



# NON-CURRENT LIABILITIES WITH COVENANTS

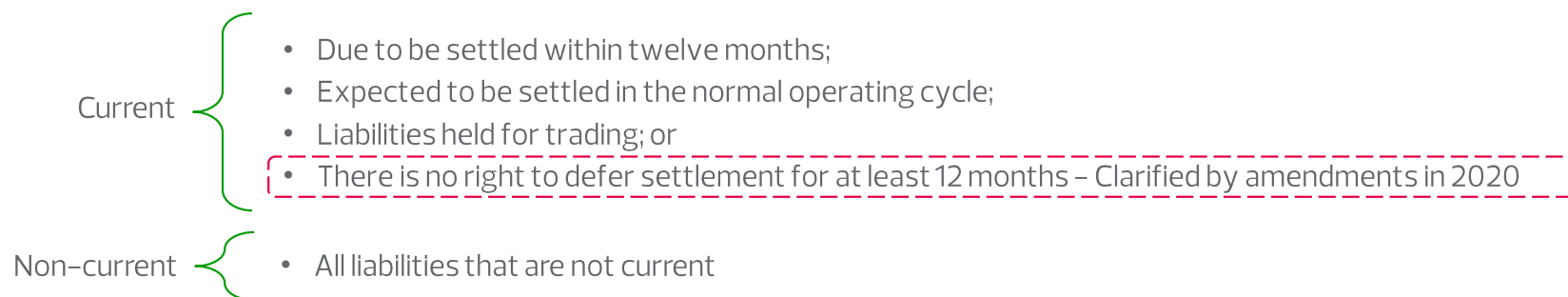
PROPOSED AMENDMENTS

*Assurance Updates – 07/2022*

# BACKGROUND

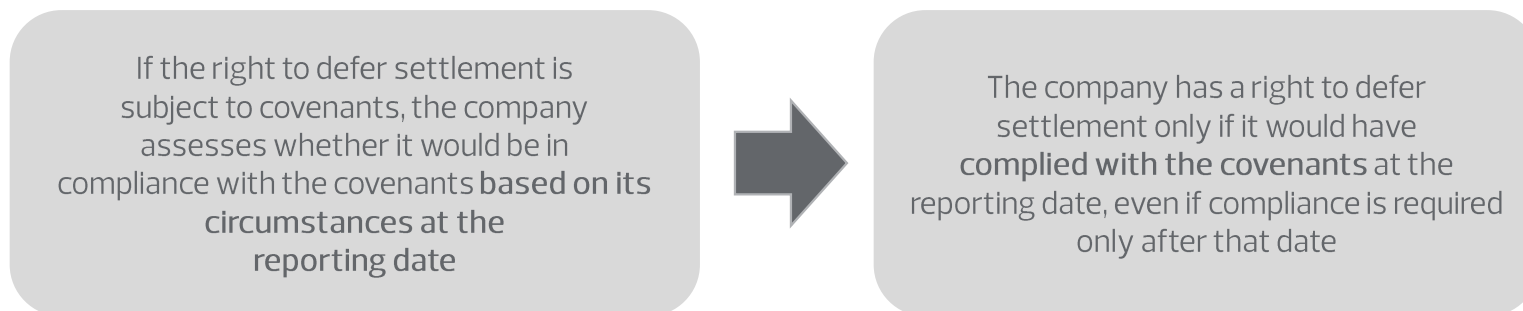
## The current classification requirements in IAS 1 and amendments in 2020

A company generally classifies liabilities as **current** or **non-current** as follows:



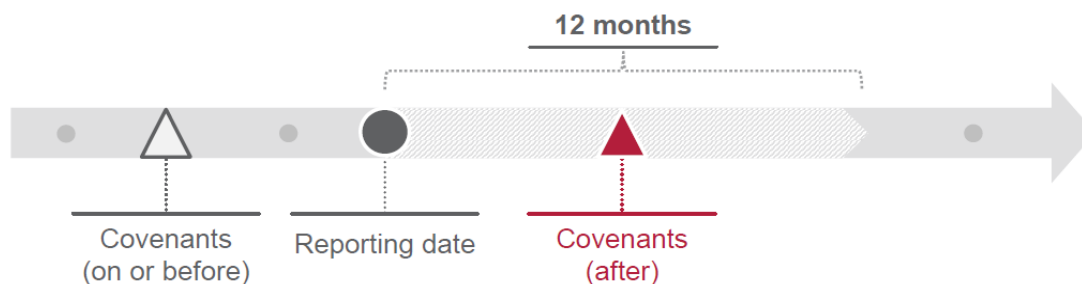
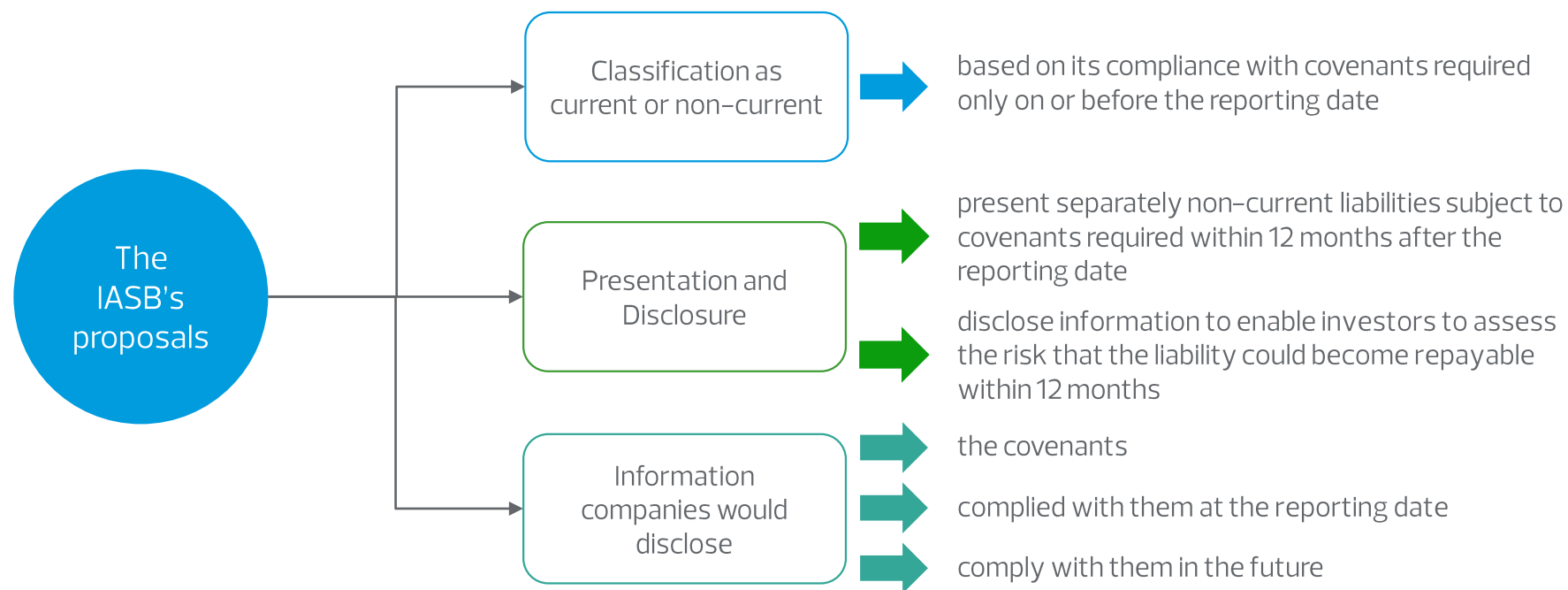
## The clarifications in the 2020 amendments

According to IAS 1 which amendments in 2020, a company assesses whether it has a right to defer settlement for at least 12 months as follows:



# THE IASB'S PROPOSALS

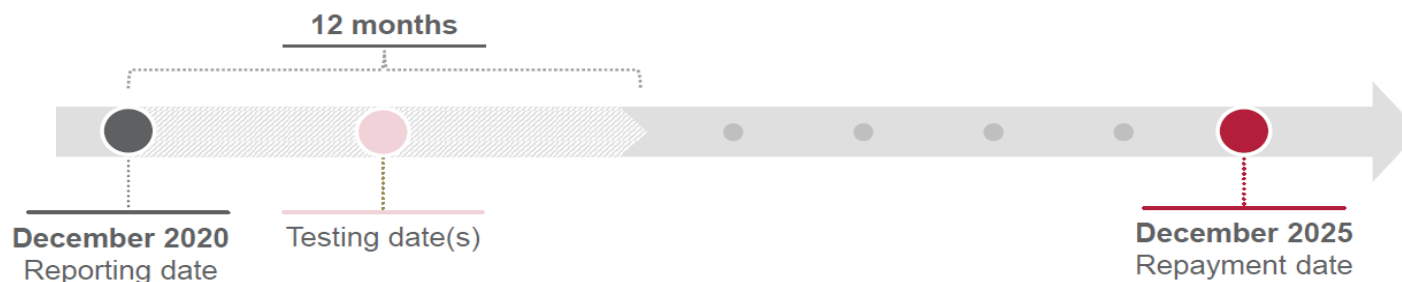
In November 2021, the International Accounting Standards Board (IASB) published the Exposure Draft Non-current Liabilities with Covenants (proposed amendments to IAS 1) as follow:



# THE IASB'S PROPOSALS – ILLUSTRATE

In December 2020, the IFRS Interpretations Committee discussed how the 2020 amendments apply in three different cases. In each of these cases:

- A company has a loan repayable in five years
- The loan agreement includes a covenant that requires a minimum working capital ratio at specified testing dates
- The loan becomes repayable on demand if this ratio is not met at any of the testing dates



		Case 1	Case 2	Case 3
<b>Loan agreement</b>	<b>Repayment date</b>	31/12/2025	31/12/2025	31/12/2025
	<b>Covenant testing dates</b>	Each quarter-end	Each 31 March	Reporting date; then each 30 June
	<b>Required ratio</b>	1.0	1.0	Reporting date: 1.0 Each 30 June: 1.1
<b>Position at 31/12/2020</b>	<b>Actual Ratio:</b>	0.9	0.9	1.0
	<b>Management expects to comply at specified date?</b>	Yes	Yes	Yes
	<b>Additional information:</b>	Company obtained waiver for 3 months	-	-

# THE IASB'S PROPOSALS – ILLUSTRATE

## Comparison between amendments in 2020 and IASB's proposals

	Compliance with covenants required on or before the reporting date:	Classification	
		2020 amendments	IASB's proposals
<b>Case 1</b>	Breached covenants required on the reporting date. Waiver covers only 3 months.	Current	Current
<b>Case 2</b>	Complied with the covenants required on or before the reporting date.	Current	Non-current*
<b>Case 3</b>		Current	Non-current*

\* **Presentation and disclosure:** in cases 2 and 3, the company would present the liabilities in a line item (separate from non-current liabilities without covenants required within 12 months), and disclose information about:

- (a) the covenants with which it must comply within 12 months of the reporting date;
- (b) the fact that it would not have complied with those covenants based on circumstances at the reporting date; and
- (c) whether and how it expects to comply with those covenants by the date they are required.

# CONCLUSIONS



**Reason:** The Exposure Draft aims to improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with conditions, in addition to addressing concerns about the classification of such a liability as current or non-current.



**Effective date:** The proposals will become effective for annual reporting periods beginning on or after 01 January 2024 and will need to be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early adoption is permitted but will need to be disclosed.

The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect.

The Exposure Draft has not yet an official application date and still obtained comments.

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