# Invitation to Comment:

## Call for comments on Draft Endorsement Criteria Assessment (DECA) of IAS 1 Narrow-scope Amendments: *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants*

**Deadline for completion of this Invitation to Comment:**

**Close of business Thursday, 8 June 2023**

**Please submit to:**

**UKEndorsementBoard@endorsement-board.uk**

## Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the endorsement and adoption of:

1. *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) (the 2020 Amendments), issued by the International Accounting Standards Board (IASB) in January 2020; and

2. *Non-current Liabilities with Covenants* (Amendments to IAS 1) (the 2022 Amendments), issued by the IASB in October 2022.

The Amendments have an effective date of 1 January 2024, with earlier application permitted[1].

## UK endorsement and adoption process

The requirements for UK adoption are set out in the Statutory Instrument 2019/685[2].

1 Early application is only permitted if both amendments are applied at the same period.

2 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: https://www.legislation.gov.uk/uksi/2019/685/made

The delegation of the powers to formally adopt international accounting standards for use in the UK was delegated to the UK Endorsement Board in May 2021[3].

The information collected from this Invitation to Comment is intended to help with the endorsement assessment. This will form part of the work necessary for potential UK endorsement and adoption of the Amendments.

## Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with IFRS Accounting Standards.

## How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it to UKEndorsementBoard@endorsement-board.uk by close of business on Thursday, 8 June 2023.

**Brief responses providing views on only specific questions are welcome, as well as comprehensive responses to all questions.**

## Privacy and other policies

The data collected through submitting this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)[4].

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

[3] The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021: https://www.legislation.gov.uk/uksi/2021/609/contents/made

[4] These policies can be accessed from the footer in the UKEB website here: https://www.endorsement-board.uk

# Assessment against endorsement criteria

Our draft assessment concludes that:

- the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685 (see Regulation 7(1)(c));
- application of the Amendments is not contrary to the principle that an entity's accounts must give a true and fair view as required by SI 2019/685 (see Regulation 7(1)(a)); and
- that the Amendments are likely to be conducive to the long term public good in the UK as required by SI 2019/685 (see Regulation 7(1)(b)), having considered:
  - whether they will generally improve the quality of financial reporting;
  - the costs and benefits that are likely to result from their use; and
  - whether they are likely to have an adverse effect on the economy of the UK, including on economic growth.

Our assessment of the Amendments is set out in **Section 2** of the DECA.

# Questions

## Joint assessment and adoption

1. Do you agree with the **approach of joint assessment and adoption** of the 2020 and 2022 Amendments as set out on pages 4 – 5 of the DECA? (please select one option)

| Yes | ☒ | No | ☐ |
|---|---|---|---|

Please include any comments you may have in response to question 1:

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| We agree that joint assessment is the most efficient approach. We do not express a view on the legal analysis in paragraphs 11 ,12 and 13. |

## Technical criteria assessment

2. Do you agree with the draft assessment of the Amendments against the **technical criteria** as set out on pages 13 – 15 of the DECA? (please select one option)

| Yes | ☒ | No | ☐ |
|---|---|---|---|

Please include any comments you may have in response to question 2:

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| We do not entirely agree with the UKEB's assessment of the new requirements in paragraphs 76A(b) and 76B, which clarify that when a liability can be settled in an entity's own equity instruments and that option is classified as an equity instruments, the liability is classified as non-current, whilst if such option is not classified as equity, the liability is classified as current. We do not believe that the difference in presentation provides insights into the solvency and liquidity of an entity and may hence not result in relevant, understandable and comparable information for users.<br><br>Nevertheless, assessing the amendments as a package, we concur with the UKEB's conclusions that the technical assessment criteria are met. |

## True and fair view

3. Do you agree with the draft assessment that the Amendments **are not contrary to the true and fair view requirement** as set out on pages 16 of the DECA? (please select one option)

| Yes | ☒ | No | ☐ |
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Please include any comments you may have in response to question 3:

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| Please refer to our comments under Question 2. We concur that the amendments as a package are not contrary to the true and fair view principle, but have reservations regarding the presentation requirements in paragraphs 76A(b) and 76B. |

## UK long term public good

4. Do you agree with the initial assessment of **one-off familiarisation costs for preparers and for users** of the Amendments as set out on pages 17 & 18 of the DECA? (please select one option)

| Yes | ☒ | No | ☐ |
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Please include any comments you may have in response to question 4, including if any costs have been missed out or under-estimated:

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| No comments |

5. Do you agree with the initial assessment of **costs of design of data collection processes and IT system changes for preparers and for users** of the Amendments as set out on page 17 – 18 of the DECA? (please select one option)

| Yes | ☒ | No | ☐ |
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Please include any comments you may have in response to question 5, including if any costs have been missed out or under-estimated:

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| We believe the cost of adoption and application of the revised requirements will be moderate for both users and preparers. |

6. Do you agree with the initial assessment of **costs of governance processes and external audit for preparers** of the Amendments as set out on page 18 of the DECA? (please select one option)

| **Yes** | ☒ | **No** | ☐ |
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Please include any comments you may have in response to question 6, including if any costs have been missed out or under-estimated:

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| We believe there will be additional costs, but these should be moderate. |

7. Do you agree with the initial assessment of **benefits for users and for preparers** of the Amendments as set out on pages 18 of the DECA? (please select one option)

| Yes | ☒ | No | ☐ |
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Please include any comments you may have in response to question 7, including if any benefits have been missed out or under-estimated:

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| We expect that the new requirements result in enhanced, but not absolute clarity over the classification of liabilities as current and non-current. We also note that the new requirements are not mandated for entities that present their statement of financial position based on liquidity and these entities may not provide the same level of information. |

8. Do you agree with the draft assessment that the Amendments are likely to be conducive to the **long term public good in the UK** as set out on pages 16 – 19 of the DECA? (please select one option)

| Yes | ☒ | No | ☐ |
|---|---|---|---|

Please include any comments you may have in response to question 8:

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| No further comments. |

9. Do you agree with the draft assessment that the Amendments are **not likely to lead to a 'significant change in accounting practice'** as set out on page 19 of the DECA? (please select one option)

| Yes | ☒ | No | ☐ |
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Please include any comments you may have in response to question 9:

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| Paragraph 8.6 of the Due Process Handbook implies that a significant change of accounting practice usually occurs when a new standard is issued, which is not applicable for this amendment. We concur that the amendments are not intended to "fundamentally" change IAS 1, but they could result in a significant change of the presentation of financial liabilities for some entities. The UKEB may wish to assess |

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| post-implementation of the new requirements, whether the projected benefits have materialised. |

10. Do you have **any other comments** you would like to add?

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| No further comments. |

## Thank you for completing this Invitation to Comment

**Please submit this document**

**by close of business on Thursday, 8 June 2023 to:**

**UKEndorsementBoard@endorsement-board.uk**