THE 100 GROUP

Stakeholder Communications and Reporting Committee

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

21 March 2022

Dear Andreas Barckow,

Please find enclosed our response to your Exposure Draft: Non-Current Liabilities with Covenants (ED/2021/9).

This response has been prepared by the 100 Group Stakeholder Communications and Reporting Committee and is intended to speak on behalf of the Group as a whole. The 100 Group membership represents around 90% of the FTSE100 market cap as well as a number of equally significant sized unlisted businesses.

We thank you for the opportunity to comment on your proposal and would invite any further dialogue which you would deem of value.

We were concerned by the unforeseen impact of the 2020 changes to IAS 1 on the classification of liabilities and therefore welcome the attempt to resolve these. However, unfortunately we believe that this response is neither effective nor balanced.

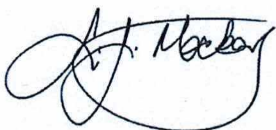
If we consider the original intent, to clarify IAS 1 classification criteria, then the current proposal for extensive expansion of both presentation and disclosure requirements does not feel like the appropriate solution.

Since the 2020 IAS 1 amendments are effective from annual reporting periods beginning on or after 1 January 2023, we are conscious that addressing the issue of the classification of liabilities as current versus non-current is something which needs to be dealt with as a priority. Since the current position is still some way from what we would consider to be a suitable solution, we would respectfully propose that either, the 2020 amendments be withdrawn until such time as they have been more completely thought through, or that the guidance is updated to rectify the classification issue in the short term.

Our detailed responses to the questions outlined in the Discussion Paper are included as an appendix. We have sought to be clear and constructive in our feedback, providing where possible, practical solutions and alternatives to the issues and requirements identified. We hope you find that they provide helpful insight as you move to the next stage of the project.

Please do contact our secretariat Cat Hoad at secretariat@the100group.co.uk should you wish to discuss any of our comments in further detail and she will be very happy to put you in touch with us.

Yours sincerely,



Iain MacKay,
Chair of the 100 Group Stakeholder Communications and Reporting Committee

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

APPENDIX 1 – Questions

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.

100G response While we support the intent of this proposed amendment on the basis that it seeks to ensure that liabilities are classified as current or non-current based on compliance with covenants on or before the reporting date, we have some significant reservations.

In particular, we feel that the disclosure requirements are excessive and will lead to a significant increase in detailed disclosures which will not necessarily afford any useful insights to the users but will certainly add to the length of the financial statements and likely reduce overall clarity.

Indeed, most of our members have a great number of long-term loans in place, many of them with highly complex, financial and non-financial, covenant arrangements which would be impractical, if not impossible, to summarise. We are of the position that disclosing such a volume of information, and in particular where such information is non-financial, will lead to lengthy, duplicative and boilerplate disclosures.

We note the contradiction with the requirement of IAS 1.30A which requires that useful information not be obscured by large amounts of immaterial information. One member references a facility of theirs with a minimum liquidity requirement of €100 million which would require significant disclosure despite them having liquidity in excess of €10 billion and therefore being at almost zero risk of breaching it.

Further, we feel that the classification language should be refined, in order to reduce ambiguity and the likelihood of diverse treatment. For example

- From paragraph 72C(b) we have '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' which we believe lacks the specificity needed to ensure consistent treatment; and
- We see a risk that any contractual obligation with regard to a long-term loan could be deemed a covenant (for example the obligation to pay interest on time) which risks diverse treatment, and in some cases may lead to additional loans not intended for the original scope of the standard being captured and reported on.

We believe that the intended outcome of achieving more communication around risks and uncertainties relating to possible non-compliance with covenants, would be better achieved by refining the liquidity risk disclosures in IFRS7, or by referencing the requirements of IAS 1.125 regarding major sources of estimation uncertainty.

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

100G response We do not agree with the proposal to present separately on the statement of financial position liabilities which meet the conditions of paragraph 72B(b).

There are a number of reasons for this. Firstly, and fundamentally, we believe that it runs counter to the principles based nature of IFRS which already requires separate presentation of any amount relevant to the understanding of an entity's financial position. We also note that, users of financial statements reference more than the primary financial statements, so sufficient and detailed analysis being presented outside of them does not make the accounts any less understandable

Beyond this issue in principle we have some practical concerns too:

- We believe that adding a new line on the statement of financial position risks indicating to users of the accounts a level of risk of non-compliance with covenants that is, in most cases, simply not there.
- We feel that the wording of the draft is open to such levels of interpretation that we would expect to see significant divergence in practice.
- We fear that non-current liabilities with annually tested covenants would be captured by this requirement thereby creating a significant burden of analysis, at a cost which is simply not outweighed by the benefits to the users.

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

100G response Other than the reservations already raised with regard to the changes to paragraph 72c we are supportive of these other aspects of the proposal.

We do however note that retrospective application has the potential for unintended consequences, for example, a change in classification in the statement of financial position may lead default clauses in other financial liabilities being triggered, when in fact, the classification at the time was correct.