**ED/ Ind AS 1/2022/2**

# Exposure Draft

***Classification of Liabilities as Current or Non-current***
**and**
***Non-current Liabilities with Covenants***

Amendments to Ind AS 1

**(Last date for Comments has been extended to February 28, 2023)**

Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

# Exposure Draft

## *Classification of Liabilities as Current or Non-current*
## and
## *Non-current Liabilities with Covenants*
**(Amendments to Ind AS 1)**

Following is the Exposure Draft of the Amendments to Ind AS 1, *Presentation of Financial Statements,* issued by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India for comments. The Exposure Draft proposes amendments relating to classification of liabilities as current or non-current to resolve apparent contradictions between paragraph 69(d) and paragraph 73 of Ind AS 1. The proposed amendments also specify that only covenants with which an entity is required to comply on or before the reporting date should affect the classification of a liability as current or non-current (paragraph 72A). In this regard, the proposed amendments require disclosure of information that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months.

While considering the aforesaid amendments to Ind AS 1, the ASB also considered the related aspect of classification of a long-term arrangement where breach of a material provision has taken place on or before the end of the reporting period but the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment because of the condonation of the breach. Under Ind AS 1, a carve-out was made in paragraph 74 of Ind AS 1 prescribing that an entity does not classify such a liability as current. As compared to this, IAS 1 requires such a liability to be classified as current because, at the end of the reporting period, the entity does not have the right to defer its settlement for at least twelve months after that date.

Consequent to the above mentioned carve-out, paragraph 76 of IAS 1 was not included in Ind AS 1 and changes were made in Ind AS 10, *Events After the Reporting Period*, also.

The ASB considered the said carve-out and proposed to remove to the same considering the following rationale:

- The Standard prescribes the classification of liabilities as current or non-current on the basis of whether it has right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period (paragraph 69(d)). This principle has been further clarified in the proposed amendments that classification of a liability will depend on existence of the right at the end of the reporting date. Subsequent events, such as, intention or expectation of the management to settle the liability within twelve months after the reporting period or actual settlement between the end of the reporting period and the date the financial statements are approved for issue, will not affect the classification. However, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position. Accordingly, in view of the proposed amendments, the existing carve-out is not conceptually aligned with the other prescriptions of the Standard for classification of liabilities as current or non-current.

- While certain carve-outs were made to smoothen the transition to Ind AS, it was intended that since the objective is to achieve convergence with IFRS Accounting Standards over a period of time, the carve-outs shall be reviewed from time-to-time once Ind AS implementation gets stabilised in India. Accordingly, since 6 years of Ind AS implementation have already elapsed, the ASB considered it appropriate to remove this carve-out.

- Removal of the carve-out will be a step towards bringing greater financial discipline amongst the entities since a breach of a loan covenant even if subsequently condoned by a lender signifies an inherent weakness in the financial condition of an entity.

The ASB invites comments on the below mentioned specific question as well as any aspect of this Exposure Draft:

| **Question for respondents:** |
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| Do you agree with removal of the carve-out made in paragraph 74 of Ind AS 1? If not, why? |

Comments are most helpful if they contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods. **The last date of comments has been extended to February 28, 2023.**

1. Electronically: Click on http://www.icai.org/comments/asb/ to submit comments online. (Preferred method)
2. Email: Comments can be sent to commentsasb@icai.in
3. Postal: Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002.

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

## ***Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants - Amendments to Ind AS 1, Presentation of Financial Statements***

Paragraphs 60, 69, 71, 73, 74, 75 and 76 are amended. Paragraphs 72A, 72B, 75A, 76ZA, 76A, 76B, 139U and 139W are added. Headings are added before paragraphs 70, 71, 72A and 76A. New text is underlined and deleted text is struck through. Paragraphs 70 and 72 are not amended but have been included for ease of reading.

## Structure and content

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### Balance Sheet

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**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 balance sheet in accordance with paragraphs 66–76B 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.**

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**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 ~~an unconditional~~ right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period ~~(see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification~~.**

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

*Normal operating cycle (paragraph 69(a))*

70 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The

same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

*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 Ind AS 109, 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~~.

72 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months, and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue.

*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, must exist at the end of the reporting period.

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 balance sheet 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 balance sheet six months after the end of the reporting period).

73 If an entity~~ expects, and~~ has the right, at the end of the reporting period~~discretion~~, to ~~refinance or~~ roll over an obligation for at least twelve months after the reporting

period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. If the entity has no such right~~However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing)~~, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

74 When an entity ~~Where there is a~~ breaches ~~of~~ a ~~material~~ covenant~~provision~~ 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 ~~on the reporting date~~, it classifies the ~~entity does not classify the~~ liability as current, even if the lender agreed, after the reporting period and before the approval 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.

75A Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period. If a liability meets the criteria in paragraph 69 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting period, or even if the entity settles the liability between the end of the reporting period and the date the financial statements are approved for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 17(c) and 76(d)).

76 ~~[Refer Appendix 1]~~ If the following events occur between the end of the reporting period and the date the financial statements are approved for issue, those events are disclosed as non-adjusting events in accordance with Ind AS 10, *Events after the Reporting Period*:

(a) refinancing on a long-term basis of a liability classified as current (see paragraph 72);
(b) rectification of a breach of a long-term loan arrangement classified as current (see paragraph 74);
(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current (see paragraph 75); and
(d) settlement of a liability classified as non-current (see paragraph 75A).

**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.**

*Settlement (paragraphs 69(a), 69(c) and 69(d))*

**76A For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:**

**(a) cash or other economic resources—for example, goods or services; or**

**(b) the entity's own equity instruments, unless paragraph 76B applies.**

**76B Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying Ind AS 32 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.**

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## Transition and effective date

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139U ~~[Refer Appendix 1]~~ *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants*, amended paragraphs 60, 69, 71, 73, 74, 75 and 76 and added paragraphs 72A, 72B, 75A, 76ZA, 76A and 76B. An entity shall apply those amendments for annual reporting periods beginning on or after 1 April 2024 retrospectively in accordance with Ind AS 8.

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139W [Refer Appendix 1]

## Appendix 1

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~~9. Paragraph 74 has been modified to clarify that long term loan arrangement need not be classified as current on account of breach of a material provision, for which the lender has agreed to waive before the approval of financial statements for issue. Consequential to this Paragraph 76 has been deleted.~~

9~~10~~. Paragraphs 139 to 139M and 139O-139P related to Transition and Effective Date have not been included in Ind AS 1 as these are not relevant in Indian context. Paragraph 139R relates to IFRS 17, *Insurance Contracts*, for which corresponding Ind AS is under formulation. However, in order to maintain consistency with paragraph numbers of IAS 1, these paragraph numbers are retained in Ind AS 1.

10~~11~~. Amendments to IAS 1 have been issued in two parts - *Classification of Liabilities as Current or Non-current*, issued in January 2020, and *Non-current Liabilities with Covenants*, issued in October 2022. Accordingly, transitional provisions have been given separately in IAS 1 in paragraphs 139U and 139W. Since combined amendments to Ind AS 1 have been issued corresponding to aforesaid two amendments to IAS 1, transition provisions relevant in Indian context have been included in paragraph 139U only.~~Paragraph 139U of IAS 1 related to effective date of Amendments to IAS 1: *Classification of Liabilities as Current or Non-current* has not been included in Ind AS 1 as the corresponding amendments to Ind AS 1 has not been issued/notified.~~ However, in order to maintain consistency with paragraph numbers of IAS 1, the paragraph number 139W is retained in Ind AS 1.

## Consequential Amendments to Other Ind AS

## Ind AS 10, *Events after the Reporting Period*

### Definitions

**3 The following terms are used in this Standard with the meanings specified:**

**Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:**

**(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and**

**(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).**

~~**Notwithstanding anything contained above, where there is a breach of a material provision 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 on the reporting date, the agreement by lender before the approval of the financial statements for issue, to not demand payment as a consequence of the breach, shall be considered as an adjusting event.**~~

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### Effective Date

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23CA Amendments to Ind AS 1, *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants*, amended paragraph 3 of Ind AS 10. An entity shall apply this amendment when it applies amendments to Ind AS 1.

## Appendix 1

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~~2 Consequent to changes made in Ind AS 1, it has been provided in the definition of '*Events after the reporting period*' that in case of breach of a material provision 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 on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.~~

2~~3~~ Paragraphs 23-23B of IAS 10 related to Effective Date have not been included in Ind AS 10 as these are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 10, these paragraph numbers are retained in Ind AS 10.

3. Consequent to amendments to Ind AS 1, *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants*, paragraph 3 of Ind AS 10 has been amended. Accordingly, paragraph 23CA has been inserted in Ind AS 10 to prescribe the effective date of amendments to paragraph 3.