



## Financial Reporting Newsletter Bringing you the latest information on recent IFRS and Financial Reporting topics December 2022

Dear all,

We are pleased to welcome you to the new edition of our Financial Reporting Newsletter.

Our aim is to keep you updated with all the latest news and developments on IFRS and financial reporting along with the potential impact they may have on your business.

In this issue, we discuss:

[IASB issues amendments to IAS 1 regarding the classification of liabilities with covenants](#)

[IASB amends IFRS 16 to add subsequent measurement requirements for lease liabilities arising from sale and leaseback transactions](#)

We hope that you find our newsletter insightful and if you would like to discuss any of the topics covered, please do not hesitate to contact us.

Best regards,

**Dimitris Katsibokis**  
Partner  
Assurance Leader



# IASB issues amendments to IAS 1 regarding the classification of liabilities with covenants

## Background

In 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* titled *Classification of Liabilities as Current or Non-current*. In the 2020 amendments, among other changes, the IASB clarified that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period.

The 2020 amendments specified how an entity assesses whether it has the right to defer settlement of a liability when that right is subject to compliance with specified conditions (in the amendments referred to as 'covenants') within twelve months after the reporting period. Stakeholders have since expressed concerns about the outcome of applying the 2020 amendments to such covenants. The IASB decided to address these stakeholder concerns.

## The 2022 amendments

The 2022 amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

*In the Exposure Draft (ED) preceding the 2022 amendments, the IASB proposed to require an entity to present non-current liabilities with covenants separately in the statement of financial position. The main reason for this proposal was to avoid users of financial statements being misled by a non-current classification without any indication that the liability could become repayable within twelve months.*

*However, feedback on the ED suggested that users of financial statements would not be misled if the conditionality of non-current liabilities were explained in the notes instead of through separate presentation of these liabilities in the statement of financial position. Therefore, the IASB decided not to finalise this proposal.*

## The 2020 amendments

As a reminder, the key changes introduced by the 2020 amendments that are unaffected by the most recent amendments include:

- A clarification was added in both IAS 1:69 and 73 to emphasise that for a liability to be classified as non-current, the entity's right to defer settlement must exist 'at the end of the reporting period'.
- The IASB specified that for a liability to be non-current an assessment is required of whether an entity has the right to defer settlement of a liability and not whether the entity will exercise that right. The reference to an entity's expectations in IAS 1:73 was deleted and a new paragraph was added to state explicitly that classification is unaffected by management intentions or expectations.
- The word 'unconditional' was removed from IAS 1:69 and a new paragraph was added to clarify that if the right to defer settlement is conditional on the compliance with covenants the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date.

- A definition of the word 'settlement' was added and states "For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability." This transfer could be of cash, goods and services or the entity's own equity instruments.
- The circumstances when counterparty conversion options affect classification as current or non-current were clarified.

#### **Transition and effective date**

The 2022 amendments are applied retrospectively in accordance with IAS 8 for annual reporting periods beginning on or after 1 January 2024. Earlier application of the 2022 amendments is permitted. If an entity applies the 2022 amendments for an earlier period, it is also required to apply the 2020 amendments early.

At the same time, the IASB aligns the effective date of the 2020 amendments to 1 January 2024. An entity that applies the 2020 amendments after the publication of the 2022 amendments is required to also apply the 2022 amendments for that period.

---

## **IASB amends IFRS 16 to add subsequent measurement requirements for lease liabilities arising from sale and leaseback transactions**

### **Background**

The IFRS Interpretations Committee received a submission about the application of IFRS 16 *Leases* to a sale and leaseback transaction with variable payments that do not depend on an index or rate. After discussing the issue, the Committee concluded that it would be beneficial to amend IFRS 16 to specify how a seller-lessee should apply the subsequent measurement requirements in IFRS 16 to the lease liability that arises in the sale and leaseback transaction. The IASB followed that recommendation and published amendments to IFRS 16.

### The amendments

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale.

The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease.

Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

*ED/2020/4 Lease Liability in a Sale and Leaseback proposed that a seller-lessee initially measures the right-of-use asset and lease liability arising from a leaseback using the present value of expected lease payments at the commencement date. Respondents raised conceptual and practical concerns about that proposal. The IASB therefore decided not to prescribe specific measurement requirements for lease liabilities arising from a leaseback.*

As part of the amendments, the IASB amended an Illustrative Example in IFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying IFRS 15, is a lease liability.

### Effective date and transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact.

A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

---

## Where can I go for more information?

This publication highlights just some of the recent IFRS and financial reporting topics that may be of interest to entities reporting under IFRS or another accounting framework. More detailed information can be found at [www.iasplus.com](http://www.iasplus.com)

## Contact Us

For any question you may have, please reach out to us at:

**Dimitris Katsibokis**  
**Partner**  
**Assurance Leader -**  
**Accounting Advisory**  
**Leader**

[dkatsibokis@deloitte.gr](mailto:dkatsibokis@deloitte.gr)  
Tel: +30 210 678 11 55

**Konstantinos Kakoliris**  
**Partner**  
**Assurance - Accounting**  
**Advisory**

[kkakoliris@deloitte.gr](mailto:kkakoliris@deloitte.gr)  
Tel: +30 210 678 11 54

**Olga Alexiou**  
**Principal**  
**Assurance - Accounting**  
**Advisory**

[oalexiou@deloitte.gr](mailto:oalexiou@deloitte.gr)  
Tel: +30 210 678 11 53



To no longer receive emails about this topic please send a return email to the sender with the word "**Unsubscribe**" in the subject line.