INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

60 Cecil Street, ISCA House,
Singapore 049709
TEL +65 6749 8060
FAX +65 6749 8061
www.isca.org.sg

17 March 2022

International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members,

RESPONSE TO EXPOSURE DRAFT – NON-CURRENT LIABILITIES WITH COVENANTS (PROPOSED AMENDMENTS TO IAS 1) ("ED")

For this ED, ISCA sought views from its members through a two-month public consultation and from the ISCA Financial Reporting Committee which comprises experienced technical professionals from audit firms, preparers of financial statements and other stakeholders.

We are appreciative of the Board's efforts to address stakeholders' concerns arising from the classification requirements introduced by the amendments made to IAS 1 in January 2020 titled *Classification of Liabilities as Current or Non-current* ("2020 amendments") which will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

We generally agree with the Board's proposal that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions within twelve months after the reporting period, those conditions should have no effect on whether the entity has a right to defer settlement of the liability for at least twelve months after the reporting period. This would be applicable to liabilities with conditions which the entity must comply only after the reporting date. Whilst we agree with the non-current classification of these liabilities, we have concerns on the requirement to provide additional disclosures which are intended to enhance users' understanding of the liabilities and their related covenants.

Our detailed comments to specific questions in the ED are set out below.

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.

As proposed in the ED, additional disclosures are required in the financial statements about liabilities classified as non-current at the reporting date which are subject to specified conditions ("covenants") within twelve months after the reporting date. The additional disclosures are intended to inform users who may then exercise their own judgement in determining the expected timing of settlement of these liabilities.

Given the above, we are of the view that the additional disclosures could confuse users of the financial statements: on the one hand, these liabilities are classified as non-current on the balance sheet; on the other hand, there are disclosures in the notes of financial statements on the possible non-compliance with certain specified conditions after the reporting date which may render the expected settlement of the liabilities to be within twelve months from reporting date.

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 do not agree with the proposal to present separately on the balance sheet non-current liabilities 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. There is an existing requirement in IAS 1 *Presentation of Financial Statements* paragraph 55 for the presentation of additional line items, i.e. disaggregation of information on the balance sheet when it is relevant to the understanding of an entity's financial position. This will allow entities to present disaggregated information as needed based on their own facts and circumstances. Therefore, there is no need to include a requirement for the separate presentation of such non-current liabilities.

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.

(a) Clarifications on circumstances with no rights to defer settlement

The ED clarifies that the right to defer settlement does not include liabilities (1) callable at the discretion of the counterparty without cause within twelve months after reporting date; or (2) if the condition is an uncertain event or outcome of which its occurrence (or non-occurrence) is unaffected by the entity's future actions. Consider a scenario of a property loan where compliance with loan-to-value ratio (LTV) is required on a quarterly basis. The determination of property values (which is a component for the computation of LTV ratio) is dependent on the market prices which would be unaffected by an entity's actions. Even if the entity has complied with the LTV ratio as at reporting date, future compliance with LTV ratio is still uncertain as the determination of property value is unaffected by the entity's actions. If the proposed paragraph 72C(b) is applied, the entity does not have the right to defer settlement and the property loan would have to be classified as current liability. However, the entity has no contractual obligation to settle the loan at that date or within the next twelve months as the LTV ratio has been complied with as at the reporting date. This would be contrary to the Board's proposal where only covenants which an entity must comply on or before the reporting date should affect the classification of a liability as current or non-current.

We suggest the Board to provide clarity on the exclusions as proposed in paragraph 72C(b), in consideration of its interaction with the preceding proposed paragraph 72B(b), as well as to consider if either paragraph should take precedence in the assessment of the right to defer settlement.

(b) Proposed retrospective application

The proposed amendments will effectively reverse the 2020 amendments where entities were required to classify liabilities subject to covenants that must be complied within the next twelve months after the reporting date as current unless these covenants were complied with at the reporting date. The proposed retrospective application will penalise early adopters of the 2020 amendments who have already classified certain liabilities as current, but will now have to reclassify them as non-current under this ED. Hence, we suggest the Board to consider allowing prospective application of these amendments for the early adopters of the 2020 amendments.

Should you require any further clarification, please feel free to contact Ms Felicia Tay at felicia.tay@isca.org.sg or Ms Jezz Chew at jezz.chew@isca.org.sg.

Yours faithfully,

Mr Wai Geat, KANG
Director
Professional Standards Division