March 14, 2022

SENT ELECTRONICALLY

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

Dear Board members:

Exposure Draft ED/2021/9 – Non-current Liabilities with Covenants (the "ED")

Thank you for the opportunity to comment on the above ED.

MNP LLP ("MNP") supports initiatives to improve how information about an entity's financial condition is communicated in the financial statements. We agree that it is imperative to have a set of disclosure requirements that ensure sufficient transparency. We acknowledge the work performed by the Board to address stakeholder concerns about the outcomes and potential consequences of the IAS 1 amendments issued in January 2020.

However, we believe that some of the disclosure proposals within the ED would create challenges for MNP's small to mid-size clients, especially in emerging industries. Specifically, we believe that the costs of providing some of the note disclosure would far outweigh the benefits. For example, the determination of whether an entity expects to comply with conditions at a future date may require the preparation of cash flow forecasts for a combination of legal entities, forecasts of future working capital balances to estimate current ratios or information from third parties such as reserve engineers. Small to mid sized entities generally have fewer accounting resources available and simpler accounting systems. We are also concerned about difficulties with obtaining sufficient appropriate audit evidence over the accuracy of this forward-looking information, including management's ability to meet development milestone timelines, forecasted industry growth rates and market share and forecasts of future working capital balances.

Overall, IFRS compliant financial statements are becoming increasingly complex and difficult to follow for many users. Such IFRS financial statements contain a large volume of information which some users may not find relevant to their requirements. A significant portion of the notes to the financial statements include boilerplate and generic disclosures that have essentially become the norm, as entities pursue a checklist approach to disclosure. There is an issue of information overload, where additional information disclosed sometimes obscures or undermines more important and relevant information.

Our responses to specific questions are provided below.

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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.

We agree with the proposal whereby conditions with which an entity must comply within twelve months after the reporting period would have no effect on the classification of a liability as current or non-current. We also support the proposal to require disclosure of the conditions with which an entity must comply.

We do not agree with the proposal to require entities to disclose in their financial statements whether and how the entity expects to comply with the conditions after the end of the reporting period. We are concerned about practical issues of making a determination of whether and how the entity expects to comply with the conditions after the end of the reporting period.

We believe that it would involve significant time and effort for small to mid sized entities to comply with this disclosure requirement. For example, the determination of whether an entity expects to comply with conditions at a future date may require the preparation of cash flow forecasts for a combination of legal entities, forecasts of future working capital balances to estimate current ratios or information from third parties such as reserve engineers. This information would have to be prepared solely for purposes of this note disclosure. Small to mid sized entities generally have fewer accounting resources available and simpler accounting systems. We believe that the costs of providing this disclosure would far outweigh the benefits. We also believe that this proposal could result in boilerplate or misleading disclosure which would be of limited value to stakeholders.

Disclosure about whether and how the entity expects to comply with the conditions after the end of the reporting period would be dependent on management's intentions and expectations about future events. Borrowing arrangements for development stage entities in emerging industries often include conditions which become increasingly stringent over time and are dependent on management's expectations of development milestones and industry growth rates, however, predicting timelines for development milestones and growth rates for emerging industries may involve significant judgment and material uncertainty.

We are also concerned about difficulties with obtaining sufficient appropriate audit evidence over the accuracy of this forward-looking information, including management's ability to meet development milestone timelines, forecasted industry growth rates and market share and forecasts of future working capital balances. We expect that the costs of this proposed disclosure would far outweigh the benefits.

Other IFRS standards already require disclosure in an entity's financial statements of information to enable users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity was exposed at the end of the reporting period, including contractual maturities and a description of how an entity manages liquidity risk (IFRS 7.39). Additionally, financial statements must disclose material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, or judgments made in concluding that there are no material uncertainties (IAS 1.25 and 122). We suggest that the IASB consider whether stakeholder concerns could be more effectively addressed through amendments to the risk disclosure requirements in other IFRS standards. For example, the Board could consider amending the IFRS 7 disclosure requirements to specifically address the risks and uncertainties of potential non-compliance with financial instrument conditions.

For reporting issuers in Canada and SEC registrants in the United States, we believe that the most appropriate place to include commentary about whether and how the entity expects to comply with the conditions after the end of the reporting period is in the management commentary. The management commentary is intended to provide a balanced discussion, through the eyes of management, of an entity's financial condition including, liquidity and capital resource considerations.

For private entities, the financial statement users are often lenders or other stakeholders who have access to information to make their own assessment of whether and how the entity expects to comply with applicable future conditions.

We also have concerns about the proposal to require disclosure of whether an entity would have complied with future conditions based on its circumstances at the end of the reporting period. This information would be of limited value for entities in emerging industries or where the business is seasonal. Conditions often vary between reporting dates to reflect seasonality.

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 the proposal to require an entity to present separately, in the 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. For entities where there is no material risk of non-compliance with conditions, presenting these liabilities separately could be misinterpreted as suggesting that the liquidity risk is greater than for other entities where the liabilities are not subject to specified conditions within twelve months after the reporting period.

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.

We support the clarification in paragraph 72C(b) that an entity does not have the right to defer settlement of a liability for at least twelve months when the liability could become repayable within twelve months if an uncertain future event or outcome occurs that is unaffected by the entity's future actions. We acknowledge the example provided in the basis for conclusions of a condition where the entity can affect the occurrence of future events or outcomes, however, we believe there could be diversity in practice about whether some conditions, such as change of control provisions, would be assessed to be conditions where the entity can affect the occurrence. Additionally, further guidance would be helpful to clarify the types of loan provisions that should be treated as 'specified conditions' to assist with consistent treatment.

We would be pleased to offer our assistance to the IASB in further exploring issues raised in our response and in helping to find alternative solutions which meet the needs of the financial statement users.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous, medical and legal professionals, not-for-profit organizations, municipalities and other public sector entities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

MNP LLP

Jody MacKenzie

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