



March 18, 2022

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

Dear Board Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Exposure Draft ED/2021/9, *Non-current Liabilities with Covenants - Proposed amendments to IAS 1*, issued in November 2021 (the ED). Set forth below you will find our comments on the ED.

Overall comments

We conducted local outreach with selected groups that could give us appropriate feedback on the ED. Our constituents agree with clarifying that 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.

On the other hand, the majority of our constituents do not believe that the suggested separate presentation in the statement of financial position of the non-current liabilities for which covenants are required within 12 months is appropriate or necessary.

Finally, some of our constituents expressed concern with some of the required disclosures proposed in the ED.

Answers to specific questions

Set forth below are our answers to the specific questions included in the ED.

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 outreach indicates unanimous agreement that specified conditions with which an entity must comply within twelve months after the reporting period have no effect on the classification of a liability as current or non-current.

On the other hand, some of our constituents expressed concern about the proposed disclosures required when an entity classifies a liability subject to such conditions as non-current. In particular, some disagree with the requirement proposed in paragraph 76ZA(b)(iii) to disclose of whether and how the entity expects to comply with the conditions after the end of the reporting period. They believe that entities should not be required to provide forward-looking information with respect to future compliance with covenants.

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.

The vast majority of our constituents disagree with the proposed requirement that an entity present separately, in its statement of financial position, noncurrent liabilities for which its right to defer settlement is subject to compliance with conditions within twelve months after the reporting period. IAS 1, *Presentation of Financial Statements*, already requires further disaggregation in the statement of financial position when it is relevant to an understanding of an entity’s financial position. We find no sound justification for requiring separate presentation in the statement of financial position.

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.

During our outreach we observed agreement with:

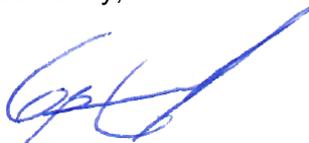
- the clarification of circumstances in which an entity does not have a right to defer settlement of a liability for at least twelve months after the reporting period;
- requiring an entity to apply the amendments retrospectively in accordance with IAS 8;
- deferring the effective date of the amendments until 2024.

Additional comments

While we realize that this is a narrow scope project and the following issue is not part of the consultation, we would like to use the opportunity to once again mention a disagreement that we have with the guidelines in paragraphs 74 to 76 of IAS 1 for the presentation of a noncurrent liability as current when the entity breaches a covenant, but the lender has agreed after the reporting period and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach; we believe the economic essence of the noncurrent liability has not changed. As previously communicated to the Board, we continue to believe that presentation of the liability in the aforementioned circumstances as a current liability is both inappropriate and misleading for the users of the financial statements.

Should you require additional information on our comments listed above, please contact William A. Biese at (52) 55 5433 3070 or me at (52) 55 5403 8309 or by e-mail at wbiese@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,



C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

Cc: Mr. Tadeu Cendon