

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FR Board, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FR Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FR Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

## **Brief summary of changes required by EFRAG FR TEG**

### **EFRAG TEG discussion and advice to the EFRAG FR Board**

#### *EFRAG Draft Comment Letter*

- 1 EFRAG FR TEG discussed the Draft Final Comment Letter at its 23 March 2022 meeting. The FR TEG recommended the Draft Final Comment letter to be finalised subject to the EFRAG Secretariat making the following changes to the Draft Final Comment Letter.

#### **Classification**

- 2 Clarify the intention in para. 4 of the DCL and explain that the notion of “substance” should be explained and set in the light of how it could be used given existing guidance in IFRS Standards (e.g., genuine, enforceable or the guidance given on “substantive rights” given in IFRS 10.B23). The word might be used with different meanings.
- 3 Delete para. 5 of the DCL.
- 4 Change the example of weather derivative in para. 7 of the DCL to change of control and change in tax law to better reflect the ambiguity. Better reflect the concern in para. 6/7 of the DCL that event with remote probability would affect the classification and require current presentation.

- 5 Add explanation to para. 11 similar to:

*“In practice, entities commonly negotiate a modification of loan agreements, prior to the end of the reporting period, that eliminates a covenant requirement at the reporting date (sometimes referred to as a “suspension” or “disapplication” of the year-end covenant test) or amends the requirement. Allowing the entity to comply with the covenant requirement, when absent such a modification, the entity would have been in violation at the end of the reporting period. However, compliance with the same covenant will be tested within the next 12 months, in, say, 3 or 6 months. Current practice is mixed in these situations, in that some consider that such reliefs effectively imply a grace period until the next agreed measurement date, and, thus, reclassify otherwise non-current liabilities to current if the next agreed measurement date is in less than 12 months. Others considers such reliefs “permanent”, in that the next measurement date was already agreed before the relief was obtained, and, thus, the non-current liabilities remain non-current as they would have in any other situation in which there was no covenant breach as of the reporting date. We believe the Board should clarify what the appropriate classification under the amended standard should be in these circumstances, considering that these circumstances are quite common in practice.”*

- 6 Delete parts of paragraph 9 of the DCL and just maintain paragraph 72C(a) of the amendment. Suggest to the IASB to not let other conditions fall under the scope of the amendment.

- 7 Better explain the rationale for why not mentioning insurance liabilities and that the amendment should not reference to insurance liabilities as there is a contradiction (less compatible) to IFRS 17 (maturity analysis, portfolio approach) so that information would produce little value.
- 8 Delete paragraph 13 of the DCL as there is no unclarity about the fact that the amendments do not apply to the order of liquidity presentation.
- 9 State in cover letter that EFRAG supports to finalize the amendment and that the amendment changes the current issue debated by the IFRS IC but that the amendment does not solve the underlying problem. Refer to the recommendation that a solution to the broader issue should be more conceptual. Also change “accept” into support and reflect it in para. 3 of the DCL. Do not ask for the underlying problem in paragraph 69(d) of IAS 1 to be solved in the Primary Financial Statement project.

#### **Disclosure**

- 10 Delete the mention of materiality in para. 15 of the DCL since it is an overarching principle that always needs to be considered.
- 11 As information on whether you expect to comply or not is digital (yes or no), entities should also illustrate the context of their assessment and support users to understand how they have exercised judgement.
- 12 Delete para. 17 of the DCL, because the consistency with IAS 10 is appropriate with classification but not with disclosures and forward-looking information.
- 13 Delete para. 18 of the DCL and make a reference in para. 4 of the DCL instead.
- 14 Move para. 19 of the DCL closer to para. 15 of the DCL.
- 15 Delete para. 20 of the DCL since it was decided to bring the argument mentioned in the paragraph directly to the IASB staff and to not include it in the comment letter.

#### **Presentation**

- 16 No required changes

#### **Other aspects**

- 17 No required changes