CPA Uganda

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

Our Ref: STA/001

18 March 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sir/Madam

EXPOSURE DRAFT AND COMMENT LETTERS: NON-CURRENT LIABILITIES WITH COVENANTS

The Institute of Certified Public Accountants of Uganda (ICPAU) is pleased to share its comments on the above-named exposure draft.

Please refer to **Appendix 1** for our responses to the questions in the Exposure Draft.

For any inquiries relating to this comment letter, kindly contact CPA Charles Lutimba by email at clutimba@icpau.co.ug

Yours faithfully,

CPA Mark Omona
DIRECTOR STANDARDS AND REGULATION
For: **SECRETARY/CEO**

Encl (ICPAU's Responses the Exposure Draft and Comment Letters: Non-Current Liabilities with Covenants)

NNN/.......

Plot 42 Bukoto Street Kololo, P.O. Box 12464, Kampala | 0414-540125, 0393-262333 / 265590 / 266920 | icpau@icpau.co.ug | www.icpau.co.ug

Appendix 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.

Our Response

i. We note that responses to the 2020 amendments to IAS 1 expressed concerns regarding the possibility of companies classifying a liability as current even when it had no contractual obligation to repay the liability within twelve months.

ii. We are supportive of the proposed amendments to Paragraph 72A and additional guidance in Paragraphs 72B and 72C as this will enable entities to classify liabilities as current or non-current based on compliance with covenants that would be required only on or before the reporting date. This would be well aligned with the accrual basis of accounting in Paragraph 1.17 of the conceptual framework. However, the additional disclosures required within the notes to the financial statements could breed confusion among users of the financial information due to the fact that some liabilities may be disclosed as non-current on the face of the balance sheet while the same may have disclosures within the notes on possible noncompliance with specified conditions after the reporting date which noncompliance may require that the liabilities be settled within a period of twelve months. The additional disclosures may further be excessive and unnecessary, particularly for entities with numerous sources of debt finance.

Appendix 1

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.

Our Response

i. ICPAU does not agree with the proposal to present separately on the balance sheet non-current liabilities 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.

ii. We are concerned that the proposals would be onerous for preparers and a setback to the known principles based IFRS standards. Actually, we find that paragraph 55 of IAS 1 Presentation of Financial Statements provides for presentation of additional line items on the balance sheet when it is relevant to the understanding of an entity's financial position. We find this to be sufficient to cater for any intended disaggregation based on whether the information would be useful or not.

iii. Further to the above, ICPAU proposes that the Board requires entities to also provide information about the possible risk of future non-compliance and the consequences of such non-compliance. This could be done by making amendments to IFRS 7's disclosure requirements on liquidity risk.

Appendix 1

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.

<u>Our Response</u>

ICPAU supports all the three proposals above