Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

International Accounting Standards Board (IASB)

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**Exposure Draft ED/2021/9—*Non-current Liabilities with Covenants Proposed Amendments to IAS 1***

We are very pleased that the Board has decided to reconsider IAS 1 in the light of comments received on the IFRIC decisions about the current/non-current classification of debts charged with covenants. We are indeed one of the many stakeholders who considered that the requirements of the IFRIC clarifications would not lead to the provision of relevant and useful information.

We are thus in favour of the proposed drafting of paragraphs 72A and 72B, which indicate that only covenant conditions which apply at the date of the financial statements should have an impact on the classification at that date (even though the date of the performance of the test might take place later for practical reasons).

We also agree that debts charged with covenants can have a more important impact on the entity's liquidity risk than those without such covenants. We therefore understand the need for additional information about the former in the notes (although not with all the information proposed to be required by the Board). However, we do not agree that it is necessary to present these debts as a distinct and separate line item on the face of the balance sheet. In our view, the balance sheet must remain a summary statement and should not become a substitute for the notes. The fact that a debt is charged with a covenant does not seem to us to be, in general, a sufficiently distinctive characteristic to justify separate presentation on the balance sheet. Moreover, if the vast majority of the debt in an entity was charged with covenants and thus presented in this caption, would this really add real informational utility to this statement? We do not contest the usefulness of the information about covenants, but think that it is more usefully provided in the notes.

We have the following comments on the Board's proposals for information to be provided in the notes:

- We agree that a description of the covenants in place is useful information. As for all disclosures, we are of the view that this requirement should not be applied indiscriminately to the debts of this types, but only to the most significant among them.

- We do not think that the proposal to require entities to indicate whether the conditions of the covenants would be satisfied at the reporting date even if the effective date of compliance is later: is relevant or necessary. In effect, this requirement reintroduces in the notes the initial balance-sheet classification criteria that the Board has now concluded do not result in relevant information. We think that the only case in which this might be relevant is that in which the entity would be in default at the reporting date but has received a waiver allowing it to postpone compliance until the next testing date and thus to maintain the classification of the debt as non-current since it has not broken the covenant in legal terms. In this instance, it would be appropriate to provide information in the notes to state that the covenant conditions were not met at the date of the financial statements but that the entity has been accorded a sufficient period of grace by the lender.

- As far as the requirements of paragraph 76ZA(b)(ii) go, we think that this is forward-looking information and are therefore very reticent about the requirement to provide it. In fact, in the first instance this provision could raise numerous questions of a legal nature because of its forward-looking character involving forecasts of the financial information on which the covenants are based.

  We think that it is also very imprudent to state at the reporting date that all the conditions relating to all the debts charged with covenants will be met. In our view, the assessment of liquidity and the expected satisfying of the covenant conditions is an internal control exercise which should give rise to external communication only in the case of a major risk and high probability of occurrence. It seems to us that the current provisions relating to the topic of "going concern" (when the risk is very material for the whole entity) and/or to liquidity risk are sufficient to capture this type of information when it becomes material and relevant for the users of the financial statements.

Finally, we wonder about the possible impact of the new paragraph 72C(b): "if an uncertain future event or outcome occurs (or does not occur) and its occurrence (or non-occurrence) is unaffected by the entity's future actions—for example, when the liability is a financial guarantee or insurance contract liability. In such situations, the right to defer settlement is not subject to a condition with which the entity must comply as described in paragraph 72B"

Despite the fact that the IASB has included an example about financial guarantees in this paragraph, we think that it could have a much wider impact than perhaps the Board intended. If one considers that each and every condition that relates to an event outside the control of the entity will result in the classification of a debt as current, then one can question the usefulness of the financial statements. There can be clauses known as protective clauses which stipulate, for example, that the lender can demand repayment in the case of a loss of control, outbreak of war or another exceptional event. In our opinion, these conditions, if they are not actually triggered at the reporting date, do not give rise to any present right of the lender to demand that the borrower settle the debt within 12 months. We think that the maintaining of the debt as non-current accompanied by adequate information about the existence of such clauses provides much better information than the systematic classification of the debt as current on the grounds of a theoretically potential occurrence of an uncertain event outside the control of the entity. It goes without saying that if the occurrence of such a triggering event became sufficiently probable, the entity could decide to reclassify the debt as current, thereby providing this relevant information on the face of the balance sheet.

If you require any more information on any of these topics, please do not hesitate to contact us.

Yours sincerely,

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