XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Non-current Liabilities with Covenants

Issued May 2023

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This Tier 1 and Tier 2 for-profit amending Standard is based on *Non-current Liabilities with Covenants*, issued by the International Accounting Standards Board, which amended IAS 1 *Presentation of Financial Statements*. This amending Standard clarifies how covenants with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of amending Standard

This amending Standard was issued on 25 May 2023 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on 25 May 2023 and takes effect on 22 June 2023.

Commencement and application

The amending Standard has a mandatory date of 1 January 2024, meaning it must be applied by Tier 1 and Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraphs NZ 139W.4–NZ 139W.6 of this amending Standard.

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Part A – Introduction

This Standard sets out amendments to NZ IAS 1 *Presentation of Financial Statements*. The amendments clarify how covenants with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

Tier 2 entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to NZ IAS 1 *Presentation of Financial Statements*

Paragraphs 60, 71, 72A and 74 are amended and paragraph 139U is deleted. Paragraphs 72B, NZ 139U.1−NZ 139U.2 (and the related heading) and NZ 139W.1−NZ 139W.6 (and the related headings) are added. Paragraph 76ZA is added immediately after paragraph 76. New text is underlined and deleted text is struck through. Paragraphs 69 and 75 are not amended but have been included for ease of reference.

Structure and content

...

Statement of financial position

...

Current/non-current distinction

60 **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76<u>B</u> except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.**

...

Current liabilities

69 **An entity shall classify a liability as current when:**

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.

...

Held primarily for the purpose of trading (paragraph 69(b)) or due to be settled within twelve months (paragraph 69(c))

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in NZ IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 72A–75 ~~74 and 75~~.

...

Right to defer settlement for at least twelve months (paragraph 69(d))

72A 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 72B–75 ~~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.~~

72B An entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting period may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 69(d), such covenants:

(a) affect whether that right exists at the end of the reporting period—as illustrated in paragraphs 74–75—if an entity is required to comply with the covenant on or before the end of the reporting period. Such a covenant affects whether the right exists at the end of the reporting period even if compliance with the covenant is assessed only after the reporting period (for example, a covenant based on the entity's financial position at the end of the reporting period but assessed for compliance only after the reporting period).

(b) do not affect whether that right exists at the end of the reporting period if an entity is required to comply with the covenant only after the reporting period (for example, a covenant based on the entity's financial position six months after the end of the reporting period).

...

74 When an entity breaches a covenant ~~condition~~ of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even 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 the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least twelve months after that date.

75 However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

...

76ZA In applying paragraphs 69–75, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period (see paragraph 72B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, including:

(a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.

(b) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting period.

...

~~Transition and effective date~~ Commencement and application

...

Classification of Liabilities as Current or Non-current

~~139U~~ ~~*Classification of Liabilities as Current or Non-current*, issued in April 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 1 January 2023 retrospectively in accordance with NZ IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.~~ [Deleted]

NZ 139U.1 *Classification of Liabilities as Current or Non-current*, published in April 2020, amended paragraphs 69, 73, 74 and 76 and added paragraphs 72A, 75A, 76A and 76B. An entity shall apply those amendments as if they had always been applied, in accordance with NZ IAS 8, in accordance with the commencement and application date provisions in paragraphs NZ 139W.4−139W.6. An entity that applies these amendments to an 'early adoption accounting period' shall disclose that fact.

NZ 139U.2 If an entity applies the amendments referred to in paragraph NZ 139U.1 for an annual period after the date that the amending Standard *Non-current Liabilities with Covenants* takes effect (see paragraphs NZ 139W.1−139W.6), it shall also apply *Non-current Liabilities with Covenants* for that period.

...

Non-current Liabilities with Covenants

NZ 139W.1 The amending Standard *Non-current Liabilities with Covenants*, published in May 2023, amended paragraphs 60, 71, 72A and 74, added paragraphs 72B, 76ZA and NZ 139U.1−NZ 139U.2, and deleted paragraph 139U.

NZ 139W.2 An entity shall apply paragraphs NZ 139U.1−NZ 139U.2 and the amendments to paragraph 139U on the date that this amending Standard takes effect (see paragraph NZ 139W.4).

NZ 139W.3 An entity shall apply the amendments to paragraphs 60, 71, 72A, 74 and paragraphs 72B, 76ZA as if they had always been applied, in accordance with NZ IAS 8, in accordance with the commencement and application date provisions in paragraphs NZ 139W.4−139W.6. An entity that applies these amendments to an 'early adoption accounting period' shall disclose that fact.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

NZ 139W.4 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 25 May 2023 and takes effect on 22 June 2023.

Accounting period in relation to which the amending Standard commences to apply (section 28 Financial Reporting Act 2013)

NZ 139W.5 The accounting periods in relation to which this amending Standard commences to apply are:

(a) for an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

NZ 139W.6 In paragraph NZ 139W.5:

early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period.

early adoption accounting period means an accounting period of the early adopter:

(a) that begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) for which the early adopter:

(i) first applies this amending Standard in preparing its financial statements; and

(ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period.

mandatory date means 1 January 2024.