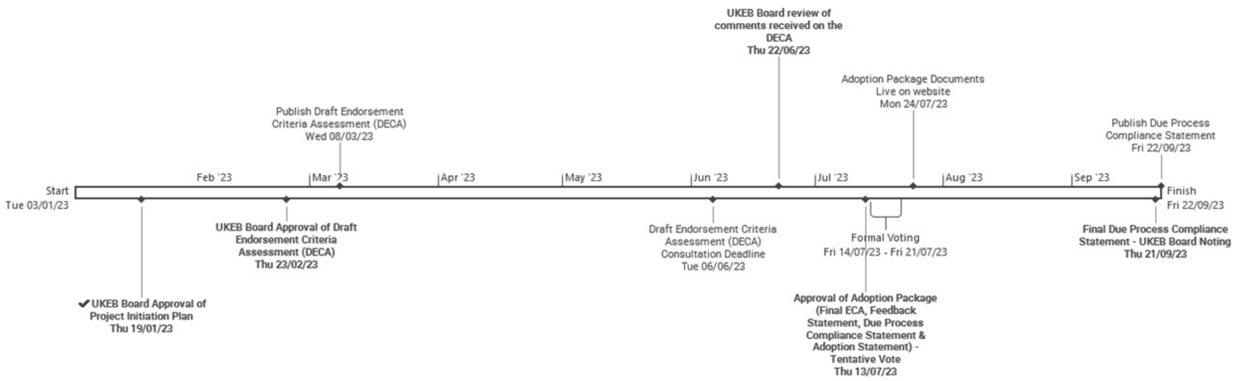
24. The project milestones including next steps are set out in the table below and in the diagram on the next page:

[4] Paragraph 5.2 of the ToR requires an affirmative written vote of at least two-thirds of all of the appointed Board members for the adoption of a new or amended standard. The UKEB Terms of Reference can be found here.

Expected date	Milestones	
23 February 2023	Board approval of Draft Endorsement Criteria Assessment (DECA)	**Completed**
DECA Consultation period (90 days minimum): 9 March 2023 – 8 June 2023		
13 July 2023	Approval of documents included as part of the adoption package: • Final ECA • Feedback Statement • [Draft] Due Process Compliance Statement • [Draft] Adoption Statement for the Amendments • The texts of the UK-adopted international accounting standards (Amendments to IAS 1) Board members provide a tentative vote.	**This meeting**
14 July 2023 (to be confirmed)	Voting form is sent to Board members	*To be completed*
21 July 2023 (to be confirmed)	Deadline for submitting vote	*To be completed*
24 July 2023 (to be confirmed)	Publication of adoption decision	*To be completed*
21 September 2023	Final Due Process Compliance Statement for noting	*To be completed*

UK Endorsement Board

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)*—Plan



UK Endorsement Board

Endorsement Criteria Assessment

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)*

July 2023

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Introduction

Purpose

1. The purpose of this Endorsement Criteria Assessment (ECA) 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 UK-adopted International Accounting Standard text for each Amendment is reproduced in Appendices 4E and 4F respectively. For ease of reference the combined effect of the two Amendments is reproduced in an Appendix to Appendix 4F.

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 ECA 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 proposed 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 as an appendix to Appendix 4F.

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 ECA 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 ECA 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 ECA 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 ECA.

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 ECA discusses whether the Amendments lead to a significant change in accounting practice and 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. This categorisation is set out in the Introduction to the IASB yearly Bound Volumes.

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 The ECA 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)).

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

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 ECA relates to amendments to those standards.

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?) 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

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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 in April 2001, 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.

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.

Adoption decision

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

1.15 On the basis of these assessments the UKEB 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 the 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 (Amendments to IAS 1)* (the 2020 Amendments). The Amendments were focused 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 (Amendments to IAS 1)* (the 2022 Amendments) in October 2022. The background to both the 2020 and 2022 Amendments can be found in the November 2022 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** • Remove the last sentence of paragraph 69(d) and 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 where settlement may be achieved through the transfer of an entity's own shares as part of a compound financial instrument~~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 ~~re~~present 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 Instruments: 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. The clarification related to the classification of compound financial liabilities is expected to reduce diversity in practice for some settlement obligations and therefore enhance comparability. **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 t~~True and fair view ~~assessment~~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	<u>Preparers</u>: 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 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.

~~2.3~~2.4 However, the Board has acknowledged stakeholder feedback that these amendments have the potential to have a significant impact on the presentation of financial liabilities for some entities. The Board will continue to monitor the impact of these amendments as part of its horizon scanning activities.

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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

UKEB

UK Endorsement Board

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.

UKEB UK Endorsement Board

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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.

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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	Enhance disclosures for non-current liabilities with covenants	Clarify the meaning of 'settlement' in paragraph 69
• 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.*	• 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 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.

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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 2022 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.

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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 *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* *Non-current Liabilities with Covenants (Amendments to IAS 1)*		
UKEB tentative assessment	**Stakeholder Views**	**UKEB final assessment**
Technical criteria assessment		
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.	• 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 compound financial liabilities in some specific circumstances, may not provide insight into the solvency and liquidity of an entity.	Given that all respondents were supportive of the UKEB's tentative conclusion the assessment remains substantively same. However additional wording to address the point on compound financial liabilities was added to the ECA.
True and fair view assessment		
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.	• 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)	Given that all respondents were supportive of the UKEB's tentative conclusion the assessment remains the same.

Detailed assessment—Comments from respondents

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)*		
UKEB tentative assessment	**Stakeholder Views**	**UKEB final assessment**
UK long term public good		
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.	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.	Given that all respondents were supportive of the UKEB's tentative conclusion the assessment remains the same.

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Detailed assessment—Comments from respondents

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)*		
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.

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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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Appendix C: [Draft] Due Process Compliance Statement: 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)*

Title of the Amendment	Issue dates
Classification of Liabilities as Current or Non-current *(Amendments to IAS 1)* (2020 Amendments)	• Exposure Draft ED/2015/1 published on 10/02/2015 • Final amendment published: 23/01/2020
Non-current Liabilities with Covenants *(Amendments to IAS 1)* (2022 Amendments)	• Exposure Draft ED/2021/9 published on 19/11/2021 • Final amendment published: 31/10/2022

General UKEB requirements: The UKEB adopts international accounting standards for use within the UK, in accordance with SI 2019/685, and applies its own processes before it decides whether to adopt a new or amended international accounting standard.

Endorsement process			
Step	**Mandatory/ optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
Work plan [Handbook 4.30(d)]			
Technical project added to UKEB	Mandatory	Project is included in the UKEB published	**Complete**: The 2020 Amendments were included in the UKEB technical work plan published in December 2020. The 2022 Amendments were

[1] In accordance with the Due Process Handbook.

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Endorsement process			
Step	**Mandatory/ optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
technical work plan		technical work plan.	included in the UKEB technical work plan published in November 2022.
Project preparation [Handbook 6.12-6.16]			
Project Initiation Plan (PIP)	Mandatory	PIP draft with project outline (background, scope, project objective) and approach for endorsement and adoption (key milestones and timing) proportionate to the project	**Complete**: taking a proportionate approach, the Secretariat included mandatory milestones for the project and considered, as appropriate, other milestones and activities. The PIP was approved at the 19 January 2023 Board meeting.
	Mandatory	Outreach plan for stakeholders and communication approach outlined	**Complete**: Due to the narrow-scope nature of the Amendments, consultation activities were focused solely on obtaining responses to the Draft Endorsement Criteria Assessment (DECA) (as posted on the UKEB website).
	Mandatory	Resources allocated	**Complete**: One project director supported by one project manager, with communications and economics team support.
	Mandatory	Assessment of whether to set up an ad-hoc advisory group	**Complete**: Assessed. Taking a proportionate approach, an ad-hoc advisory group was not considered necessary due to the narrow-scope nature of the Amendments.

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Endorsement process			
Step	**Mandatory/ optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
	Mandatory	UKEB Board public meeting held to approve PIP	**Complete**: PIP approved at the 19 January 2023 Board meeting.
	Optional	UKEB education or initial assessment	**Complete**: While an education session was not provided to the Board, the Board was given an update on the project at the November 2022 Board meeting covering background information on the Exposure Draft (ED) proposals and on the UKEB Final Comment Letter (FCL) to the 2022 Amendments, including an update on the IASB's subsequent redeliberations.
Communications			
Public board meetings [Handbook 4.10]	Mandatory	UKEB Board public meetings held to discuss technical project	**Complete**. The Secretariat gave an update to the Board at the November 2022 meeting. 19 January 2023: the Board approved the PIP. 23 February 2023: the Board reviewed and approved the DECA for consultation. **To take place:** 13 July 2023: Approval of the Adoption Package consisting of: • Final Endorsement Criteria Assessment (ECA); • Feedback Statement; • [Draft] Due Process Compliance Statement; and

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Endorsement process			
Step	**Mandatory/ optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
			• [Draft] Adoption Statement for the Amendments,
Secretariat papers [Handbook 4.20]	Mandatory	Board meeting papers posted and publicly available on a timely basis.	**Complete**: The UKEB meeting papers were published on the UKEB website one week before the relevant public meetings and subscribers notified via UKEB News Alerts. Meeting minutes and recordings were made publicly available via the UKEB website. Subscribers were notified via UKEB News Alerts.
Project website [Handbook 4.25(b)]	Mandatory	Project website contains a project description with up-to-date information on the project.	**Complete**: A project webpage including a project description was created. It was updated regularly with project status and additional materials.
	Mandatory	Update UKEB website	**Complete**: Project webpage updated regularly, and News Alerts issued to subscribers with latest status and documents.
Alerts [Handbook 4.24]	Mandatory	Evidence that subscriber alerts have occurred	**Complete**: Subscribers were alerted via email 5 days before each Board meeting with links to the agenda, papers and the option to dial in to observe the discussion. A News Alert was also issued, alerting subscribers to the DECA publication.
	Mandatory	Project email address	A general UKEB email address was used for outreach and correspondence purposes

Endorsement process			
Step	**Mandatory/ optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
			throughout the duration of the project.
Desk-based research [Handbook 6.17]			
	Optional	Identify relevant research sources and documents	**Complete**: the Secretariat has reviewed: • The IASB's work on the Amendments (mainly staff papers, IFRIC Agenda Decision including discussion with IASB staff) • The Big 4 accounting manuals and separate publications on the Amendments for any guidance and illustrative examples • The IASB's Basis for Conclusions and Dissenting Opinion • Comment letters on the ED received by the IASB from UK stakeholders including the UKEB • Previous work done by the Secretariat (FCL, Feedback Statement, comment letters on our DCL)
Outreach activities [Handbook 6.18-6.22]			
Consult with a representative range of stakeholders before adoption	Mandatory	Evidence of consultation	Due to the narrow-scope nature of the Amendments, consultation activities were focused on obtaining responses to the Draft Endorsement Criteria Assessment (DECA). The UKEB received eight comment letters.

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Endorsement process			
Step	**Mandatory/ optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
			Comment letters are available on the UKEB website.
Draft Endorsement Criteria Assessment (DECA) [Handbook 6.23-6.29]			
	Mandatory	UKEB sets comment period for response on DECA (generally not less than 90 days)	**Complete**: At 19 January 2023 Board meeting the Board decided that the comment period for public consultation should be no less than 90 days and approved the overall project plan. The DECA was published for consultation on 9 March 2023 (comment period deadline 8 June 2023).
	Mandatory	Review and approval at UKEB public meeting	**Complete**: Approved at 23 February 2023 Board meeting.
	Mandatory	DECA posted on website for public consultation	**Complete**: The Secretariat published the approved DECA and Invitation to Comment on the UKEB website for a 91-day consultation period from 9 March 2023 to 8 June 2023.
	Mandatory	News Alert to announce publication	**Complete**: News Alert posted on 9 March 2023 and 31 May 2023 calling for comments and link to the DECA was sent out to UKEB advisory groups.
Project closure [Handbook 6.30-6.48]			
Final Endorsement Criteria	Mandatory	Public responses on DECA assessed and	**Complete**: The UKEB received eight comment letters which were published on the UKEB website.

UK Endorsement Board

Endorsement process			
Step	**Mandatory/ optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
Assessment (ECA)		posted on website	All responses were assessed, reflected as appropriate in the ECA and summarised in the feedback statement.
	Mandatory	Final ECA approved by UKEB in public meeting	**To take place:** A draft of the ECA will be presented for approval to the Board at its July 2023 public meeting.
	Mandatory	Publish final ECA on UKEB website	**To take place** following finalisation.
Feedback statement	Mandatory	Feedback statement approved by UKEB in public meeting	**To take place**: A feedback statement will be presented for approval to the Board at its July 2023 public meeting.
	Mandatory	Feedback statement posted on UKEB Website	**To take place** following finalisation.
	Mandatory	News Alert published to announce publication	**To take place** following posting to website.
Due Process Compliance Statement (DPCS)	Mandatory	Due Process Compliance Statement approved by UKEB in public meeting	**To take place:** A [draft] DPCS will be presented for approval to the Board at its July 2023 public meeting. A final DPCS will be presented for noting at the Board's September 2023 meeting.
	Mandatory	Due Process Compliance	**To take place** subsequent to the September 2023 Board meeting.

Endorsement process			
Step	**Mandatory/ optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
		Statement posted on UKEB Website	
Adoption Statement	Mandatory	Adoption statements approved by UKEB in public meeting	**To take place**: Adoption statement for the Amendments will be presented for approval to the Board at its July 2023 public meeting
	Mandatory	Adoption statements posted on UKEB Website	**To take place** in July 2023, dependent on the UKEB's adoption decision.
	Mandatory	News Alert published to announce publication	**To take place** following posting to website.
Voting on adoption of the Amendments	Mandatory	Tentative vote	**To take place** at the July Board meeting based on the discussion of the 'adoption package', which includes a final draft ECA, a feedback statement, a DPCS, draft adoption statement for the Amendments; and the text of the UK-adopted international accounting standard (Amendments to IAS 1).
	Mandatory	Evidence of written vote (in paper or electronic form)	**To take place**: Adoption statement and voting forms will be sent to the Board for voting (accompanied by the text of the Amendments to be adopted) on [14/7/23] (written forms due by [21/7/23]).

Endorsement process			
Step	**Mandatory/ optional[1]**	**Metrics or evidence**	**UKEB Secretariat comments**
			Vote will be formalised via Board members signing the formal voting forms for the Amendments
	Mandatory	News Alert published to announce the outcome of the vote within 3 working days of the formal vote	**To take place** once UKEB's voting process is finalised.

Conclusion
This document sets out the main due process activities performed as part of the UKEB's project to endorse the Amendments. In the Secretariat's opinion, overall, this project complies with the applicable due process steps, as set out in the Handbook at the time of writing.

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UK Endorsement Board

Adoption Statement

Adoption 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)*

1. The UK Endorsement Board is designated under regulation 2(1) of The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609[1] ("the Delegating Regulations") for the purpose of enabling it to exercise functions of the Secretary of State under Chapter 3 of Part 2 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685[2] ("the Regulations").

2. The UK Endorsement Board, in exercise of the powers conferred by regulation 6(1) of the Regulations, adopts, on a joint basis, the following amendments to international accounting standards published by the International Accounting Standards Board (IASB), for use within the United Kingdom:

   a) *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*, published on 23 January 2020; and

   b) *Non-current Liabilities with Covenants (Amendments to IAS 1)*, published on 31 October 2022.

3. In accordance with regulation 7(1) of the Regulations, the UK Endorsement Board is of the view that:

   a) the standard[3] 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;

1 Accessible here: https://www.legislation.gov.uk/uksi/2021/609/contents/made
2 Accessible here: https://www.legislation.gov.uk/uksi/2019/685/contents
3 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). The term 'standard' excludes Practice Statements. This Adoption Statement relates to amendments to those standards.

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.

4. In accordance with regulation 8 of the Regulations, the UK Endorsement Board is of the view that adequate consultation with persons representative of those with an interest in the quality and availability of accounts, including users and preparers of accounts, has been undertaken before the adoption decision.

5. The adopted amendment to international accounting standards in paragraph 2:

a) must be used for financial years beginning on or after 1 January 2024;

b) may be used for financial years beginning before 1 January 2024.

6. The text of the adopted amendments to international accounting standards is set out in the annex to this statement.

UKEB
UK Endorsement Board

Approval by the UKEB Board

Adoption 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)*

Amendments to IAS 1—*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* (published in January 2020) and *Non-current Liabilities with Covenants (Amendments to IAS 1)* (published in October 2022) by the IASB were approved for joint adoption by all 13 members of the UK Endorsement Board.

Pauline Wallace	Chair
Amir Amel-Zadeh	
Michael Ashley	
Philip Aspin	
Kathryn Cearns	
Katherine Coates	
Robin Cohen	
Edward Knapp	
Paul Lee	
Giles Mullins	
Liz Murrall	
Sandra Thompson	
Michael Wells	

X July 2023

UK Endorsement Board

Department for Business & Trade

UK-adopted international accounting standards

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

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.

5. For further details about licensing the IFRS Foundation's intellectual property please contact permissions@ifrs.org

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

Amendments to IAS 1 *Presentation of Financial Statements*

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.

UKEB UK Endorsement Board

Department for Business & Trade

UK-adopted international accounting standards

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

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.

5. For further details about licensing the IFRS Foundation's intellectual property please contact permissions@ifrs.org

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

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 66–76<u>B</u> 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—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 66–76<u>B</u> 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 <u>the</u> ~~an unconditional~~ 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.

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

Appendix G: IAS 1 Paragraphs 76A-76B Settlement

Background

1. At the June 2023 meeting the Secretariat were asked about the amendments to IAS 1 paragraphs 76A–76B as they related to "settlement in an entity's own equity instruments".

2. A stakeholder, who agreed with the technical criteria assessment as a whole, noted they did not "entirely agree with the UKEB's assessment of the new requirements in paragraphs 76A(b) and 76B, which clarify that when a liability can be settled in an entity's own equity instruments and that option is classified as an equity instruments, the liability is classified as non-current, whilst if such option is not classified as equity, the liability is classified as current."

3. This paper provides a brief, but more comprehensive, analysis of the amendments. The Secretariat do not believe the matter is material to the overall assessment in the Endorsement Criteria Assessment.

The Amendments

4. Prior to the 2020 Amendment IAS 1 Paragraph 69(d) read (<u>emphasis added</u>):

> 69 An entity shall classify a liability as current when:
>
> ...
>
> (d) it does not have 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). <u>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.</u>

5. The underlined words had been added in 2009 to clarify that "a bond that the holder may convert to equity before maturity is classified as current or non-current according to the terms of the bond, without considering the possibility of earlier settlement by conversion to equity." (IAS 1 BC48G).

UK Endorsement Board

6. When considering the 2020 Amendments, the IASB was presented with evidence that there was diversity in practice with regard to how these words were being interpreted in some jurisdictions (IFRS Staff Paper 29A July 2019, paragraph 13a).

7. The IASB concludes that:

a) "it had intended the statement to apply only to liabilities that include a counterparty conversion option that meets the definition of an equity instrument and, applying IAS 32 *Financial Instruments: Presentation*, is recognised separately from the host liability as the equity component of a compound financial instrument." (IAS 1 BC49H).

b) Other arrangements, where an obligation to transfer equity instruments is classified applying IAS 32 as a liability or part of a liability—the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.

8. To reflect those conclusions, the IASB deleted the statement about counterparty conversion options from paragraph 69(d) in the 2020 Amendments.

69	An entity shall classify a liability as current when: … (d) it does not have an unconditional the 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.~~

9. It also added new paragraphs 76A and 76B:

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.

10. The IASB Staff explained (IFRS Staff Paper 29A July 2019, paragraph 25) that underlying principle for this decision could be described as:

> (a) a liability is classified as current only if it could require within 12 months an outflow of cash or other economic resources (the 'outflow of economic resources' principle described in paragraph 17(a)); but
>
> (b) a transfer of the entity's own equity instruments is treated as an outflow of economic resources if the obligation to make that transfer is classified as a liability. A liability is defined as an obligation to transfer an economic resource. So, the reason for classifying the obligation as a liability would also be the reason for treating the transfer as an outflow of economic resources.

11. Essentially, if an entity can be required to settle a liability with cash, other economic resource, or its own equity instruments within the next 12 months the liability is classified as current unless:

    a) it was recorded as a compound financial instrument with an equity component; and

    b) the only settlement that could occur within the next 12 months would be the transfer of own equity instruments that relates to that equity component.

Draft Endorsement Criteria Assessment (DECA)

12. The DECA noted that the Amendments:

> 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.

13. The Technical Criteria Assessment tentatively concluded that the clarifications to the meaning of settlement were relevant and reliable, understandable, and comparable.

Stakeholder Feedback

14. One stakeholder, who did agree with the technical criteria assessment as a whole, stated:

> We do not entirely agree with the UKEB's assessment of the new requirements in paragraphs 76A(b) and 76B, which clarify that when a liability can be settled in an entity's own equity instruments and that option is classified as an equity instruments, the liability is classified as non-current, whilst if such option is not classified as equity, the liability is classified as current. We do not believe that the difference in presentation provides insights into the solvency and liquidity of an entity and may hence not result in relevant, understandable and comparable information for users.
>
> Nevertheless, assessing the amendments as a package, we concur with the UKEB's conclusions that the technical assessment criteria are met.

15. The Secretariat have considered the comments and the requirements. The paragraphs are nuanced. It is true that when a liability can be settled in an entity's own equity instruments and that option is classified as an equity instruments, the liability is classified as non-current, whilst if such option is not classified as equity, the liability is classified as current.

16. But on balance we would suggest that the paragraphs strike a balance in conveying meaningful information about a liability that could be settled in an entity's own shares, and bring consistency with the way such transactions are recognised under IAS 32.

Endorsement Criteria Assessment (ECA)

17. We have made some amendments to the ECA to help clarify this point.

18. We have explicitly noted that the new requirements address where settlement may be achieved through the transfer of an entity's own shares as part of a compound financial instrument.

19. We have also noted in the technical criteria assessment that the "clarification related to the classification of liabilities with equity-settlement features accounted

for in accordance with IAS 32 *Financial Instruments: Presentation* paragraph 28 (which addresses compound financial instruments) is expected to reduce diversity in practice for some settlement obligations including conversion options."

20. This has not changed the overall assessment in the Endorsement Criteria Assessment.