



# In brief

## Amendment to IAS 1 – Non-Current Liabilities and Covenants

Release Date: 01 November 2022

In brief INT2022-16

### Key Points

On 31 October 2022 the IASB ('the Board') issued amendments 'Non-current liabilities with covenants' to IAS 1, 'Presentation of financial statements'. These amendments were in response to concerns raised on applying previous amendments to the classification of liabilities as current or non-current that would have become effective for reporting periods beginning on or after 2023.

The new amendments aim to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period.

The new amendments are effective for annual reporting periods beginning on or after 1 January 2024 and override the previous amendments.

Therefore, entities will typically continue to apply existing guidance until reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

### **What is the issue?**

IAS 1 'Presentation of financial statements' requires that, for an entity to classify a liability as non-current, the entity must have the right at the reporting date to defer settlement of the liability for at least twelve months after that date.

In January 2020, the Board issued the amendments 'Classification of liabilities as current or non-current' to IAS 1 (2020 amendments). The 2020 amendments originally had an effective date for reporting periods beginning on or after 1 January 2023. Applying the 2020 amendments, an entity does not have the right to defer settlement of a liability—and thus classifies the liability as current—when the entity would not have complied with covenants based on its circumstances at the reporting date, even if compliance with such covenants were tested only within twelve months after that date.

The amendments issued in October 2022 clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date.

The 2022 amendments introduce additional disclosure requirements. When an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to the covenants which an entity is required to comply with within twelve months of the reporting date, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within twelve months of the reporting period, including:

- a) the carrying amount of the liability;
- b) information about the covenants;
- c) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants based on its circumstances at the end of the reporting period.

### **What is the impact and for whom?**

We do not expect the 2022 amendments to significantly change an entity's classification of liabilities as current or non-current from the current guidance. However, the 2022 amendments may result in a significant change to classification if an entity early adopted the 2020 amendments. The 2022 amendments will typically result in additional disclosure being required.

### **When does it apply?**

The 2022 amendments changed the effective date of the 2020 amendments. As a result, the 2020 and 2022 amendments are effective for annual reporting periods beginning on or after 1 January 2024 and should be applied retrospectively in accordance with IAS 8. As a result of aligning the effective dates, the 2022 amendments will replace the requirements of the 2020 amendments when they both become effective in 2024. Earlier application is permitted but if an entity early applies the 2020 amendments after the issue of the 2022 amendments, it is required to apply both these amendments at the same time.

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## Ansprechpartner in Ihrer Nähe



**Ulf Kühle**

Tel: +43 1 501 88-1688

[ulf.kuehle@pwc.com](mailto:ulf.kuehle@pwc.com)



**Beate Butollo**

Tel: +43 1 501 88-1814

[beate.butollo@pwc.com](mailto:beate.butollo@pwc.com)

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Medieninhaber und Herausgeber: PwC Österreich GmbH Wirtschaftsprüfungsgesellschaft, Donau City Straße 7, 1220 Wien  
Für den Inhalt verantwortlich: Ulf Kühle, Beate Butollo  
Kontakt: [IFRS.Aktuell@at.pwc.com](mailto:IFRS.Aktuell@at.pwc.com)

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