The Corporate Reporting Users' Forum

International Accounting Standards Board
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Via email: commentletters@ifrs.org

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Dear Members of the IASB

Exposure Draft: Classification of Liabilities – proposed amendments to IAS 1

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the Exposure Draft: *Classification of Liabilities – proposed amendments to IAS 1*. Our response is set out below.

This is not a problem that has been at the front of users of accounts' minds. There does, however, seem to be a conflict between paragraphs 69(a), which refers to an unconditional right to defer settlement, and 73, which refers to discretion to roll over the obligation. While recognising that the standard should be clarified, CRUF participants were nervous about increasing the leeway to classify obligations as non-current. This does not mean that post-balance-sheet events should affect the status reported at the period end, but that the panoply of roll-over arrangements and credit backstops do not get employed to manipulate status at that date.

The examples given by IASB staff in the paper on current or non-current classification make clear how important it is to know whether or not loan conditions have been breached. Users of accounts have often expressed a desire for transparency on loan covenants and other conditions. Generally, we are interested in the nature of the liability – for instance, capturing all trade creditors as a single group even if settlement of some of them is more than 12 months away. Similarly, we think of pensions as a single obligation. For loans, it is important to see the overall maturity profile in disclosures for financial obligations. So we would welcome attention being paid to these issues as part of this project.

Responses to specific questions

Question 1—Classification based on the entity's rights at the end of the reporting period
The IASB proposes clarifying that the classification of liabilities as either current or non-current should be based on the entity's rights at the end of the reporting period. To make that clear, the IASB proposes:

(a) replacing 'discretion' in paragraph 73 of the Standard with 'right' to align it with the requirements of paragraph 69(d) of the Standard;

CRUF response

CRUF participants would not want the clarification to be based on paragraph 73 since this seems to give the entity too much leeway to classify the obligation as non-current. So removing the word "discretion" is helpful. But will "expects" be left in? It would be clearer and less dependent on management's judgment to remove that word too and to say simply: "if the entity has the right to roll the obligation over or refinance it".

(b) making it explicit in paragraphs 69(d) and 73 of the Standard that only rights in place at the reporting date should affect this classification of a liability;

CRUF response

While there is a minority view that events after the period end should be factored in, a large majority agree that classification should be as at the balance sheet date. Any post balance sheet events should be disclosed. The concern is that when there is significant uncertainty about how to classify, it is better to make it a current liability.

(c) deleting 'unconditional' from paragraph 69(d) of the Standard so that 'an unconditional right' is replaced by 'a right'.

CRUF response

With the caveats elsewhere in this response, this seems acceptable for the reasons set out in the staff paper.

Do you agree with the proposed amendments? Why or why not?

CRUF response

Mostly: see rest of the response. Please note that participants agree there is generally not enough disclosure on covenants in liabilities disclosures. The more clarity, the better.

Question 2—Linking settlement with the outflow of resources

The IASB proposes making clear the link between the settlement of the liability and the outflow of resources from the entity by adding 'by the transfer to the counterparty of cash, equity instruments, other assets or services' to paragraph 69 of the Standard.

Do you agree with that proposal? Why or why not?

CRUF response

The words "settlement of the liability" ought to mean that resources are certain to flow out for that purpose. If the problem relates to backstop facilities, then the following view [from CRUF Canada] is relevant:

> An important related question is whether an entity in fact has access to the backstop facility. It was noted that in many cases, these facilities may include material adverse change clauses, which provide that in the event that the line is drawn on, the line may actually become unavailable.

We note that in example 4 of the outreach materials presented to us (where the entity is due to settle a liability previously classified as non-current six months after the year end and the liability will be refinanced using the proceeds of a new loan that is agreed with a new lender at the end of the reporting period), the classification would be current. Does this solve the problem referred to in the staff paper under point 7 (and in paragraphs BC7-BC11 of the basis for conclusions), that "rolling over an obligation would result in non-current classification only if the loan was with the same lender and on similar terms"? Apparently respondents to the annual improvements 2010-2012 exposure draft complained about "the difficulty in practice of defining 'same lender' and 'same or similar terms'".

We wonder whether the proposed wording of the standard would cover the risk of breaches that follow from indirect arrangements and the associated counter-party risk? Again, if there were a doubt about resources being transferred to complete the settlement, at least some users of accounts might be expected to prefer the classification of the liabilities to be current.

Question 3—Transition arrangements

The IASB proposes that the proposed amendments should be applied retrospectively. Do you agree with that proposal? Why or why not?

CRUF response

The view is that retrospective application is always better, but restatements on minor issues are not necessarily needed. As such, the costs must be weighed against the benefits. In this particular instance, we would not be too concerned about what the short-term liabilities amounts were in prior periods.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organizations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organizations. The CRUF does not seek to achieve consensus views. However, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. The participants in the Forum that have specifically endorsed this response are listed below.

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