



European Financial Reporting Advisory Group ■

Exposure Draft *Classification of Liabilities - Proposed amendments to IAS 1*

Feedback to constituents – EFRAG Final Comment Letter

July 2015

Summary of contents

Summary of contents	2
Introduction.....	2
Objective of this feedback statement	2
Background to the ED.....	2
EFRAG’s draft comment letter	2
Comments received from constituents.....	3
EFRAG’s final comment letter	3
Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter	4
Classification based on the entity’s rights at the end of the reporting period.....	4
Linking settlement with the outflow of resources.....	6
Transition provisions	7
APPENDIX 1: List of respondents.....	8

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft ED/2015/1 *Classification of Liabilities - Proposed amendments to IAS 1* (‘the ED’) on 22 June 2015. This feedback statement summarises the main comments received and explains how those comments were considered by EFRAG during the finalisation of EFRAG’s comment letter.

Background to the ED

The ED resulted from a request received by the IASB to clarify the criteria for the classification of a liability as either current or non-current. The issue raised was how having an “*unconditional right to defer settlement*” (in paragraph 69(d) of IAS 1 *Presentation of Financial Statements*) should be

reconciled with having the “*discretion to refinance or roll over an obligation*” (in paragraph 73) as two bases for classifying a liability as non-current. To clarify the requirements, the IASB is proposing to:

- (a) align the requirements in paragraphs 69(d) and 73 of IAS 1 by deleting the reference to “unconditional” rights and to “discretion” and replacing them with a reference to “rights” in both paragraphs;
- (b) confirm that the criteria for the classification of a liability as non-current should be based on the rights in existence at the end of the reporting period; and
- (c) clarify the meaning of the term ‘settlement’ for the purpose of the classification of liabilities by adding that settlement refers to “the transfer to the counterparty of cash, equity *instruments other assets or services*”.

Further details are available on the EFRAG [website](#).

EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 24 March 2015 and requested comments by 3 June 2015. In the draft comment letter, EFRAG supported the proposed amendments as they clarify the existing requirements in IAS 1 that only rights in existence as of the reporting date should be considered when determining the appropriate classification of liabilities.

However, EFRAG recommended that additional guidance is provided in situations where the rights to defer settlement of a liability are subject to conditions that are assessed after the reporting period, and in situations where liabilities can be settled through the issuance of shares at the option of the counterparty. Finally, EFRAG suggested that the IASB further explores whether current guidance always provides the most relevant information when rights to defer settlement are not substantive.

Comments received from constituents

EFRAG received fourteen comment letters. A majority of respondents supported:

- a) the clarification that the classification of a liability should be based on the rights in existence at the end of the reporting period and the proposed alignment of the wording in paragraphs 69(d) and 73;
- b) the proposed clarification of the meaning of the term 'settlement of the liability'; and
- c) the proposed transitional provisions.

Some respondents, while supporting the objective of removing inconsistencies in the existing guidance, did not believe that the proposals in the ED would make the existing requirements sufficiently clear and result in more consistent application. These respondents believed that the IASB should undertake a comprehensive review of the objectives of the distinction between current and non-current liabilities and clarify whether and to what extent the economic substance of a right to defer settlement shall be considered and not solely its legal form.

EFRAG's final comment letter

EFRAG published its final comment letter on 22 June 2015, the comment letter is available on the EFRAG [website](#).

Considering the feedback provided by respondents, EFRAG substantially maintained its initially expressed support for the proposed amendments in the ED and included some recommendations to avoid further diversity in practice.

In particular, EFRAG reiterated its view that additional application guidance should be provided in the ED in situations where the rights to defer settlement of a liability are subject to conditions that are assessed after the reporting period and in situations where liabilities can be settled through the issuance of shares at the option of the counterparty.

To address the concerns expressed by respondents regarding the need for a more comprehensive review of the classification requirements, EFRAG recommended that the IASB further explores whether current guidance always provides the most relevant information including in circumstances when rights to defer settlement are not substantive at the end of the reporting period. EFRAG suggested the IASB to address this issue as part of its ongoing activities in the Disclosure Initiative project.

A description of the main comments received and changes made to EFRAG's final comment letter is provided in the section '*Detailed analysis of issues, comments received and changes made to EFRAG's final comment letter*' of this document.

Detailed analysis of issues, comments received and changes made to EFRAG's final comment letter

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Classification based on the entity's rights at the end of the reporting period

Proposals in the ED

These proposed amendments aim to clarify the criteria for the classification of a liability as either current or non-current by:

- aligning the requirements in paragraphs 69(d) and 73 of IAS 1 by deleting the reference to unconditional rights (to defer settlement) and to discretion and replacing them with a reference to rights in both paragraphs; and
- making it explicit that only rights in existence at the reporting date should affect the classification of a liability.

The IASB further proposes that guidance in IAS 1 should be reorganised so that the similar examples currently displayed in paragraphs 72 to 76 of IAS 1 are grouped together.

EFRAG's tentative position

EFRAG supported the proposals in the ED as they clarify the existing classification principles in IAS 1 by removing inconsistencies in the terms used and are likely to result in greater consistency in applying the principles in IAS 1. However, to avoid further diversity in practice, EFRAG recommended that additional guidance be provided in situations when a right to defer settlement is subject to conditions that are assessed after the reporting period.

EFRAG's response to constituent comments

EFRAG final position

Considering respondents' comments, EFRAG maintained its support for the proposed clarifications of the current principles in IAS 1. EFRAG also reiterated its recommendations that the IASB should clarify how the classification requirements apply when an entity has a right to defer the settlement of a liability that is subject to conditions that are assessed after the reporting period and in situations where liabilities can be settled through the issuance of shares at the option of the counterparty.

In forming its final position, EFRAG paid due consideration to the concerns expressed by several respondents that, although the proposed amendments had merits in clarifying certain aspects of the existing guidance, they did not, in their view, provide sufficient clarity on all aspects of current/non-current classification. These respondents called for a more comprehensive review of the guidance, including the setting of clear objectives for the current/non-current classification. EFRAG, however, considered that these concerns would be better addressed by the IASB as part of its ongoing activities in the Disclosure Initiative project.

Therefore, EFRAG maintained its recommendation that the IASB further explores whether current guidance always provides the most relevant information including in situations when rights to defer settlement are not substantive.

Constituents' comments

A majority of respondents supported the proposals in the ED and EFRAG's assessment, as they believed that they would remove inconsistencies in terminology and make the existing requirements clearer. This would result in a more consistent application of the current principles in IAS 1 in the short-term.

However, some respondents, while supporting the objectives of the ED to remove inconsistencies in wording, did not support the proposals, as they believed that they were too limited to meet their stated objective to clarify the current/non-current classification and ensure greater consistency in applying the principles.

These respondents believed that the IASB should undertake a more comprehensive review of the current/non-current classification guidance including in situations where the rights to defer settlement of a liability are subject to conditions that occur and/or are assessed after the reporting period. Deleting the word 'unconditional' and referring to 'rights' may cause new confusion as it will put more pressure on the assessment of the 'existence' or 'substance' of a right. In the view of these respondents, it would be necessary to review whether and to what extent the economic substance of a right to defer settlement shall be considered and not solely its legal form on which current guidance in IAS 1 is based.

One respondent suggested that the proposed guidance contained in paragraph BC 4 of the Basis for Conclusions should become part of the body of the standard (e.g. when a right to defer settlement is subject to condition, *'it is whether the entity complies with that condition as at the end of the reporting period that determines whether the right should affect classification'*).

Constituents also provided a number of drafting improvements in order to avoid the need for additional clarifications.

EFRAG also considered a number of drafting improvements suggested by respondents.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Linking settlement with the outflow of resources

Proposals in the ED

The ED proposes to clarify the meaning of the term settlement for the purposes of the classification of liabilities by adding that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

EFRAG's tentative position

EFRAG agreed with the proposals. However, it believed that the drafting of these proposals should be improved in order to avoid unintended outcomes because of the interactions of the proposals with current guidance in paragraph 69(d) of IAS 1 regarding situations where a liability can be settled, at the option of the counterparty, by the issue of equity instruments.

Constituents' comments

All respondents but one agreed with the IASB's proposals as they make explicit the link between the settlement of the liability and the transfer of resources and clarify that, for instance, a rollover of a borrowing does not constitute a settlement and would not result in the liability being classified as current.

EFRAG's response to constituent comments

EFRAG final position

Considering the support received from respondents, EFRAG maintained its initial assessment in support of the proposed amendments. EFRAG also maintained the recommendation that the IASB should consider drafting improvements to paragraph 69 to avoid possible unintended effects in the case of liabilities that can be settled by the issue of equity instruments.

Furthermore, EFRAG recommended that the IASB should clarify how guidance in the ED applies in circumstances where the equity component of a compound instrument, that is required to be accounted for separately under IAS 32 *Financial Instruments: Presentation*, should be considered or ignored when applying the provisions in paragraph 69 of IAS 1 in determining whether the liability component should be presented as current or non-current.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Transition provisions

Proposals in the ED

The IASB proposes that the amendments in the ED should be applied retrospectively.

EFRAG's tentative position

EFRAG agreed with the IASB's proposals.

Constituents' comments

All respondents that commented on this topic agreed with the IASB's proposals to apply the proposed amendments retrospectively. One respondent did not specifically address the question.

EFRAG's response to constituent comments

EFRAG final position

Considering respondents' comments, EFRAG maintained its support for the proposed transition provisions.

APPENDIX 1: List of respondents

Table 1: List of respondents

	Country	Nature
Autorité des Normes Comptables (ANC)	France	National Standard Setter
Accounting Standard Committee of Germany (ASCG)	Germany	National Standard Setter
Financial Reporting Council (FRC)	UK	National Standard Setter
Association of Accounting Technicians (AAT)	UK	Professional organisation
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
Dutch Accounting Standards Board (DASB)	The Netherlands	National Standard Setter
Danish Accounting Standards Committee (DASC)	Denmark	National Standard Setter
European Securities and Markets Authority (ESMA)	Europe	Regulator
Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
ACTEO – AFEP – MEDEF	France	Association of preparers
Swedish Financial Reporting Board (SFRB)	Sweden	National Standard Setter
Business Europe	Belgium	Association of preparers
Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter
Deloitte	Global	Audit Firm