

15 February 2021

Ms. Sue Lloyd  
Chair of the IFRS Interpretations Committee  
International Accounting Standards Board  
Columbus Building, 7 Westferry Circus  
Canary Wharf, London, E14 4HD  
United Kingdom

**Comments on the Tentative Agenda Decision Relating to**  
**Classification of Debt with Covenants as Current or Non-current**  
**(IAS 1 Presentation of Financial Statements)**

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (the “Committee”)’s tentative agenda decision relating to “Classification of Debt with Covenants as Current or Non-current (IAS 1 *Presentation of Financial Statements*)” in the December 2020 IFRIC Update.

**Cases in the tentative agenda decision**

2. We do not disagree with the conclusions for Case 1 and 2 in the tentative agenda decision. However, we have concerns with the analysis and the conclusion for Case 3.
3. Regarding Case 3, our understanding is that the entity is required to classify the debt as current for the following reasons:
  - (a) the entity does not comply with the condition of the covenants concerning the future financial position at the end of the reporting period, even when the entity complies with the condition of the covenants tested at the end of the reporting period; and
  - (b) paragraph BC48E in the Basis for Conclusions of IAS 1 is not relevant for the

financial position.

4. In Case 3, the same condition does not continue to apply; rather, the conditions become stricter for the borrower with the passage of time. We believe that such conditions are set with the expectation that the borrower's business has seasonality or that the financial position of the borrower will improve over time. Accordingly, making judgements based on the condition as of the end of the reporting period would not necessarily faithfully represent such circumstances.
5. Paragraph BC48E in the Basis for Conclusions of IAS 1 states that an entity's financial performance for a period extending beyond the reporting period needs be adjusted, but the IASB decided not to specify a method of adjustment. It seems inconsistent not to allow an entity to adjust the financial position for a period extending beyond the reporting period, such as in Case 3 in the tentative agenda decision. The financial position of an entity represents a state at a certain point in time, but it can also be understood as an accumulation of financial performance. Accordingly, we think these treatments should be consistent. We are also concerned with distinguishing between the treatment for financial position and financial performance because, depending on how the terms and conditions are worded, the classification as current or non-current may differ and thus may impair the of comparability among entities.

#### **Due process related to this tentative agenda decision**

6. We have concerns with the due process related to this tentative agenda decision. Specifically, we question the transparency of the process when the secretariat of the Committee addresses issues for which it has not received official submissions, as in this case.
7. Paragraph 8.2 of the Due Process Handbook, as revised in August 2020, states that (Underline added by the ASBJ):

<p>If the Interpretations Committee decides that a standard-setting project should not be added to the work plan <u>to address a question submitted</u> (see paragraphs 5.13–5.19), it explains why in a tentative agenda decision in IFRIC Update and on the IFRS Foundation website.</p>
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8. It is unclear whether the statement in paragraph 8.2 of the Due Process Handbook

would always requires questions to be submitted as requests to the Committee as a precondition to be considered by the Committee. However, when the secretariat of the Committee considers issues for which it has not officially received submissions, such as in this case, and drafts tentative agenda decisions, it may appear as if the secretariat of the Committee is selectively drafting tentative agenda decisions, which may raise questions about the transparency of the decision-making process regarding the issues addressed by the Committee.

9. Therefore, we believe that the Committee should make it a rule to address issues for which it has received submissions from external parties. In the rare circumstances where the Committee decides to address issues for which it has not received submissions from external parties, it should establish procedures to ensure the transparency leading to such decision.
10. We hope that our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read "A. Kogasaka". The signature is fluid and cursive, with a large initial "A" and a long, sweeping underline.

Atsushi Kogasaka  
Chair

Accounting Standards Board of Japan