March 20, 2022

IFRS Foundation
7 West ferry Circus
Canary Wharf
London E14 4HD, United Kingdom

**Dear Colleagues,**

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IASB and welcomes the opportunity to comment on the Exposure Draft ED/2021/9, ***Non-current Liabilities with Covenants- Proposed amendments to IAS 1.***

SOCPA agrees with the Board that only conditions with which an entity must comply on or before the reporting date affect classification of a liability as current or non-current. Other conditions attached to a liability that the entity must comply with within twelve months after reporting date are usually designed and negotiated to reflect a company's future circumstances. To enhance the proposed disclosure, SOCPA suggests that, in instances an entity believes it will not be able to comply with conditions after the end of the reporting period, a disclosure should be made of information relating to any action taken by the entity to address the possible inability to comply with the conditions in the future. Example: action taken to renegotiate conditions. There is, however, a concern about the auditability of certain disclosures pertaining to these liabilities as the assessment of "whether and how the entity expects to comply with the conditions after the end of the reporting period" will be totally based on management's judgement.

Further, to avoid any inconsistency in the application of paragraph 72C(b) and to reflect the intention of the Board in adding this paragraph as stated in BC20 (i.e., to exclude situations in which an entity can affect the occurrence (or non-occurrence) of future events or outcomes, even if their occurrence is beyond the entity's control), SOCPA suggests redrafting paragraph 72C(b) to clearly reflect the Board's intention as follows:

(b) if an uncertain future event or outcome occurs (or does not occur) and its occurrence (or non-occurrence) is ~~unaffected~~ not triggered by the entity's future actions.

The suggested amendment will include events, either affected or unaffected by the entity's future actions, as long as they are not triggered by such actions, which, in fact, is the Board's intention. For example, an entity may affect the future warranty claims by making such claims costlier to the customer by requiring shipment of the defect products to a remote repair facility or making filing the claims more complicated. Such actions may affect the occurrence of the future events but are not the trigger of them and are, therefore, still classified as current.

Regarding the presentation, SOCPA agrees with the Board's proposal to present separately, in the 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. Such separate presentation would alert users of financial statements and give an indication that these liabilities could become repayable within twelve months. SOCPA believes that the presentation and disclosure requirements in paragraph 75ZA(b) are also relevant even if an entity presents its liabilities in



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order of liquidity. Such disclosures should complement the disclosure requirements in paragraph 61(b) of IAS 1.

The full details of our responses to the questions included in the ED are attached in the Appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

**Dr. Ahmad Almeghames**
**SOCPA Chief Executive Officer**



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**Appendix**

**SOCPA Comments on Exposure Draft ED/2021/9: Non-current Liabilities with Covenants- Proposed amendments to IAS 1**

**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.

**SOCPA Comments:**

SOCPA agrees with the Board that only conditions with which an entity must comply on or before the reporting date affect classification of a liability as current or non-current. Other conditions / covenants attached to a liability that the entity has to comply with within twelve months after the reporting date are usually designed and negotiated to reflect a company’s specific circumstances, for example to factor any seasonality of a company’s business. Therefore, requiring an entity to consider whether it would be in compliance with the conditions which an entity must comply with within twelve months after the reporting period based on its circumstances at the end of the reporting period and classify a non-current liability as current if conditions have not been complied with as at the end of the reporting period is not conceptually sound.

However, SOCPA proposes that in instances an entity believes it will not be able to comply with conditions after the end of the reporting period, in addition to requiring disclosure of “whether…. the entity expects to comply with the conditions after the end of the reporting period”, a disclosure should be made of information relating to any action taken by the entity to address the possible inability to comply with the conditions in the future. Example: action taken to renegotiate conditions.



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To avoid any inconsistency in the application of paragraph 72C(b) and to reflect the intention of the Board in adding this paragraph as stated in BC20 (i.e., to exclude situations in which an entity can affect the occurrence (or non-occurrence) of future events or outcomes, even if their occurrence is beyond the entity's control), SOCPA suggests redrafting paragraph 72C(b) to clearly reflect the Board's intention as follows:

(b) if an uncertain future event or outcome occurs (or does not occur) and its occurrence (or non-occurrence) is ~~unaffected~~ not triggered by the entity's future actions.

The suggested amendment will include events, either affected or unaffected by the entity's future actions, as long as they are not triggered by such actions, which, in fact, is the Board's intention. For example, an entity may affect the future warranty claims by making such claims costlier to customers by requiring shipment of the defect products to a remote repair facility or making filing the claims more complicated. Such actions may affect the occurrence of the future events but are not the trigger of them and are, therefore, still classified as current.

**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.

**SOCPA Comments:**

SOCPA agrees, in principle, with the Board's proposal 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. Such separate presentation would alert users of financial statements and give an indication that these liabilities could become repayable within twelve months. However, SOCPA has a concern about the auditability of certain disclosures pertaining to these liabilities as the assessment of "whether and how the entity expects to comply with the conditions after the end of the reporting period " will be totally based on management's judgement.

Further, SOCPA proposes the Board evaluates whether a non-current liability should be classified as current in instances an entity believes it will not be able to comply with conditions relating to the liability within twelve months after the reporting period and such non-compliance results in the liability becoming payable immediately.

Also, SOCPA believes that the disclosure requirements in paragraph 75ZA(b) is also relevant even if an entity presents its liabilities in order of liquidity. Such disclosure should complement the disclosure requirements in paragraph 61(b) of IAS 1.



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**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.

**SOCPA Comments:**

(a) SOCPA agrees with the Board's proposal, for the purposes of applying paragraph 69(d) of IAS 1, to provide additional guidance regarding when an entity does not have a right to defer settlement of a liability for at least twelve months after the reporting period. This would avoid the proposed amendments being applied inappropriately to other liabilities.

(b) SOCPA supports the proposal to retrospectively apply the amendments as classifying a liability as current or non-current on the same basis in current and prior periods would result in more comparable, and thus more useful, information for users of financial statements than not reclassifying comparative amounts. SOCPA also believes that the cost of application of the amendments will not outweigh its benefit.

(c) As the proposals in the exposure draft would amend some of the requirements introduced by the 2020 amendments to IAS 1 before those requirements come into effect, SOCPA agrees with Board's proposal to defer the effective date of the 2020 amendments to no earlier than 1 January 2024. Therefore, entities would not be required to change their assessment of the classification of liabilities before the proposed amendments are in effect.



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