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Our ref : RJ-EFRAG 580
Direct dial : 0031-20-3010235
Date : 28 October 2014
Re : **Comment letter on EFRAG Discussion Paper ‘Classification of Claims’**

Dear members of the EFRAG Technical Expert Group,

In respect of your request for input on the EFRAG Discussion Paper *Classification of Claims* (the ‘DP’) we have the following comments.

In general, we much support the pro-active work EFRAG and think it is important that EFRAG issued this DP to assist the IASB developing its announced Discussion Paper on equity/liability distinction. We have discussed this DP in our board meeting and we think that the DP provides an excellent overview of considerations and issues concerned. However, the DASB is of the opinion that it is not really possible to address (all) the issues mentioned in the DP. We refer to our earlier comment letter (on the IASB Discussion Paper on the *Review of the Conceptual Framework*, dated 8 January 2014, our ref. RJ-EFRAG 567), in which we argued that a split between equity or liability claims can only be regulated at the level of the individual standard(s) concerned.

The general remark of DASB is that although current standards may have some shortcomings on the distinction between liabilities and equity, we observe that in practice most entities have little or no problems with this distinction because they are familiar with the fundamentals of the current standards.

The DASB is of the opinion that in the situation of a specific issue regarding the distinction equity/liability arises, such an issue should be dealt with by IASB or IFRIC. In our opinion this should be addressed in the respective standard and/or interpretation. It is often better to timely come up with a (tentative) decision, than to try to reach overall consensus and/or a perfect solution. We consider it to be preferable for the standard setter to timely choose one of the possible options regarding distinction equity/liability or require specific disclosures by the reporting entity on choices made regarding such distinction,

The DASB refers to the previous discussions on the project on equity/liability, for instance the discussions in 2008 regarding the PAAinE Discussion Paper Distinguishing between Liabilities and Equity and IASB Discussion Paper Financial Instruments with Characteristics

of Equity. We point at the fact that earlier in 2014 the IASB decided to address the equity/liability distinction by developing a discussion paper in parallel with the project (exposure draft) on the Conceptual Framework. Considering these time-consuming efforts, the DASB is of the opinion that it might be worthwhile not to keep trying to find a perfect solution or to define all relevant elements. The DASB prefers a step-by-step-approach in order to address any upcoming specific issues on the equity/liability distinction. Hence, we prefer timely practical solutions or choices, instead of another (new) project.

Yours sincerely,

A handwritten signature in black ink, consisting of a vertical line on the left, a loop at the bottom left, and a long horizontal stroke that curves upwards at the right end.

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix: regarding the questions in the DP we have the following comments.

Q1 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?

Answer DASA: Yes

Q2 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?

Answer DASA: Yes

Q3 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?

Answer DASA: No opinion.

Q4 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?

Answer DASA: No, see cover letter.

Q5 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?

Answer DASA: We consider the current definitions to be adequate, see cover letter.

Q6 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?

Answer DASA: We doubt that adding an additional element will assist in this respect.

Q7 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?

Answer DASA: We consider it to be useful to show (potential) dilutive effects through additional disclosures.

Q8 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?

Answer DASA: We have not discussed the descriptions/definitions.

Q9 Do you have any other comments in relation to classification of claims?

Answer DASA: See cover letter.