21 March 2022

Mr Andreas Barckow
Chairman of the International Accounting Standards Board
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Submitted to: www.ifrs.org

Dear Andreas

ED/2021/9 *Non-current Liabilities with Covenants*

Thank you for the opportunity to comment on ED/2021/9 *Non-current Liabilities with Covenants* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

Our responses and recommendations to the specific questions in the ED are set out in the Appendix to this letter. Many of our comments are based on similar issues that we note have been raised by standard-setting bodies in other jurisdictions. We have discussed these issues with our Technical Reference Group, who concurred that these issues are relevant and important for New Zealand reporting entities.

Our main comments are summarised below.

(a) We agree with the proposal to classify liabilities as current or non-current based on the situation as at the end of the reporting period.

(b) We suggest, with respect to the proposed disclosure requirements in paragraph 76ZA(b), that the IASB consider:

- elaborating on the application of materiality for the proposed disclosure requirements in paragraph 76ZA(b);
- requiring disclosures to be made in the case of significant uncertainties on whether conditions are met; and
- rephrasing paragraph 76ZA(b)(iii) to eliminate the need to use forward-looking information.

(c) We disagree with the proposal in paragraph 76ZA(a) to require, on the face of the statement of financial position, separate presentation of non-current liabilities subject to compliance with specified conditions within twelve months after the reporting period. We recommend that disclosure of this information takes place in the notes.

(d) We encourage the IASB not to use the notion "unaffected by the entity's future actions" in paragraph 72C(b). We recommend that the IASB develop application guidance to assist entities in interpreting and applying this paragraph.

(e) We are concerned that the way the IASB has drafted the transition and effective date paragraphs will lead to the 2020 *Classification of Liabilities as Current or Non-current* (the 2020 amendments) coming into force before the effective date of the latest proposed amendments. We propose the addition of paragraph 139W, and give two options for the drafting of this paragraph, in our response to Question 3 of the ED.

If you have any queries or require clarification of any matters in this letter, please contact Carly Berry (carly.berry@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix:

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.

Response to Question 1:

Clarification of the right to defer settlement (paragraphs 72A to 72B)

1. We welcome the IASB's decision to address the concerns of constituents regarding the *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* (2020 amendments) and the related tentative agenda decision issued by the IFRS Interpretations Committee in December 2020.

2. In the interests of the financial statements providing a more faithful representation of the situation where a lender has no contractual right to demand repayment, and the borrower has no contractual obligation to settle the liability within twelve months after the reporting date, we agree with the proposed amendments to paragraph 72A and the addition of paragraph 72B.

Proposed disclosure requirements (paragraph 76ZA)

3. We are generally supportive of the purpose of the proposed disclosures, as we acknowledge that users are likely to find information about conditions that may affect the payment terms of outstanding liabilities useful. However, we have three suggestions which we set out in paragraphs 4-6 below.

4. We suggest that the IASB consider elaborating on the application of materiality for the proposed disclosure requirements in paragraph 76ZA(b). As currently drafted, the proposed

disclosure requirements may, in practice, have too broad a scope and therefore may be unnecessarily burdensome on preparers, with an attendant risk of boilerplate disclosures.

5. We also suggest adding in paragraph 76ZA(b) that disclosures should be made in the case of significant uncertainties on whether conditions are met. We feel that the information provided by this disclosure would enhance users' understanding of the entity's liquidity risk.

6. Finally, we acknowledge the concern raised in the alternative view paragraph AV5 of the ED about providing forward-looking information with respect to future compliance with covenants. We therefore suggest that the IASB rephrase paragraph 76ZA(b)(iii) to emphasise that the entity should base its judgment on facts and circumstances known up to the 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.

Response to Question 2:

7. We disagree with the proposal to require separate presentation on the face of the statement of financial position of the liabilities classified as non-current for which the entity's right to defer settlement for a least 12 months after the reporting period is subject to compliance with specified conditions within twelve months of the reporting period.

8. The disagreement is based on the proposal's contradiction with the principle-based nature of IFRS Standards. Because of the principle-based nature of IFRS Standards, rules should only be set out in rare cases. We do not agree that separate presentation under the circumstance described above is a compelling enough case to require a rule.

9. Specifically, we agree with the approach set out in paragraph BC22(a). We recommend disclosure in the notes, rather than separate presentation on the face of the statement of financial position.

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 this proposal.

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.

Response to Question 3:

Clarification of circumstances in which the entity does not have a right to defer settlement (paragraph 72C)

10. We acknowledge the IASB's intention (as set out in paragraph BC18) with respect to the proposed inclusion of paragraph 72C. However, we encourage the IASB not to use the notion "unaffected by the entity's future actions" in paragraph 72C(b). Use of this notion could result in diversity of interpretation in practice, as it could be difficult to differentiate between future events or outcomes that are, or are not, affected by the entity's future actions. We recommend that the IASB develop application guidance to assist entities in interpreting and applying paragraph 72C(b).

Deferral of the 2020 amendments' effective date (Paragraph 139U and 139V)

11. The 2020 amendments become mandatorily applicable in New Zealand on 1 January 2023. To prevent the 2020 amendments from becoming effective on that date, an amendment to defer the effective date would need to be effective on (or before) 1 January 2023. The proposed amendment to paragraph 139U in the ED defers the effective date of the 2020 amendments to 1 January 2024 or later. However, the effective date of the amendment to paragraph 139U is not specified in paragraph 139V. Paragraph 139V refers to the other paragraphs amended by the ED and states that the amendments in the ED become effective no earlier than 1 January 2024.

12. Therefore, the IASB's drafting in paragraph 139U, while indicating that the IASB does not expect the 2020 amendments to become applicable until 1 January 2024 or later, does not change the 1 January 2023 application date for the 2020 amendments for New Zealand entities.

13. In New Zealand, because accounting standards issued by the External Reporting Board are secondary legislation, the accounting standards and any amendments made to them are required to have an effective date. We understand that this is likely to be the case for other jurisdictions as well.

14. The IASB, in paragraph 139U (and paragraph BC32), has signalled its intention to extend the effective date (from 1 January 2023 to 1 January 2024 or later). However, if we were to use the IASB's proposed effective date paragraphs, New Zealand entities would have to adopt the 2020 amendments on 1 January 2023, which is clearly not the IASB's intention.

15. The relevant paragraphs in the ED, along with two possible options for addressing our concern are shown in Table 1.

Table 1

Extracts from IASB ED *Non-current Liabilities with Covenants*
Transition and effective date … 139U *Classification of Liabilities as Current or Non-current,* issued in January 2020, amended paragraphs 69, 73, 74 and 76 and added paragraphs 72A, 75A, 76A and 76B. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be decided after exposure, but no earlier than 1 January 2024] 1 January ~~2023~~ retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. 139V *Non-current Liabilities with Covenants*, issued in [Month, Year], amended paragraphs 71 and 72A and added paragraphs 72B–72C and 76ZA. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be decided after exposure, but no earlier than 1 January 2024] retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.
Option 1:
139W *Non-current Liabilities with Covenants*, issued in [Month, Year], also amended the effective date in paragraph 139U. The amendment to the application date in paragraph 139U shall be applied to reporting periods beginning on or after 1 January 2023. The other amendments in paragraphs 139U and 139V shall be applied to annual reporting periods beginning on or after [date to be decided by the IASB after exposure but no earlier than 1 January 2024] retrospectively in accordance with IAS 8. Earlier application is permitted.
Option 2:
139W *Non-current Liabilities with Covenants*, issued in [Month, Year], also amended the effective date in paragraph 139U. Notwithstanding paragraph 139V, the amendment to the application date in paragraph 139U shall be applied to reporting periods beginning on or after 1 January 2023.

16. Although the issue we have raised could be regarded as a jurisdiction-specific issue we understand that other jurisdictions face similar issues and that it would make more sense for the IASB to consider these matters when drafting amendments, rather than each standard setter having to develop a solution. Under our Accounting Standards Framework, for-profit entities applying NZ IFRS should also be able to assert compliance with IFRS Standards. Any New Zealand-specific changes can raise concerns about asserting compliance.