



International Accounting Standards Board (IASB)
30 Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Berne, 21 March 2022

Comment Letter on Exposure Draft ED/2021/9 «Non-current Liabilities with Covenants»

Dear Madam, dear Sir,

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 61 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this Exposure Draft (ED).

Our association welcomes IASB's work on this topic generally and supports the modifications to existing paragraph 72A and the proposed principles laid out in paragraph 72B.

We would however like to highlight three main areas of concern:

- The rule proposed in paragraph 72C(b) should not apply to all situations of uncertainty in the black and white manner as the draft currently foresees.
- The volume of disclosure required in the notes, particularly as some of this information is forward-looking, is too extensive.
- It should not be required to present separately liabilities subject to covenants in the balance sheet on a systematic basis.

We provide our comments in relation to the specific questions raised in the ED following the position of BUSINESSEUROPE in the annex.

If you require any further information upon these matters, please do not hesitate to contact us.

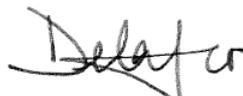
Yours sincerely,

SwissHoldings

Federation of Swiss-based multinational enterprises



Dr. Gabriel Rumo
Director



Denise Laufer
Member of the Executive Committee



Annex

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.

(a) We agree that the requirement to provide information about the conditions would help users to assess the risk of the liability's becoming repayable within twelve months from the balance-sheet date. However, we do not think that disclosing detailed information would be appropriate as – depending on the quantity of such instruments – that could lead to excessive disclosures. We therefore suggest clarifying that the required disclosure should contain general information about covenants in place.

(b) We think that given the information required by paragraph 76ZA(b)(i) is sufficient to enable users to assess whether the entity would have complied with the conditions at the end of the reporting period had it been required to do so. Paragraph 76ZA(b)(ii) would effectively require the entity to perform covenant testing for reporting dates which would otherwise not be required. We further note that the information could lead to misleading information in highly volatile or seasonal business models (for example, an entity might have to report that it would not have complied with covenants as of the reporting date whereas it is almost certain that it would comply at the relevant testing dates). Consequently, we do not think that the entity should be required to provide this hypothetical information in the notes.

(c) We do not agree with the requirement of paragraph 76ZA(iii) as this is forward-looking information. Forward-looking information is not an acceptable requirement under IFRS as it can lay an entity open to commercial and litigious jeopardy.

However, we think that it would be reasonable to require an entity to state that, based on evidence available at the balance sheet date, it might be unable to comply with the covenant conditions at the relevant date. This should be based on a probability condition, such as, for example, almost certain/highly probable. The Board should also bear in mind that many entities provide quarterly or biannual interim reports that would contain the necessary information for breached covenants and the consequent classification as current liabilities.

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.

We do not agree with this requirement for separate presentation for these liabilities. We think that this is a rule and thus in contradiction with the principle-based nature of IFRS. In addition, it will increase the number of line-items to be presented obligatorily on the face of the balance sheet, potentially resulting in clutter obscuring relevant information. In our view, if such a presentation were necessary in order to provide relevant information, then the existing requirements of IAS 1 should be sufficient to provide for this.

Furthermore, presenting such liabilities separately could also lead to a perception that the solvency of such entities may be uncertain because of the existence of covenant conditions, even though these may actually be highly unlikely to become effective.

Having said that, it would be useful for the entity to provide sufficient detail about the amounts involved in order to enable the user to make the assessment referred to in Question 1(a).

Question 3 – Other aspects of the proposal

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.

(a) We think that paragraph 72C(a) would provide useful guidance in clarifying that in this situation the entity does not have the right to defer payment for at least 12 months. However, we do not think that the situation described in paragraph 72C(b) should always preclude classification of the liability as non-current. If the likelihood of the occurrence of the uncertain future event that would cause early repayment is very low or remote, then it would be reasonable to classify the liability as non-current but to accompany this in the notes with a statement about the existence of the condition. In our view therefore, this paragraph should state the principle and a probability threshold for the classification of the liability as either current or non-current.

(b) We agree with the requirement to apply the amendments retrospectively and that early application is permitted.

(c) We agree with delaying the date of mandatory application of the amendments until 1 January 2024 at the earliest.