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EFRAG

35 Square de Meeûs
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11 March 2022

Re: Non-current Liabilities with Covenants Proposed amendments to IAS 1

Dear Jean-Paul,

we are pleased to have the opportunity to provide our comments on the EFRAG Draft Comment Letter on the Exposure Draft proposed amendments to IAS 1, *Non-current Liabilities with Covenants*, issued by the IASB on 19 November 2021 (the "ED").

We welcome the IASB's efforts to address the stakeholders concerns about the consequences of the Amendments to IAS 1 issued in 2020.

In general, we support the IASB's proposal to classify liabilities as current or non-current based on the situation existing at the end of the reporting period. However, we suggest to clarify as the term "substance" in paragraph 72A and to explain the interaction between paragraph 72B(b) and 72C(b). We are concerned that the notion "unaffected by the entity's future actions" might be misleading and does not help to clearly differentiate conditions in the scope of paragraph 72B(b) and those in the scope of paragraph 72C(b).

We disagree with the IASB proposal 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 is subject to compliance with specified conditions within twelve months after the reporting period. We believe that a specific disclosure in the notes is sufficient to assess the risk that the liability could become repayable within twelve months.

We support the proposal to disclose information in the notes that enables users to assess the risk that a liability may become repayable within twelve months. However, we suggest requiring the disclosures proposed in paragraph 76ZA(b) only in case of significant uncertainties on whether conditions are met.

Finally, we have some concerns with the proposal to disclose whether and how an entity expects to comply with conditions after the reporting date. We share the concerns mentioned in paragraph AV5 of the ED about providing forward-looking information with respect to future compliance with covenants.

Our detailed comments are set out in Appendix A.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò
(Chairman)

Appendix A - OIC's responses to the questions raised in the ED

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.

We agree with the proposed amendment to paragraph 72A removing the requirement to comply with a covenant at the end of the reporting period even if the compliance will be tested at a future date.

We support the IASB's proposal to classify liabilities as current or non-current based on the situation existing at the end of the reporting period. However, we suggest to clarify the term "substance" in paragraph 72A to avoid unintended consequences. For example, we question whether an entity right to defer settlement of a liability for at least twelve months has "substance" when the entity knows that it has breached a covenant a month after the reporting date. In our view, the ED uses a conventional approach, instead of a substantial approach, we accept this approach for practical reasons but we suggest avoiding the term "substance".

We suggest to clarify the interaction between paragraph 72B(b) and 72C(b) of the ED.

According to paragraph 72B(b) a liability is classified as non-current if the compliance with a covenant is only required within the next 12 months after the reporting period, whereas according to paragraph 72C(b) the liability must be classified as current if it could become payable as a result of an "uncertain future event" (that may arise within the next 12 months after the reporting period) that is unaffected by the entity's future actions. In our view, the wording "unaffected by the entity's future actions" does not help to clearly differentiate conditions in the scope of paragraph 72B(b) and those in the scope of paragraph 72C(b).

In addition, we are not sure that insurance contract liabilities should be classified as current in all circumstances.

We support the proposal to disclose information in the notes that enables users to assess the risk that a liability may become repayable within twelve months. However, we are concerned that the proposed disclosures are too wide and may result in excessively detailed disclosures. Thus, we suggest requiring the disclosures proposed in paragraph 76ZA(b) only in case of significant uncertainties on whether conditions are met.

Finally, we have some concerns with the proposal to disclose whether and how an entity expects to comply with conditions after the reporting date. We share the concerns mentioned in paragraph AV5 of the ED about providing forward-looking information with respect to future compliance with covenants. Consequently, we suggest to require that this disclosure should be provided on the basis of the information known up to date of issuance of the financial statements.

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 IASB proposal 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.

We believe that the separate presentation does not provide useful information especially if most liabilities will be classified under this item. We believe that a specific disclosure in the notes is sufficient to assess the risk that the liability could become repayable within twelve months.

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 at least twelve months after the reporting period for the purposes 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).

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

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

We support the proposed retrospective application and the deferral of the effective date of the amendments to IAS 1 published in 2020.