IFRS

STAFF PAPER

June 2020

IASB® Meeting

Project	**Deferral of Effective Date of Amendments to IAS 1**
Paper topic	Comment letter analysis and recommendation to finalise the amendment

CONTACTS	Kensuke Okabe	kokabe@ifrs.org	+44 (0) 20 7246 6439
	Rachel Knubley	rknubley@ifrs.org	+44 (0) 20 7246 6904

Introduction

1. This paper analyses feedback on the Exposure Draft *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* (Proposed amendment to IAS 1) (Exposure Draft). The Exposure Draft proposed a one-year deferral of the effective date of *Classification of Liabilities as Current or Non-current* issued in January 2020 (Amendments to IAS 1) to annual reporting periods beginning on or after 1 January 2023.

2. We recommend that the International Accounting Standards Board (Board) finalise the proposed deferral of the effective date with no changes.

Structure of the paper

3. This paper is structured as follows:

   (a) background (paragraph 5);

   (b) summary of feedback (paragraphs 6–9);

   (c) staff analysis (paragraphs 10–20); and

   (d) staff recommendation (paragraph 21).

4. There are two appendices to this paper:

   (a) Appendix A—Demographic information; and

(b) Appendix B—Analysis of other comments.

Background

5. The Exposure Draft proposed a one-year deferral of the effective date of the Amendments to IAS 1 to annual reporting periods beginning on or after 1 January 2023. Paragraphs BC1–BC3 of the Exposure Draft explains the Board's reasons for the proposed deferral:

> BC1 In January 2020 the Board issued *Classification of Liabilities as Current or Noncurrent*, which amends IAS 1 *Presentation of Financial Statements*, to clarify the requirements in IAS 1 for the presentation of liabilities. The Board noted that these amendments would result in some entities reclassifying debt from noncurrent to current, potentially affecting those entities' compliance with loan covenants. The effective date for the amendments was therefore set to allow affected entities enough time to renegotiate their debt covenants if necessary. The Board decided that an entity shall apply the amendments for annual reporting periods beginning on or after 1 January 2022 retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
>
> BC2 In April 2020 the Board discussed the effect of the covid-19 pandemic on financial reporting. The Board noted that the pandemic has created pressures that could delay the implementation of any changes in classification resulting from the application of these amendments. It could also delay the start and extend the duration of the renegotiation of loan covenants.
>
> BC3 The Board noted that deferring the effective date would delay the implementation of the improvements to the classification of liabilities that the amendments intend to bring about. However, the amendments clarify the requirements for presentation of liabilities instead of fundamentally changing the required accounting;

recognition and measurement requirements are unaffected by the amendments. Consequently, the Board concluded that the advantages of a deferral during a time of significant disruption would outweigh the disadvantages. Therefore, to provide entities with operational relief, the Board decided to propose a one-year deferral of the effective date of the amendments to annual reporting periods beginning on or after 1 January 2023.

Summary of feedback

6. By 11 June 2020, we had received 33 comment letters. All comment letters received are available on our website. Appendix A provides a demographic analysis of the comment letters.

7. Thirty respondents agree with the proposal to defer the effective date of the Amendments to IAS 1 for the reasons outlined in the Basis for Conclusions on the Exposure Draft.

8. An accounting firm (ETY) and two individuals (Masahiro Hoshino and Raju Gupta) disagree with the proposal mainly because they are not convinced with the reasons why the effective date of the Amendments to IAS 1 should be deferred (paragraphs 10–15).

9. Three accounting firms (BDO, Deloitte and KPMG), all of whom support the proposed deferral of the effective date, nevertheless express concerns about possible diversity in practice when implementing the Amendments to IAS 1 (paragraphs 16–19).

Staff analysis

Deferral of effective date

10. Nearly all respondents agree with the proposed deferral of the effective date of the Amendments to IAS 1 for the reasons set out in the Basis for Conclusions on the Exposure Draft. Those that disagree cite the following reasons:

(a) delaying implementation of the amendments could result in financial statements that do not faithfully represent the financial position of the reporting entity.

(b) the implementation of new Standards often affects compliance with contracts and agreements such as bank covenants, but the Board does not usually provide such long implementation periods for new Standards.

(c) deferring the effective date of the amendments at the same time as allowing early adoption may reduce comparability between those entities that choose to early adopt and those that do not.

(d) the relief given by a deferral of the effective date is likely to be limited. This is because entities will be required by paragraph 30 of IAS 8 to disclose known or reasonably estimable information relevant to assessing the possible impact of the Amendments to IAS 1 on an entity's financial statements.

11. Regarding the respondents' concern set out in paragraph 10(a), we acknowledge that a deferral of the effective date will delay the implementation of the improvements to the classification of liabilities that the amendments intend to bring about. However, as noted in paragraph BC3 of the Exposure Draft, the amendments clarify the requirements for presentation of liabilities instead of fundamentally changing the required accounting; recognition and measurement requirements are unaffected. Consequently, we continue to hold the view that the advantages of providing operational relief during a time of significant disruption would outweigh the disadvantages.

12. We agree that the implementation of any new Standard could affect compliance with contracts and agreements such as bank covenants (see paragraph 10(b)). However, we note that the Amendments to IAS 1 may result in changes in classification of liabilities which could directly affect entities' compliance with loan covenants requiring affected entities to renegotiate their debt covenants. Additionally, the covid-19 pandemic could delay the start of any renegotiation which may be more protracted. We therefore think providing more time to implement the Amendments to IAS 1 is justified in the current situation.

13. We acknowledge that deferring the effective date of the amendments at the same time as allowing early adoption may reduce comparability between entities (see paragraph 10(c)). However, entities that do not choose to apply the Amendments to IAS 1 early will be required by paragraph 30 of IAS 8 to disclose known or reasonably estimable information about the possible impact of the amendments. We think that this information will help mitigate any reduction in comparability.

14. We disagree with the view expressed in paragraph 10(d) that the requirements of paragraph 30 of IAS 8 would significantly limit the operational relief provided by a deferral of the effective date. Providing the information required by IAS 8 would require less implementation effort than applying the amendments in full and would be unlikely to affect compliance with contracts and agreements such as bank covenants.

15. Accordingly, we continue to think that the advantages of deferral of the effective date would outweigh the disadvantages, and therefore, recommend proceeding with the proposed one-year deferral of the effective date of the Amendments to IAS 1.

Possible diversity in practice

16. BDO, Deloitte and KPMG raise a concern about interpretation of 'right to defer settlement' in paragraph 72A of the Amendments to IAS 1. That paragraph states:

> An entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and, as illustrated in paragraphs 73–75, must exist at the end of the reporting period. If the right to defer settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.

17. They ask whether a right to defer the settlement exists at the end of the reporting period if (a) the lender tests compliance with specified conditions based on

particular financial results at a specified date other than the end of the reporting period, and (b) the entity would not meet the conditions at the end of the reporting period if the lender were to test based on the financial results at the end of the reporting date. They say that they are aware of different interpretations on this matter and suggest the Board provide clarification.

18. As stated in paragraph BC5 of the Exposure Draft, the Board did not propose any changes to the amendments issued in January 2020 other than the deferral of the effective date. Therefore, considering implementation questions would go beyond the scope of the proposal in the Exposure Draft and could delay the operational relief that the proposed deferral is intended to provide. Consequently, we do not propose to address these implementation questions as part of this project.

19. However, we will consider whether further clarification of the Amendments to IAS 1 is required.

Other matters

20. Appendix B includes a summary of other comments and the staff's response to those comments. We recommend no change to the proposed amendment to IAS 1.

Staff recommendation

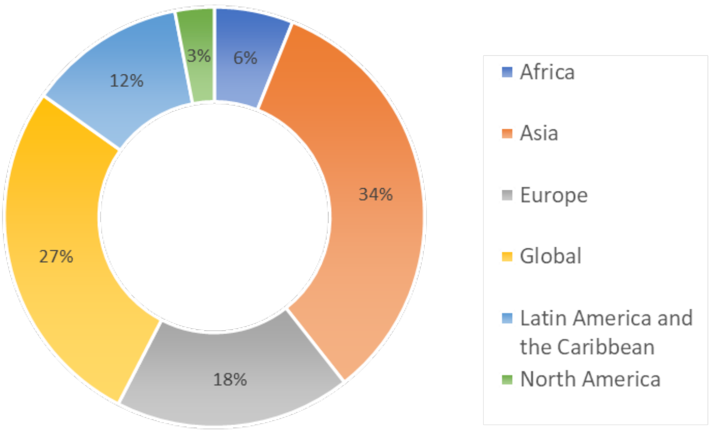
21. We recommend that the Board finalise the proposed amendment to IAS 1 with no changes.

Question for the Board
Does the Board agree with our recommendation to finalise the proposed amendment to IAS 1 with no changes?

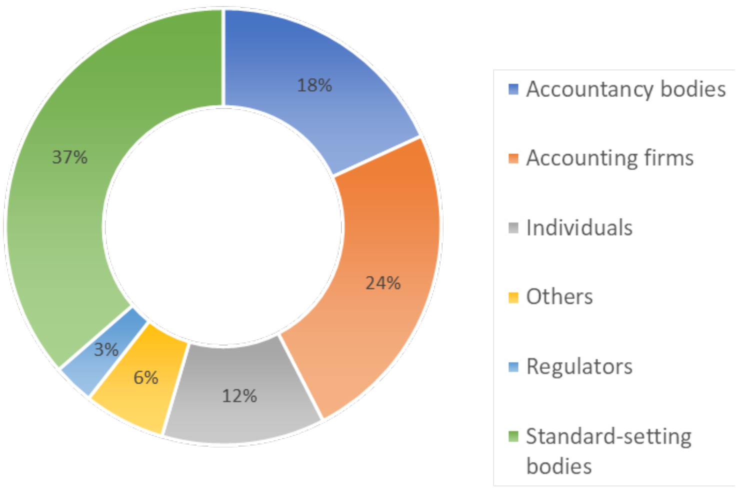
Appendix A—Demographic information

A1. The following is a summary of the 33 comment letters received.

A2. This pie chart illustrates the breakdown of comment letters by geographical region:



A3. This pie chart illustrates the breakdown of comment letters by respondent type:



Appendix B—Analysis of other comments

B1. The following table summarises respondents' other comments together with our analysis and conclusions.

Respondents' comments	**Staff analysis and conclusions**
1. Application of paragraph 74 of IAS 1 CINIF continues to believe that the liability should be classified as non-current if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of a breach of a long-term loan arrangement.	*We recommend no change to the proposed amendment.* The respondent is raising concerns about a paragraph of IAS 1 that was not substantially changed by the Amendments to IAS 1. Considering existing requirements is beyond the scope of the proposal in the Exposure Draft.
2. Neutrality ETY says the reason for the deferral in paragraph BC2 of the Exposure Draft is contrary to neutrality in *Conceptual Framework for Financial Reporting.*	*We recommend no change to the proposed amendment.* We discuss the possible effect of deferral of the effective date on the faithful representation of an entity's financial position in paragraph 11 of this paper. We do not think that deferring the effective date is contrary to neutrality.
3. Preface of IFRS Standards Masahiro Hoshino says the reasons for the deferral of the effective date is contrary to paragraph 13 of *Preface to IFRS Standards*.	*We recommend no change to the proposed amendment.* That paragraph states that the Board does not exempt specific transactions from the requirements of new Standards even if applying the requirements affect covenants contained in banking and loan agreements. The Amendments to IAS 1

	does not exempt any specific transactions from its scope and the objective of the Exposure Draft is to provide sufficient time to prepare for the Amendments to IAS 1. Therefore, the deferral of the effective date is not contrary to the *Preface to IFRS Standards*.
4. Comment period Masahiro Hoshino is concerned that the comment period for the Exposure Draft is shorter than that given for other Exposure Drafts that proposed deferral of an effective date.	*We recommend no change to the proposed amendment.* We obtained approval from the Due Process Oversight Committee at its April 2020 meeting to issue the Exposure Draft with a 30-day comment period. This relatively short comment period reflects the urgency of the proposed deferral.
5. Paragraph 30 of IAS 8 Comissão de Valores Mobiliários suggests the Board include the reference to paragraph 30 of IAS 8 as a requirement in IAS 1, not in the Basis for Conclusions.	*We recommend no change to the proposed amendment.* An explicit reference to Paragraph 30 of IAS 8 would be unnecessary as that paragraph requires disclosure of information when a new or amended IFRS has been issued but is not yet effective.