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AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

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Mrs Françoise Flores
European Financial Accounting Advisory Group (EFRAG)
35 Square de Meeûs
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Belgium

15 October 2014

Dear Mrs Flores,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the *EFRAG Discussion Paper Classification of Claims*.

Principal authors of this comment letter were *Peter Bitzyk, Michael Hammer, Peter Häfliger, Wolfgang Höller, Sonja Kleb-Augustin, Heiner Klein, Philip Kudrna, Ulf Kühle, Roland Nessmann, Caroline Pranzl, Andreas Rauter, and Raoul Vogel*. In order to provide a balanced Austrian view on the DP, the professional background of these authors is diverse (auditing/regulatory organisations and preparers).

General remarks

We strongly support EFRAC´s goal: to assist the IASB in developing a new – and better – distinction between equity and liability.

We do not, however, believe that reducing the focus to the financial instruments on the credit side of the balance sheet will provide an adequate basis for the discussion that needs to be conducted: The credit side of the balance sheet involves a much wider range of components, which may have to be divided between liabilities, other components and equity. Moreover, most of the measures of financial reporting mentioned in the DP, especially financial performance, solvency, liquidity, and the true and fair view, involve the assets side of the balance sheet as well. For general purpose financial reporting, we see a definition of liabilities without a corresponding definition of assets as insufficient.

Responses to individual questions

Q 1 **DO YOU BELIEVE EFRAG HAS APPROPRIATELY IDENTIFIED THE OBJECTIVES TO BE USED WHEN ASSESSING CLASSIFICATION REQUIREMENTS? IF NOT WHAT OTHER OBJECTIVES DO YOU THINK SHOULD BE INCLUDED OR SHOULD ANY OF THE OBJECTIVES BE REMOVED?**

Yes, we think that EFRAG has identified the objectives appropriately. Nevertheless, as the equity/liability distinction is of such importance to nearly every IFRS, and bearing in mind our general comments above, we are of the opinion that the outcomes must be consistent with the existing IFRS framework and the IFRSs.

Q 2 **DO YOU BELIEVE EFRAG HAS APPROPRIATELY IDENTIFIED THE RELEVANT CHOICES THAT NEED TO BE MADE IN DETERMINING CLASSIFICATION REQUIREMENTS? IF NOT, WHAT OTHER CHOICES DO YOU THINK NEED TO BE MADE AND HOW DO THEY FIT WITH THOSE THAT HAVE BEEN IDENTIFIED?**

Yes.

Q 3 **IF YOU SUPPORT CLASSIFYING ALL CLAIMS AS A SINGLE ELEMENT (THE CLAIMS APPROACH) HOW DO YOU THINK THE ACCOUNTING RESIDUAL AND UNCLAIMED EQUITY SHOULD BE ACCOUNTED FOR? HOW SHOULD FINANCIAL PERFORMANCE BE DEPICTED?**

We do not support this idea: as stated in IFRS, financial performance – as well as most other elements needed to give a true and fair view in the financial statements – is always a reflection of assets and liabilities in a given period. This cannot be achieved with a single element on the credit side of the balance sheet. Additionally, all relevant information needed for the calculation of ratios has to be given in the notes or somewhere else in the financial statements, so we cannot see this proposal as an improvement.

Q 4 **DO YOU THINK IT IS POSSIBLE TO POSITIVELY DEFINE EQUITY SUCH THAT MORE OF THE IDENTIFIED OBJECTIVES ARE MET? IF SO, HOW SHOULD IT BE DEFINED?**

Perhaps it is possible from a theoretical point of view, but this would mean a complete shift from the IFRS framework and standards, where equity is seen as a residual difference between assets and liabilities: Since this view is shared by many local GAAPs, we strongly believe that the idea of equity as a residual value after deducting liabilities from assets is the best basis for future conceptual development.

Q 5 DO YOU THINK IT IS POSSIBLE TO POSITIVELY DEFINE LIABILITIES SUCH THAT MORE OF THE IDENTIFIED OBJECTIVES ARE MET? IF SO, HOW SHOULD IT BE DEFINED?

As explained in our general remarks and in our answer to Q4 above, we think the definition of liabilities must be linked to the definition of assets and cannot be considered independently. As an example, derivatives can switch between being an asset and being a liability depending on the changing value of the underlying, without any contractual changes. For this reason, we strongly encourage EFRAG to make every effort to sharpen the definition of financial liabilities.

Q 6 DO YOU THINK THE INCLUSION OF AN ADDITIONAL ELEMENT COULD ASSIST IN MEETING SOME OF THE IDENTIFIED OBJECTIVES? IF SO, WHAT SHOULD THAT ELEMENT BE AND HOW SHOULD IT INTERACT WITH THE EXISTING ELEMENTS?

We do not see a need for an additional element, as this would – at least in our opinion – not solve the fundamental problems: where additional information for certain financial instruments is needed it should be given in the notes instead of defining an additional category of financial instruments on the credit side, which would have significant impacts on various other standards, e.g., IFRS 10–12.

Q 7 HOW DO YOU THINK DILUTION SHOULD BE DEPICTED? IF MORE THAN ONE CLASS OF INSTRUMENTS WERE TO BE CLASSIFIED AS EQUITY HOW SHOULD THE RETURNS TO THE VARIOUS CLASSES BE DEPICTED?

Dilution should be depicted by disclosing different classes of equity and their potential effects in the notes.

Q 8 DO YOU AGREE WITH THE PROPOSED DESCRIPTIONS/DEFINITIONS CONTAINED WITHIN THE GLOSSARY? IF NOT WHAT CHANGES WOULD YOU SUGGEST? CAN YOU IDENTIFY ANY ADDITIONAL DESCRIPTIONS/ DEFINITIONS YOU BELIEVE WOULD ASSIST IN DEVELOPING A COMMON UNDERSTANDING OF THE ISSUES?

With respect to the DP, the glossary is helpful. Glossaries must be in line with the elements of the final documents, so we cannot give a final opinion on this issue.

Q 9 DO YOU HAVE ANY OTHER COMMENTS IN RELATION TO CLASSIFICATION OF CLAIMS?

We refer to the general remarks and our answers to Q4 and Q5.

Kind regards,

Romuald Bertl

Chairman