



IFRS Adviser Alert

IASB amends the classification of liabilities as current or non-current

July 2020

Executive summary

Early in 2020, the International Accounting Standards Board (IASB) published *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*, which clarifies the guidance in IAS 1 *Presentation of Financial statements* on whether a liability should be classified as either current or non-current. In July 2020, the IASB deferred the application date to January 1, 2023.

Background

Before the amendment, IAS 1 indicated that if an entity had an unconditional right to defer settlement of a liability for at least 12 months after the reporting period, then the liability is classified as non-current, if not, it is classified as current. Some preparers have found this indication confusing and consequently similar liabilities have been classified differently, making comparisons by investors difficult.

The amendments

To address the issue described above, the IASB has issued amendments to IAS 1 to clarify this guidance. The amendments do this by:

- clarifying that the classification of a liability as either current or non-current is based on the entity's rights that exist at the end of the reporting period;
- stating that managements expectations around whether they will defer settlement or not does not impact the classification of the liability. However, it is suggested that the entity disclose information about the expected timing of settlement;
- adding guidance about lending conditions and how these can impact classification. For example, if a loan agreement requires compliance with specified ratios, the entity must demonstrate that the ratios have been met at year-end even if the lender does not test compliance until a later date;



- clarifies what is meant by settlement. Settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. A transfer could be cash, another economic resources or the entity's own equity instruments except in one circumstance.



Our thoughts

We expect that the amendments to IAS 1 may change how certain convertible liabilities are classified in practice. For example, if there are no other conditions that would affect the classification:

- a loan that is convertible into a variable number of nonredeemable shares at the option of the creditor at any time will be classified as current because the conversion of the loan is considered an extinguishment of the loan;
- a debenture repayable in 3 years that is convertible into a fixed number of nonredeemable shares at the option of the holder at any time and where the conversion option is classified in equity under IAS 32 *Financial instruments: Presentation*, will be classified as non-current in years one and two, because IAS 1 indicates that the conversion option does not affect the classification of the liability component when the option is recognized separately from the liability as an equity component.

Contact your Raymond Chabot Grant Thornton adviser if you have any questions about the amendments and how to identify the potential impact of their application.

Effective date and transition

The amendments are effective from annual periods beginning on or after January 1, 2023 ^(a). The amendments apply retrospectively, with entities being allowed to apply them to an earlier period, as long as they disclose that they have done so.

^(a) Initially, the amendments were applicable on or after January 1, 2022, but, in July 2020, the IASB deferred the application date by one year due to the COVID-19 pandemic.



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