UK Endorsement Board

Classification of Liabilities as Current or Non-current and *Non-current Liabilities with Covenants* —Amendments to IAS 1: Approval of Draft Endorsement Criteria Assessment

Executive Summary

Project Type	Endorsement and adoption
Project Scope	Narrow-scope

Purpose of the paper

The purpose of this paper is to:

- Obtain Board feedback on the [Draft] Endorsement Criteria Assessment (DECA) for the narrow-scope amendments:
  - *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
  - *Non-current Liabilities with Covenants* – Amendments to IAS 1 (the 2022 Amendments) issued by the IASB in October 2022.
- Request the Board's approval to publish the DECA on the website for stakeholder consultation.

Summary of the Issue

The 2020 and 2022 Amendments (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*. The purpose of the DECA is to assess whether the Amendments meet the statutory criteria for adoption set out in SI 2019/685[1]. The DECA includes:

- a description of the UK statutory requirements for adoption of new and amended international accounting standards;
- a description of the Amendments; and

[1] The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685

• an assessment of whether the Amendments meet the statutory criteria for adoption. The Amendments have an effective date of 1 January 2024, with earlier application permitted.	
Decisions for the Board	
1. Does the Board have any comments on the DECA? 2. Does the Board have any comments on the proposed timeline? 3. Does the Board agree that, subject to any amendments or additions required by the Board, the DECA can be published for public consultation?	
Recommendation	
Subject to any necessary amendments identified by the Board, the Secretariat recommends that the Board approves the DECA for public consultation.	
Appendices	
Appendix A	[Draft] Endorsement Criteria Assessment of *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants –* Amendments to IAS 1
Appendix B	DECA–Invitation to Comment

UK Endorsement Board

Classification of Liabilities as Current or Non-current and *Non-current Liabilities with Covenants* —Amendments to IAS 1: Approval of Draft Endorsement Criteria Assessment

Purpose

1. The purpose of this paper is to:

   a) Obtain Board feedback on the Draft Endorsement Criteria Assessment (DECA) included in Appendix A of this paper to assess of whether the Amendments meet the statutory criteria for adoption.

   b) Request the Board's approval to publish this DECA on the website for stakeholder consultation.

Background

2. In January 2020, the IASB issued narrow-scope amendments to IAS 1 *Classification of Liabilities as Current or Non-current*. The amendments were focussed on clarifying one of the criteria in IAS 1 *Presentation of Financial Statements* 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 12 months after the reporting period.

3. In 2021, stakeholder concerns about one of the paragraphs introduced in the 2020 Amendments led to the IASB publishing further amendments to IAS 1 *Non-current Liabilities with Covenants* (the 2022 Amendments) in October 2022.

4. The background to both the 2020 and 2022 Amendments was previously discussed by the Board in November 2022 (UKEB meeting, Agenda Paper 7)

Joint assessment and adoption

5. The Board agreed that the 2020 and 2022 Amendments should be assessed and, if appropriate, adopted on a joint basis. That is, the assessment of the two

Amendments is set out in a single [Draft] Endorsement Criteria Assessment (DECA) that assesses the two sets of amendments together as a package.

6. The Board considered the pros and cons of a number of approaches to adopting the 2020 and 2022 Amendments but proposes adoption on a joint basis. Alternative approaches considered included simply adopting each amendment separately or making modifications to the Amendments to effectively combine them. Of the approaches considered, the joint approach appeared to be the most appropriate as it was consistent with the apparent intent of the Amendments and provided the most straightforward approach.

7. In our view the joint approach is consistent with the intention of the IASB. This is because the 2022 Amendments are intended to improve the application of the 2020 Amendments and include amendments that supersede elements of the 2020 Amendments (that, unlike in some other jurisdictions, were not adopted for use in the UK).

8. 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.

9. The IASB has also provided a combined text of the two sets of Amendments as an appendix to the 2022 Amendments, further suggesting that the intention is for the Amendments to be jointly applied.

10. 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.

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

12. This DECA therefore considers whether the 2020 and 2022 Amendments taken as a package meet the UK's statutory requirements for adoption as set out in regulation 7 of SI2019/685.

Exclusions

13. 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.

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

UK Public Good – Costs for Preparers

15. In February 2023 the Secretariat sent a short questionnaire to the Preparers Advisory Group (PAG) at the UKEB to understand their views on the assertions made in the DECA regarding the potential adoption costs for the Amendments to IAS 1(see Appendix A page 16 – 17 "Cost for preparers and users") .

16. The Secretariat received four responses[3]:

    a) Three out of four of the respondents agreed that one-off familiarisation costs will be minimal (or nil). One disagreed, stating that "I expect there to be some work needed which may require legal advice on theoretical situations which the company does not expect to face. Some of the covenant terms (which run into 100s of pages) regarding breaches will be unfamiliar and therefore will take some time to work through";

    b) All respondents agreed that one-off costs related to design of data collection processes or related to IT system changes costs will be minimal (or nil);

    c) All respondents agreed that other costs will be minimal (or nil).

17. This evidence largely supports the assertions that implementation costs are likely to be minimal for entities in scope. Stakeholders will have the opportunity to share their views on the costs in response to the DECA once published.

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[2] 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.

[3] Respondents belong to four distinct industries. Two of them are FTSE250 companies, and two of them are unlisted companies.

UK Endorsement Board

Investors Advisory Group Discussion

18. The Amendments, specifically the new disclosure requirements for non-current liabilities with covenants, were discussed with the UKEB's Investor Advisory Group (IAG) at their February 2023 meeting.

19. IAG members were supportive of the new disclosure requirements. It was noted that similar information is already produced by some companies in their investor presentations, and that it can provide useful information for investors. It would be better if the information was more readily available and more consistent. The IAS 1 Amendments are expected to help achieve this.

20. IAG members were asked if they had comments on, or concerns with, any other elements of the Amendments; no such matters were raised.

Next steps and timeline

21. In accordance with the Project Initiation Plan (approved by the Board at its January 2023 meeting), and assuming the Board decides to adopt the Amendments, the UKEB project plan timeline will ensure adoption is completed in good time to permit UK entities to use the Amendments from the effective date of 1 January 2024.

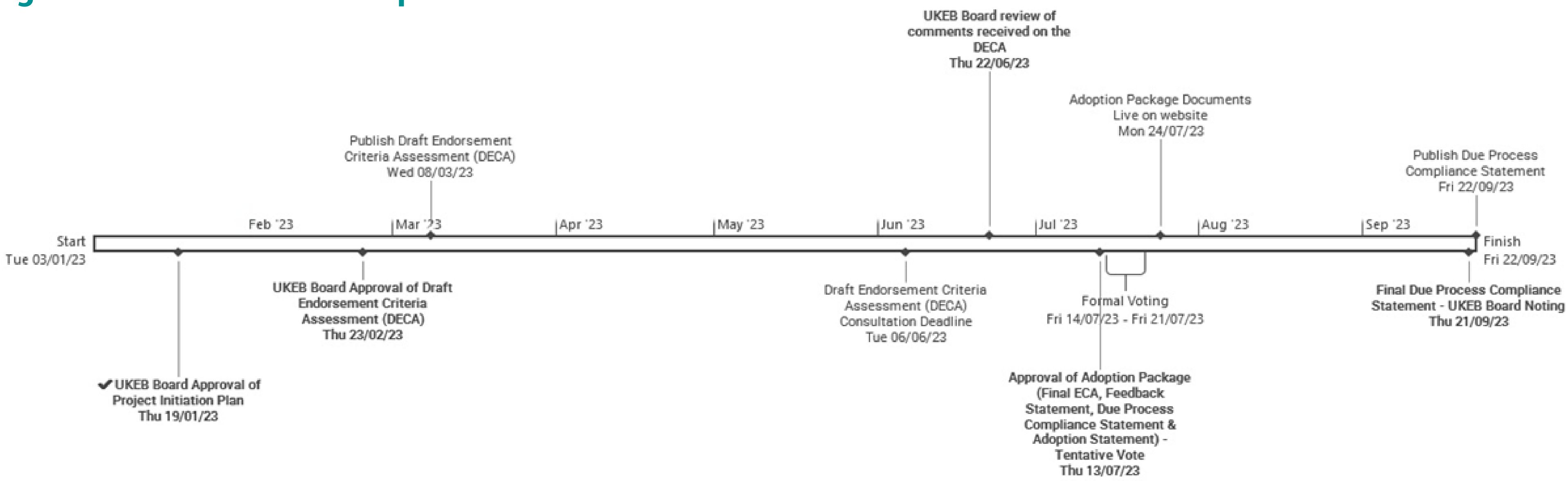
22. Subject to amendments or additions required by the Board on the DECA (included as Appendix A to this paper), the next steps for publication, public consultation and subsequent finalisation of the Endorsement Criteria Assessment (ECA) are set out below. Note that all dates are indicative and subject to subsequent modification. Any changes will be communicated via updates to the UKEB work plan.

Date	Milestones	Status
23 February 2023	Presentation of Draft Endorsement Criteria Assessment (DECA) for approval	**This meeting**
DECA consultation period (90 days): 1 March – 31 May 2023 (*proposed*)		
22 June 2023	Board review of comments received on the DECA	*To be completed*
13 July 2023	Consideration of Adoption Package: • Final ECA • Feedback Statement • [Draft] Due Process Compliance Statement • Adoption Statement • The text of the UK-adopted international accounting standard (amended IAS 1) Board members provide a tentative vote.	*To be completed*
14 July 2023	Voting form is sent to Board members	*To be completed*
21 July 2023	Deadline for submitting vote	*To be completed*
24 July 2023	Publication of adoption decision	*To be completed*
21 September 2023	Due Process Compliance Statement for noting	*To be completed*

Questions for the Board
1. Does the Board have any comments on the DECA?
2. Does the Board have any comments on the proposed timeline?
3. Does the Board agree that, subject to any amendments or additions required by the Board, the DECA can be published for public consultation?

Endorsement and adoption of narrow-scope amendments *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants* – Amendments to IAS 1 (with an effective date of 1 January 2024) – Upcoming Tasks

High-level timeline with expected dates



UKEB
UK Endorsement Board

Draft Endorsement Criteria Assessment

Classification of Liabilities as Current or Non-current and *Non-current Liabilities with Covenants* —

February 2023

Contents

Introduction

Purpose

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

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

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

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

3. 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.

4. 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

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

6. The Board considered the pros and cons of a number of approaches to adopting the 2020 and 2022 Amendments but proposes adoption on a joint basis. Alternative approaches considered included simply adopting each amendment separately or making modifications to the Amendments to effectively combine them. Of the approaches considered, the joint approach appeared to be the most appropriate as it was consistent with the apparent intent of the Amendments and provided the most straightforward approach.

7. In our view the joint approach is consistent with the intention of the IASB. This is because the 2022 Amendments are intended to improve the application of the 2020 Amendments and include amendments that supersede elements of the 2020 Amendments (that, unlike in some other jurisdictions, were not adopted for use in the UK).

8. 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.

9. The IASB has also provided a combined text of the two sets of Amendments as an appendix to the 2022 Amendments, further suggesting that the intention is for the Amendments to be jointly applied.

10. 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.

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

12. This DECA therefore considers whether the 2020 and 2022 Amendments taken as a package meet the UK's statutory requirements for adoption as set out in regulation 7 of SI2019/685.

Background to the Amendments

13. 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.

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

Exclusions from the adoption assessment

15. 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.

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

Structure of the assessment

17. 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?

18. 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)".

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

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

1. Section 1: UK statutory requirements for adoption

UK statutory requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

does not mean that our objective is to reflect a real comparison in relative terms. Instead, our objective is to explain that any individual aspect or requirement of the Amendments has the potential to "enhance" one or more of the qualitative characteristics. Consideration of whether the Amendments are likely to improve the quality of financial reporting is separate from this assessment and is included within the UK long term public good assessment in Section 2.

True and fair view assessment

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

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

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

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

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

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

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

[Draft Adoption decision]

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

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

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

2. Section 2: Description and assessment of the Amendments

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

	Clarify that early settlement of a non-current liability is a non-adjusting event • Amend paragraph 76 to clarify that voluntary early settlement of a non-current liability should be accounted for as a non-adjusting event in accordance with IAS 10 *Events after the Reporting Period*. **Enhance disclosures for non-current liabilities with covenants** • Add paragraph 76ZA which requires additional disclosures "when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period". Disclosures include information on the covenants, and facts and circumstances that indicate an entity may have difficulty complying with the covenants. **Clarify the meaning of 'settlement' in paragraph 69** • Add paragraphs 76A–76B to clarify the meaning of 'settlement' in the context of IAS 1 paragraphs 69(a), 69(c) and 69(d), including in circumstances where settlement is achieved through the transfer of an entity's own shares. There are no consequential amendments to any other IFRS Accounting Standards. A combined text of the 2020 and 2022 Amendments was presented to the UKEB Board at the January 2023 meeting in Paper 4 Appendix B as part of their approval of the Project Initiation Plan.
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. The clarifications to the classification of liabilities as current or non-current are expected to make it clearer which liabilities are current or non-current, including those with covenants that could cause earlier repayment, supporting the relevance of the information and more faithfully depict the nature of liabilities. **Clarify that early settlement of a non-current liability is a non-adjusting 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. 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 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 add a definition of 'settlement', and address classification of compound financial instruments. Settlement is an important element of determining classification of liabilities as current or non-current, and the clarifications are expected to more faithfully represent the underlying nature of a liability, and 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 meaning of such classifications of liabilities. **Clarify that early settlement of a non-current liability is a non-adjusting 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. **Enhance disclosures for non-current liabilities with covenants** The additional disclosures complement the liquidity disclosure requirements in IFRS 7 *Financial Instrument: Disclosures* and are expected to allow users to better understand entities' liquidity and solvency risks. **Clarify the meaning of 'settlement' in paragraph 69** The given meaning of the word 'settlement' allows 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. Consistency refers to the use of the same methods for the same items and helps to achieve comparability. **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 is a non-adjusting event** The explicit clarification is expected to result in a consistent understanding of specific post balance sheet events on classification of liabilities thus lead 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 should be disclosed in relation to non-current liabilities with covenants. This

	is expected to result in more consistent disclosure related to covenants which allows for easier comparison by users. **Clarify the meaning of 'settlement' in paragraph 69** Introducing a definition of 'settlement' into IAS 1 allows all stakeholders to have a consistent understanding of what settlement means in the context of paragraph 69. Therefore, it is expected to enhance consistent application and result in more comparable financial information. **Transition Requirements** Retrospective application of the Amendments, as required by the transitional requirements, enhances comparability as it allows users to compare entities' financial position across financial reporting periods upon adoption.
Conclusion	We note that the 2022 Amendments are intended to improve the application of the 2020 Amendments and include amendments that supersede previously issued requirements. We consider that the two Amendments, if applied jointly, meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
Amendment is not contrary to the true and fair view requirement	
Description	The 2020 and 2022 Amendments, when considered jointly: a) clarify the classification of liabilities; b) clarify that early settlement of a non-current liability is a non-adjusting 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[6]. In addition, UK law permits unlisted companies the option to use UK-adopted international accounting standards and approximately 14,000 companies apply this option[7].
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 is a non-adjusting 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. Given this 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

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

7 Based on FAME, Companies Watch and proprietary data

	preparers. We assessed whether preparers would face costs related to: • familiarisation; • design of data collection processes; • IT system changes; • governance processes; • external audit; and • other costs. We believe that preparers are expected to face some **one-off familiarisation costs** related to the clarified classification requirements of liabilities. We expect these costs to be minimal as 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. However, as the disclosure changes are limited in nature, they are likely to only add marginal 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 the liabilities are current or non-current. We assume that processes already largely exist to identify and capture loan covenants. It is therefore not expected that entities will incur any additional costs related to the **design of data collection processes** or related to **IT system changes.** We expect other costs (i.e. **governance processes, external audit costs and other**) to be minimal given the very limited nature of the additional disclosure. Users: We expect **one-off familiarisation costs for users** to be minimal 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 preparers and users	Users: 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 allowing for 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 trade-off between the costs and benefits of implementing the two Amendments jointly, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

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

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

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

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

Contact Us

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Appendix B: Invitation to Comment:

Call for comments on Draft Endorsement Criteria Assessment of *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants* – Amendments to IAS 1

Deadline for completion of this Invitation to Comment:

Close of business [Wednesday, 31 May 2023]

Please submit to:

UKEndorsementBoard@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the endorsement and adoption of:

1. *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

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

The Amendments have an effective date of 1 January 2024, with earlier application permitted[1].

UK endorsement and adoption process

The requirements for UK adoption are set out in the Statutory Instrument 2019/685[2].

1 Early application is only permitted if both amendments are applied at the same period.
2 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: https://www.legislation.gov.uk/uksi/2019/685/made

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The delegation of the powers to formally adopt international accounting standards for use in the UK was delegated to the UK Endorsement Board in May 2021[3].

The information collected from this Invitation to Comment is intended to help with the endorsement assessment. This will form part of the work necessary for potential UK endorsement and adoption of the Amendments.

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with IFRS Accounting Standards.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it to UKEndorsementBoard@endorsement-board.uk by close of business on [Wednesday, 31 May 2023].

Brief responses providing views on only specific questions are welcome, as well as comprehensive responses to all questions.

Privacy and other policies

The data collected through submitting this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)[4].

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

3 The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021: https://www.legislation.gov.uk/uksi/2021/609/contents/made

4 These policies can be accessed from the footer in the UKEB website here: https://www.endorsement-board.uk

Assessment against endorsement criteria

Our draft assessment concludes that:

- 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, as required by SI 2019/685 (see Regulation 7(1)(c));
- application of the Amendments is not contrary to the principle that an entity's accounts must give a true and fair view as required by SI 2019/685 (see Regulation 7(1)(a)); and
- that the Amendments are likely to be conducive to the long term public good in the UK as required by SI 2019/685 (see Regulation 7(1)(b)), having considered:
    - whether they will generally improve the quality of financial reporting;
    - the costs and benefits that are likely to result from their use; and
    - whether they are likely to have an adverse effect on the economy of the UK, including on economic growth.

Our assessment of the Amendments is set out in **Section 2** of the DECA in the pages indicated below:

Questions

Joint assessment and adoption

1. Do you agree with the approach of joint assessment and adoption of the 2020 and 2022 Amendments? (please select one option)

Yes	☐	**No**	☐

Technical criteria assessment

2. Do you agree with the draft assessment of the Amendments against the technical criteria? (please select one option)

Yes	☐	**No**	☐

3. Please include any comments you may have in response to question 1:

Click or tap here to enter text.

True and fair view

4. Do you agree with the draft assessment that the Amendments **are not contrary to the true and fair view requirement**? (please select one option)

Yes	☐	**No**	☐

5. Please include any comments you may have in response to question 3:

Click or tap here to enter text.

UK long term public good

6. Do you agree with the initial assessment of **costs and benefits for preparers and for users** of the Amendments? (please select one option)

Yes	☐	**No**	☐

UK Endorsement Board

7. Please include any comments you may have in response to question 5, including if any costs have been missed out:

Click or tap here to enter text.

8. Do you agree with the draft assessment that the Amendments are likely to be conducive to the **long term public good in the UK**? (please select one option)

Yes	☐	**No**	☐

9. Please include any comments you may have in response to question 8:

Click or tap here to enter text.

Thank you for completing this Invitation to Comment

Please submit this document

by close of business on [Wednesday 31 May 2023] to:

UKEndorsementBoard@endorsement-board.uk