



In brief

A look at current financial reporting issues

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Classification of Liabilities as Current or Non-current (Amendment to IAS 1)

At a glance

The IASB issued a narrow-scope amendment to IAS 1, 'Presentation of Financial Statements', to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

Entities should reconsider their existing classification in the light of the amendment and determine whether any changes are required.

What is the issue?

On 23 January 2020, the IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The amendment requires the following:

- Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment no longer refers to unconditional rights, since loans are rarely unconditional (for example, because the loan might contain covenants).
- The assessment determines whether a right exists, but it does not consider whether the entity will exercise the right. So, management's expectations do not affect classification.
- The right to defer only exists if the entity complies with any relevant conditions at the reporting date. A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date.
- 'Settlement' is defined as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

What is the impact and for whom?

The amendment changes the guidance for the classification of liabilities as current or non-current. It could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. All entities should reconsider their existing classification in the light of the amendment and determine whether any changes are required.

When does it apply?

These amendments should be applied for annual periods beginning on or after 1 January 2022, retrospectively in accordance to IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period, it should disclose that fact.

Where do I get more details?

For more information, refer to the IAS 1 amendment (<https://www.ifrs.org/news-and-events/2020/01/iasb-clarifies-requirements-for-classifying-debt-as-current-or-non-current/>) or please contact Tony Debell (UK) (tony.m.debell@pwc.com), Katie Woods (UK) (katie.woods@pwc.com) or Pablo Aligia (UK) (pablo.a.aligia@pwc.com).

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