



# PFRS Alert

## IASB amends PAS 1 to provide better disclosure on long-term debt with covenants

### Executive summary

The International Accounting Standards Board (IASB) has issued amendments to PAS 1, *Presentation of Financial Statements*, that aim to improve disclosures about long-term debt with covenants for periods beginning on or after 1 January 2024, with early adoption being permissible.

### Background

PAS 1 requires entities to classify debt as current if the entity is unable to avoid settling the debt within 12 months after the reporting date. However, the entity may need to comply with covenants during that same period, which may question whether the debt should be classified as non-current. For example, a long-term debt may become current if the entity fails to comply with the covenants during the 12-month period after the reporting date.

### The amendments

The amendments set out in Non-current Liabilities with Covenants (Amendments to PAS 1) state that at the reporting date, the entity does not consider covenants that will need to be complied with in the future, when considering the classification of the debt as current or non-current. Instead, the entity should disclose information about these covenants in the notes to the financial statements.

The IASB aims for these amendments to enable investors to understand the risk that such debt could become repayable early and therefore improving the information being provided on the long-term debt.

The amendments are applicable for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If the amendments are applied in an earlier period, this should be disclosed. The effective date coincides with that of the amendments to PAS 1 previously issued in 2020 - Classification of Liabilities as Current or Non-current.

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