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AUTORITÉ

DES NORMES COMPTABLES

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PDC n°14

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Exposure Draft ED/2021/9—*Non-current Liabilities with Covenants*

Dear Andreas,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned exposure draft (ED).

We welcome the IASB's (Board) decision to reconsider some requirements included in the amendments *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1 *Presentation of Financial Statements*) published in January 2020. Those amendments had introduced changes to the classification requirements in IAS 1 applying to those liabilities for which the entity has a conditional right to defer settlement for at least 12 months after the reporting date—ie liabilities subject to *conditional settlement terms*. Those amendments specified requirements applicable to conditional settlement terms involving the entity's *compliance* with specified conditions (such as covenants). We support the Board's revised approach for classifying liabilities (as current or non-current) subject to such conditional settlement terms—the requirements in paragraph 72B of the ED reflect that approach and specify that an entity determines the classification of those liabilities only on the basis of conditions with which it shall comply on or before the reporting date. We think the proposed requirements will result in useful information.

In contrast, on the basis of our understanding of the Board's proposals, we disagree with the requirements in paragraph 72C(b) of the ED which result in (i) distinguishing conditional settlement terms other than those involving the entity's *compliance* with specified conditions and (ii) preventing the entity from applying the requirements in paragraph 72B of the ED to those terms. We think the requirements in paragraph 72C(b) introduce a new concept in IFRS Standards—'*uncertain future event or outcome unaffected by the entity's future actions*'—that, absent any further application guidance, may give rise to differing interpretations and, ultimately, to diversity in presentation practices. Paragraph 72C(b) may also capture a large spectrum of conditional settlement terms which, in turn, could create broad application challenges. We understand that an entity would, absent any other requirement, classify liabilities subject to such terms as current without any further assessment. We think such a classification may not provide useful information, in particular when the condition relates to some material adverse events or *force majeure* events. We expect a significant number of financing liabilities to be reclassified as current if the Board were to finalise the proposed amendments as drafted. We recommend the Board (i) not proceed with paragraph 72C(b) of the ED and instead (ii) specify that the approach in paragraph 72B apply to all liabilities with conditional settlement terms, irrespective of whether those terms refer to conditions with which the entity must comply. We think our recommendation would provide a workable solution for the classification of all conditional liabilities. Appendix A to this letter includes additional recommendations should the Board retain its proposed approach. That appendix also includes our observations and recommendation in relation to how the proposed amendments would apply to waivers.

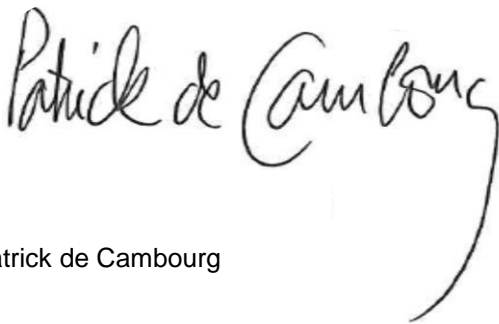
We agree that the classification of a liability subject to conditional settlement terms involving the entity's compliance with specified conditions, as current or non-current, alone, does not provide sufficient information to users to fully understand the effects of the conditionality, ie the risk that the liability could become repayable within 12 months. Accordingly, we agree with the principle of requiring entities to disclose specific information in this respect. However, we do not entirely agree with the scope of the proposed disclosures objective and requirements. In our view, the proposed disclosure objective and requirements should not apply to liabilities for which there is reasonable assurance that they will not become repayable within 12 months after the reporting date. We think a more targeted approach for disclosures will deliver full information benefits for the appropriate population of affected entities while avoiding unnecessary disclosures for other entities.

As a final note, we think that the proposed classification approach for liabilities subject to conditional settlement terms involving the entity's compliance with specified conditions, together with targeted disclosures, are sufficient to provide useful information. We do not see any compelling case for requiring separate presentation of such liabilities on the statement of financial position. We instead recommend the Board consider requiring entities to disclose the carrying amount of liabilities subject to the conditions described in paragraph 72B(b) and that are classified as non-current.

Appendix A to this letter provides our detailed comments on the ED.

Should you need any further clarification, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Patrick de Cambourg". The signature is written in a cursive style with a long, sweeping tail that extends downwards and to the right.

Patrick de Cambourg

APPENDIX A

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

The Board proposes to require that, for the purposes of applying paragraph 69(d) of IAS 1, specified conditions with which an entity must comply within twelve months after the reporting period have no effect on whether an entity has, at the end of the reporting period, a right to defer settlement of a liability for at least twelve months after the reporting period. Such conditions would therefore have no effect on the classification of a liability as current or non-current. Instead, when an entity classifies a liability subject to such conditions as non-current, it would be required to disclose information in the notes that enables users of financial statements to assess the risk that the liability could become repayable within twelve months, including:

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

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

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

Overall feedback

We agree with the Board’s proposals as set out in paragraphs 72B and 72C(a) of the ED. In contrast, we do not support the proposed requirements in paragraph 72C(b)—we think they would create implementation difficulties and would, as drafted, result in questionable classification outcomes. We recommend the Board (i) remove paragraph 72C(b) and (ii) specify that the approach in paragraphs 72B apply to all liabilities with conditional settlement terms, irrespective of whether those terms refer to conditions with which the entity must comply. We think our recommendations would provide a workable solution for the classification of all conditional liabilities.

We agree that liabilities with a conditional right, as described in paragraph 72B(b), to defer their settlement for at least 12 months after the reporting date warrant specific disclosures. However, we disagree with the proposed scope of disclosures objective and requirements—we think the Board should narrow it down.

Detailed comments

- **The proposed revised classification approach for liabilities subject to conditionality**
 - **Liabilities with conditional settlement terms requiring an entity’s compliance**

The proposed amendments, together with those published in 2020¹ (2020 Amendments), confirmed the principle in IAS 1 *Presentation of Financial Statements* that an entity classifies a liability as non-current if the entity is not required to settle that liability for 12 months or longer. Paragraph 69(d) of IAS 1 has reflected that principle over time. However, the drafting of that paragraph before the 2020 Amendments referred to an ‘unconditional’ right to defer settlement of a liability. The word ‘unconditional’ had been subject to differing interpretations and could have set a high hurdle to classify a liability as non-current.

The 2020 Amendments removed this word and proposed an approach for classifying a type of liabilities subject to conditionality, ie the liabilities whose subsequent settlement is subject to the entity *complying* with specified conditions (or liabilities with conditional settlement terms requiring the entity’s compliance). Those amendments specified that the entity’s right to defer settlement of such liabilities at the reporting date existed only if the entity complied with the conditions at the reporting date—including conditions due to be tested 12 months after the reporting period. In our [letter](#) to the IFRS Interpretations Committee dated 15 February 2021, we expressed strong reservations about this approach which effectively consisted in requiring an entity to assess compliance with conditions that were due to be tested after the end of the reporting period, on the basis of facts and circumstances

¹ *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) published in January 2020.

existing at the end of the reporting period—ie effectively bringing forward the assessment of compliance with the specified conditions using only information available at the reporting date. We thought that determining the classification as current or non-current on the basis of that approach was unlikely to provide useful information, in particular when applied to covenants of entities with seasonal operations.

In contrast, the ED includes the Board's proposal to require an entity to determine the classification of liabilities only on the basis of conditions with which an entity shall comply on or before the reporting date—ie the entity does not consider the conditions with which it shall comply after that date. We much welcome this proposal reflected in paragraph 72B of the ED. This approach responds to the concerns we, together with many stakeholders, expressed. We think this classification approach, together with supplemental disclosures, is more likely to provide useful information.

- **Liabilities with other conditional settlement terms**

- ***How we understand the Board's proposals in paragraphs 72B and 72C***

Paragraph 72B of the ED specifies the principle whereby only conditions with which an entity must *comply* on or before the reporting date affect the classification of a liability as current or non-current—ie the classification of a liability subject to conditionality solely depends on the assessment of the conditions existing no later than the reporting date. We understand that this principle primarily aims to deal with the financial conditions ('financial covenants') that borrowing arrangements usually impose on the borrower.

However, we understand that paragraph 72C of the ED requires an entity not to apply the principle in paragraph 72B in specific circumstances. Those are the circumstances in which the event triggering the liability's repayment could occur within 12 months after the reporting date and has one of the following features:

- it is at the discretion of the counterparty or a third party (paragraph 72C(a) of the ED)—typically when the other party has the right to extinguish the entity's right to defer settlement within 12 months on demand—
or
- the entity's future actions do not affect the occurrence of the event or outcome that may extinguish the entity's right to defer settlement (paragraph 72C(b) of the ED).

In those circumstances, the entity classifies a liability as current without considering whether it has a compliance situation to assess as required in paragraph 72B. We understand that the ED does not consider those as circumstances in which the future conditions are subject to the entity's compliance because the entity is either unable to act in a manner that could determine the 'course of events' or the event triggering the condition is at another party's will.

In other words, paragraph 72C distinguishes—and indirectly specifies differing classification principles for—two types of liabilities with conditional obligations ie those:

- having a compliance nature and the classification of which would be determined on the basis of the assessment in paragraph 72B of the ED, and
- not having this nature (referred to as '*other conditional settlement terms*' in the Basis for Conclusions on the ED). We understand such liabilities would be classified, absent any other requirement, as current without any further assessment.

If our understanding were to be correct, we think the Board's approach does not clearly appear in the proposed amendments and in their Basis for Conclusions.

- ***The Board's proposals in paragraph 72C may create implementation difficulties in distinguishing liabilities with conditional terms and may result in debatable classification outcomes***

We think that an entity can clearly identify the circumstances that paragraph 72C(a) of the ED targets. We also agree that classifying the corresponding liabilities as current would provide useful information.

However, the proposed wording in paragraph 72C(b) makes the identification of the targeted circumstances difficult. We understand, at least, that those circumstances are not aligning, and are not designed to align with, those in paragraph 25 of IAS 32 *Financial Instruments: Presentation*²—accordingly, the reading and interpretation currently applicable to paragraph 25 of IAS 32 cannot be transposed here.

In our view, the words '*unaffected by the entity's future actions*' in paragraph 72C(b) introduce a new concept in

² Those requirements apply to determine the classification of financial instruments (as liability or equity instruments) including contingent settlement provisions.

the IFRS literature³ and may capture a large spectrum of frequent situations in which entities have a conditional right to defer the settlement of a liability for at least twelve months after the reporting period⁴. Such conditional right notably exists when facilities or loan arrangements include ‘events of default clauses’ (or ‘acceleration clauses’) (excluding default arising from covenants’ breach) that, if exercised, may lead to early repayment of amounts due.

We clearly see how the ‘*unaffected by the entity’s future actions*’ could work when the default event relates to the occurrence of a material acquisition or a breach of many warranties and representations. In those circumstances, the entity’s decisions and actions unquestionably affect the events to which conditionality relates—paragraph 72C(b) would not apply in those circumstances. However, the analysis may not be clear when the default event is *partly* affected or influenced by another party’s will such as the outcome of a litigation or an insolvency case or the departure of key management personnel or a change of control. We note in particular that the change of control clause is frequent in loan arrangements and has not generally led entities to classify the related liabilities as current. We would have concerns if a conservative reading of the words in paragraph 72C(b) were to prevail and, ultimately, to result in presenting the affected liabilities as current.

Having assessed the words ‘*unaffected by the entity’s future actions*’ against a number of conditions, we conclude that differing interpretations may unfold about the conditions that paragraph 72C(b) captures. This, in turn, would result in diversity in presentation practices.

Additionally, we have reservations about the classification outcome that would apply to the liabilities with the conditional settlement terms as targeted in paragraph 72C(b) and thus, about the usefulness of information arising thereof. We understand an entity would classify those liabilities as current without any further assessment. We note that financing arrangements usually include conditional settlement terms, protective in nature, (i) whose likelihood of occurrence is low and (ii) linked to events whose occurrence is not substantially affected, or not affected at all, by the entity. Such terms typically include some material adverse events⁵ (such as events not related to a contract’s party) or events specified in ‘*force majeure* clauses’⁶—a liability that is repayable if, for example, a war or a general strike breaks out. In those circumstances, we understand that the existence of such conditional settlement terms would lead to the classification of the affected liabilities as current⁷. We think this would not be the appropriate classification and that a huge number of financing arrangements would be subject to a current classification applying the proposed approach.

Accordingly, we recommend the Board not proceed with the requirements in paragraph 72C(b) of the ED.

▪ ***Our proposed way forward***

We think that paragraph 72C(b) as drafted does not provide any workable solution and would lead to diversity in presentation practices. Thus, we recommend the Board remove this paragraph from any final amendments.

We recommend the Board instead retain an approach consisting in:

- extending the principle set out in paragraph 72B to *all* conditional settlement terms rather than limiting this principle to conditional settlement terms in relation to situations in which the entity is in a compliance (or non-compliance) position. Consequently, the right to defer settlement of a liability beyond 12 months would exist at the reporting date if no conditional settlement term, assessed on the basis of facts and circumstances existing at that same date, would (i) require the entity to settle the liability within 12 months or (ii) give the counterparty the right to require it; and
- retaining the exception specified in paragraph 72C(a) that could be rephrased to specify that the right to defer settlement of a liability beyond 12 months does not exist when the counterparty has the enforceable right, at the reporting date, to call the liability within 12 months after that date unconditionally.

Having in mind the Board’s observations in paragraphs BC18 and BC19 of the ED, we acknowledge that our proposals may address circumstances beyond those in the scope of the 2020 Amendments—ie circumstances in which the entity must or could *comply* with conditions. However, we think the Board’s proposals in paragraph 72C(b) effectively result in specifying classification requirements for other types of conditional settlement terms and thus, see no alternative but to provide clarity in this respect. We also acknowledge that our proposals would introduce changes beyond those that the Board considered. Having said that, we think our

³ We note that paragraph 19 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* already refers to an ‘entity’s future actions’. However, to the best of our knowledge, there is no application guidance in IFRS Standards for the notion of ‘affect’, that we view, as essential in the Board’s proposals.

⁴ We discuss here conditions other than ‘financial covenants’ to which the requirements in paragraph 72B apply.

⁵ Specified in ‘material adverse change clauses’ or ‘hardship clauses’.

⁶ Article 1218 of the French Civil Code states (emphasis added) that ‘*in contractual matters, there is force majeure when an event beyond the control of the debtor, which could not reasonably have been foreseen at the time of the conclusion of the contract and which effects cannot be avoided by appropriate measures, prevents performance of his obligation by the debtor*’.

⁷ Absent any further specific requirement in this respect, the principle set out in paragraph 69(d) of IAS 1 would apply.

proposals (i) provide a pragmatic and 'easy-to-apply' framework for classifying liabilities with conditional terms leading to a better approach for addressing consistency objective in practice and (ii) strike a better cost-benefit balance than the Board's proposals.

▪ **Possible way forward if the Board does not reconsider the proposed approach**

Should the Board retain its proposed approach as set out in the ED, we recommend the Board:

- clarify the wording '*unaffected by the entity's future actions*' and develop application guidance and/or illustrative examples to reach consistent application. We also recommend the Board explain how the requirements in paragraph 72C(b) would apply to some clauses frequently included in financing arrangements and that relate to events such as a change of control, a change of law, material adverse events, cross default events or the entity's rating being downgraded.
- develop further the requirements applicable to conditional settlement terms other than covenants as identified in paragraph 72C(b). Requiring a classification of the affected liabilities as current with no further analysis would not be reasonable. In particular, we think that some material adverse events or *force majeure* events should not lead the affected liabilities being classified as current liabilities.

○ **Applying the proposed amendments when the entity obtains a waiver**

A lender may waive a specific event of default either permanently or for a specific period of time:

- the borrower may obtain such a waiver *after* an event of default (let's assume here a covenant breach) occurs—in which case, the lender usually grants a period of grace giving the right to the borrower to defer the liability's settlement for a specific period of time (*Fact pattern 1*).
- the borrower may also obtain an in-substance waiver *before* any default event occurs by, for example, obtaining the test's postponement to the next covenant testing date. This is because both parties expect the event of default to occur and are not willing to formally create a default event triggering the application of other clauses in the agreement. In this specific case, the lender waives in substance a forthcoming covenant test⁸ and instead decides to assess compliance at a later date⁹—the parties agree to postpone the covenant test (*Fact pattern 2*).

In substance, in our view, the two fact patterns above are economically similar. The entity:

- does not meet a covenant clause at the testing date initially scheduled—there is a formal covenant breach in *Fact pattern 1* whereas in *Fact pattern 2*, no formal breach occurs; and
- obtains the right to defer settlement at a later date—when the grace period expires in *Fact pattern 1*, and at the next covenant testing date at earliest in *Fact pattern 2* (in this fact pattern, there is formally no grace period).

However, an entity may reach differing conclusions with regard to the liability's classification in those two fact patterns. To illustrate this, let's assume that the entity:

- prepares its financial statements as at 31 December 2021;
- is the debtor in a loan arrangement specifying a covenant to be tested twice a year: 15 December and 15 June;
- negotiates the following conditions with the lender before 31 December 2021:
 - *Fact pattern 1*: there is a formal covenant breach at 15 December 2021. The entity obtains a waiver whereby the lender agrees to provide a grace period ending on 15 June 2022.
 - *Fact pattern 2*: the entity does not test the covenant (there is no formal covenant breach) as at 31 December 2021; the next testing date is 15 June 2022 as scheduled in the initial loan arrangement.

In our view, paragraph 75 of IAS 1—that is unaffected by the proposed amendments—enables an entity to clearly determine the liability's appropriate classification in *Fact pattern 1*—ie the entity classifies the liability as non-current if it obtains, before the end of the reporting period, the right to defer settlement of the liability for 12 months at least after that date. Accordingly, in this fact pattern, the entity classifies the liability as current.

However, it is not clear how the entity would classify the liability in *Fact pattern 2*. We think that an entity could conclude, applying the proposed requirements in paragraph 72B, that it shall present the liability as non-current—this is because, at the reporting date, no formal covenant breach has occurred and thus, the entity complies with the covenants that must be tested at that date.

We question whether such a discrepancy in classification outcomes is justified and would provide useful

⁸ Or may do as if the covenant test had not existed.

⁹ The parties may agree to either (i) set a new covenant test date or (ii) assess compliance at a test date that was initially scheduled in the loan arrangement.

information.

In our view, the requirements in paragraphs 74 and 75 of IAS 1 were developed having in mind *Fact pattern 1* only. We acknowledge that:

- the ED does not propose to amend the requirements in paragraphs 74 and 75 of the ED. Thus, those paragraphs are not in the scope of the project the Board decided to undertake.
- the ED does not create any new issue in this respect—there has already been uncertainty as to how to classify the liability in *Fact pattern 2* applying the existing requirements in IAS 1. That being said, the Board's proposals could secure a conclusion that, we think, is counterintuitive.
- paragraph 76ZA(b)(ii) would require an entity to provide information in this respect even if the liability were to be classified as non-current—those disclosures would show that an entity would fail the covenant test to be made after the reporting date on the basis of facts and circumstances existing at the reporting date¹⁰.

Fact pattern 2 is frequent in practice and may have material implications for those affected. Accordingly, we recommend the Board assess how the proposed amendments would work in *Fact pattern 2* and whether they would provide useful information in this case.

○ Other comments

Paragraph 72C(b) includes a reference to insurance liabilities. We appreciate the conceptual merits of referring to insurance contracts because the definition of an insurance contract in IFRS 17 *Insurance Contracts* refers to an insured event, ie an uncertain event that creates insurance risk. Such an event is typically not affected by the entity's future actions and thus, could illustrate the Board's thought in this respect. However we think any such reference may often be not relevant because many insurance entities present their assets and liabilities in order of liquidity applying paragraph 60 of IAS 1. In addition, the proposed wording may imply, for those entities presenting their assets and liabilities using the current/non-current distinction, that *all* insurance liabilities must be presented as current. Accordingly, should the Board proceed with its proposed approach, we recommend any reference to insurance liabilities be removed in any final amendment.

● The proposed disclosure requirements

We agree with the Board's observations in paragraphs BC9–BC11 of the ED that the classification of a liability subject to conditionality as current or non-current, alone, does not provide sufficient information to users to fully understand the effects of the conditionality, ie the risk that the liability could become repayable within 12 months. Accordingly, we agree with the principle of requiring entities to disclose specific information. However, we do not agree with the scope of the proposed disclosures objective and requirements.

We see the merits of developing disclosures requirements aiming to enable users to assess the risk that a liability could become repayable within 12 months. The proposed disclosure requirements in paragraphs 76ZA(b)(i)–76ZA(b)(ii) would provide information specifically meeting this objective whereas the proposed disclosure requirements in paragraphs 76ZA(b)(iii) would provide information in relation to the entity's own assessment.

More specifically, we see the merits of the proposal in paragraph 76ZA(b)(i) which requires an entity to disclose information about the conditions with which an entity is required to comply. This being said, given the frequency of the affected conditional liabilities in an entity's statement of financial position, this will necessitate the use of judgement when applying the materiality principle.

We have mixed views on the Board's proposal in 76ZA(b)(ii) requiring an entity to disclose information as to whether it would have complied with the conditions based on its circumstances at the end of the reporting period. We can see this disclosure as a 'remnant' of the classification approach that was underpinning the 2020 Amendments¹¹ and on which we expressed strong reservations. We thought this approach was unlikely to provide useful information for classification purpose and now question whether it would result in useful information for disclosure purpose. Requiring entities to disclose information as to whether they comply at the reporting date with conditions that must be tested at a later date is unlikely to provide useful information when the timing for the covenants has been set to reflect the entity's specific circumstances (such as seasonal business, recovery situation, launching a new activity or a start-up phase). However, we acknowledge such a disclosure has some merits in other circumstances. For example, it may limit structuring opportunities (for example a covenant that is formally tested on 31 January N+1 whereas, in essence, the test is designed to assess the entity's risk position on 31 December N). It may also provide useful information when the entity has obtained the deferral of covenant test

¹⁰ This observation holds true only if the covenants to be tested at a later date are identical to those that the parties decide not to test at the reporting date.

¹¹ Paragraph BC24 confirms our view.

after the end of the reporting period (see *Fact pattern 2* described above). On balance, we would support the proposed disclosure because we think its information benefits are higher than its costs for stakeholders.

We have reservations with the Board's proposal in paragraph 76ZA(b)(iii) that requires an entity to disclose information as to whether and how the entity expects to comply with the conditions after the end of reporting period. We first think this information is forward-looking in nature and could create legal issues for entities. Additionally, we expect an entity to make any such statement, having considered a number of assumptions and scenarios and, ultimately, having applied its judgement. A statement along the lines of the proposed disclosure is unlikely to reflect the complexity of the thought process an entity has developed. More importantly, we are not convinced there is a need for making any such assessment *in all circumstances*.

Our reservations with the proposed requirement in paragraph 76ZA(b)(iii) of the ED lead us to step back and ask whether the Board should reconsider the scope of all the proposed disclosures. Thinking this through, we are not convinced that the proposed disclosure objective and requirements in paragraph 76ZA(b) will result in useful information *in all circumstances*. In particular when there is reasonable assurance that liabilities will not become repayable within 12 months after the reporting date, an entity may end up, applying the Board's proposals, disclosing much information for no significant benefits to users. In contrast, we think the Board's proposals would be useful when there is no such assurance. Thus, we recommend the Board specify that the disclosure objective and requirements in paragraph 76ZA(b) do *not* apply to liabilities for which there is reasonable assurance¹² that they will *not* become repayable within 12 months after the reporting date. Narrowing the scope of the proposed disclosures to specific circumstances would also highlight the disclosure objective followed while enabling entities to leverage the disclosures they may already provide applying the requirements in IFRS 7 *Financial Instruments: Disclosures* or in IAS 1 with regard to the information on the going concern principle.

We agree that our proposed way forward would require an entity to make a preliminary assessment of whether there is reasonable assurance that a liability will not become repayable within 12 months in order to assess whether to disclose information¹³. Thus, the assessment of the risk that the liability could become repayable within 12 months—as targeted by the Board in paragraph 76ZA(b) of the ED—would not entirely be at users' discretion. However, we could see this as a filter to avoid that a large number of entities that do not face liquidity issues provide unnecessary information.

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

The Board proposes to require an entity to present separately, in its statement of financial position, liabilities classified as non-current for which the entity's right to defer settlement for at least twelve months after the reporting period is subject to compliance with specified conditions within twelve months after the reporting period.

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

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

We disagree with the proposal to require separate presentation of liabilities subject to conditionality, as described in paragraph 72B(b) of the ED, in the statement of financial position when an entity classifies such liabilities as non-current. This is because:

- the Board's proposal contradicts the principle-based nature of IFRS Standards. We concur with the observations included in this respect in paragraph AV3 of the alternative view on ED. We agree that the principle-based nature of IFRS Standards does not prevent the Board from requiring, if need be, the separate presentation of some items. That being said, we think the 'threshold' for specifying separate presentation of items should be high in terms of information value—we expect narrow-scope amendments to IFRS Standards not to introduce changes up to that threshold. We agree with the alternative view on the ED that the proposed presentation requirement for liabilities subject to conditionality does not represent a compelling case to forgo a principle-based approach for the presentation of an entity's financial statement.
- IAS 1 includes principles for disaggregation that an entity considers when preparing its financial statements. We expect entities to apply those principles and present liabilities subject to conditionality as separate items when, based on its own facts and circumstances, such presentation provides useful information.

¹² Paragraph 7 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* already uses the notion of 'reasonable assurance' for the recognition of government grants.

¹³ Applying paragraph 122 of IAS 1, an entity may need to disclose information on how it has applied its judgement to make that assessment.

- the separate presentation of liabilities subject to conditionality may end up capturing a number of liabilities with differing nature. We are unsure of the information value of the resulting line item. The proposed presentation requirements in the ED are not limited to loans payable as defined in IFRS 7. They potentially apply to all liabilities an entity recognises in its statement of financial position because IAS 1 specifies presentation requirements applicable to all liabilities—unless specific IFRS Standards require otherwise. We encourage the Board to perform additional outreach before finalising any such proposal.

We appreciate the objectives (as described in paragraph BC21 of the ED) that the Board pursued when proposing the separate presentation of liabilities subject to conditionality as described in paragraph 72B(b) of the ED. However, we observe that the Board also proposed to require entities to disclose information about those liabilities. As explained in our answer to Question 1, we agree that classifying a liability as current or non-current is not, itself, sufficient to fully enlighten users about an entity's financial position—this is the role of the notes to the financial statement to complement the information given by the liabilities' classification. We think the principle of specifying disclosures for liabilities subject to conditionality in this respect is sufficient to complement the information that their classification as current or non-current on the statement of financial position provides.

Rather than finalising this proposal, we recommend the Board consider requiring entities to disclose the carrying amount of liabilities subject to the conditions described in paragraph 72B(b) and that are classified as non-current.

Question 3—Other aspects of the proposals

The Board proposes to:

(a) clarify circumstances in which an entity does not have a right to defer settlement of a liability for a least twelve months after the reporting period for the purpose of applying paragraph 69(d) of IAS 1 (paragraph 72C);

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

(c) defer the effective date of the amendments to IAS 1, Classification of Liabilities as Current or Non-current, to annual reporting periods beginning on or after a date to be decided after exposure, but no earlier than 1 January 2024 (paragraph 139U).

Paragraph BC18-BC20 and BC30-BC32 of the Basis for Conclusions explain the Board's rationale for these proposals.

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

- **Paragraph 72C of the proposed amendments**

We discussed Question 3(a) in our answer to Question 1.

- **Transition method**

We support the proposal to require retrospective application for any final amendment for the reasons set out in paragraphs BC30–BC31 of the ED.

- **Date of first application**

The Board proposes to require entities to apply the 2020 amendments together with the proposed changes to those amendments as set out in the ED for annual reporting periods beginning no earlier than on or after the 1 January 2024.

We think that entities would have had almost 4 years to get prepared to the changes introduced by the 2020 Amendments (other than those developed in the ED), which, in our view, may be sufficient.

Nonetheless, entities would have a reduced amount of time to reach full preparedness to the changes included in this ED¹⁴ if the date of first application were to be set in 2024. Whether this is sufficient time will much depend on the amplitude of changes that any final amendment would bring—this will much depend, in our view, on the possible clarifications the Board may make on the notion of *'unaffected by the entity's future actions'*. Applying the existing requirements in IAS 1, many entities classify liabilities subject to any conditional settlement term applying approaches similar to the proposed approach in paragraphs 72B and 72C(a) of the ED.

If the requirements in paragraph 72C(b) were to (i) significantly restrict the applicability of the approach in paragraph 72B of the ED or (ii) lead entities not to apply paragraph 72B to common or 'vanilla' conditions (such as change of control clauses), many entities may need to reclassify significant amounts on their statement of financial statement. We expect those entities to start renegotiations of their financing arrangements' terms and conditions. Such negotiations may require time and efforts. In other words, the more disruptive the final amendments will be, the later the effective date should be set. Should the final amendments be 'disruptive', we think entities should be required to apply them from 2025 onwards.

In contrast, should the Board retain our proposed way forward as set out in our answer to Question 1, we think that the proposed date of first application would be appropriate.

¹⁴ We assume the Board would publish final amendments at the beginning of 2023.