

CLASSIFICATION OF LIABILITIES (PROPOSED AMENDMENTS TO IAS 1) INTERNATIONAL FINANCIAL REPORTING BULLETIN 2015/05



Summary

The International Accounting Standards Board (IASB) published ED/2015/1 *Classification of Liabilities* (Proposed amendments to IAS 1) (the ED) on 10 February 2015.

The ED addresses the classification of liabilities as either current or non-current in accordance with IAS 1 *Presentation of Financial Statements*. The proposals would clarify that the classification would be based on the rights that exist at the end of the reporting period. For this purpose, the IASB has proposed the following changes:

- The wording of IAS 1.73 (*'discretion to refinance or roll over'*) would be aligned with IAS 1.69(d) by replacing the word *'discretion'* with *'right'*
- Only rights in place at the end of the reporting period would affect the classification of a liability
- The term *'unconditional right'* in IAS 1.69(d) would be replaced with *'a right'*.

It has also been proposed to include an explicit statement that the term *'settlement'* in relation to the classification of liabilities refers to *'the transfer to the counterparty of cash, equity instruments, other assets or services'*.

In addition, the IASB proposes to reorganise the guidance in IAS 1, so that examples that describe situations where rights to defer settlement exist are grouped together.

The deadline for comments on ED/2015/1 *Classification Liabilities* Liabilities (Proposed amendments to IAS 1) is 10 June 2015.

STATUS

Exposure Draft

EFFECTIVE DATE

To be confirmed

ACCOUNTING IMPACT

Clarification of the classification of liabilities as either current or non-current.

Background

The proposed amendments originated from a request to the IASB to clarify the current vs non-current classification of liabilities within financial statements. It was referred to the guidance in two paragraphs for the classification of liabilities, being:

- IAS 1.69(d) which requires '*an unconditional right to defer settlement*' and
- IAS 1.73 which refers to '*the discretion to refinance or roll over an obligation*'.

The IASB was asked about the interaction between the guidance in those two paragraphs.

Proposed changes to IAS 1

Consistent wording within IAS 1.69(d) and IAS 1.73

In order to clarify the classification of liabilities, the IASB proposes to align the wording within IAS 1.69(d) and IAS 1.73. In doing so, the proposals would change the Standard as follows:

- IAS 1.69(d) – Defer settlement
Deleting the word '*unconditional*' to further clarify the wording as rights to defer a settlement are rarely unconditional, because they are often conditional on the borrower complying with covenants in future periods
- IAS 1.73 – Refinance or roll-over
Replacing the wording '*has the discretion to refinance or roll over*' with '*has the right to roll over*' in order to align the wording and avoid any confusion arising from the use of the word '*discretion*'.

The proposals would also require a right to exist as at the end of the reporting period. Accordingly, rights granted after the end of the reporting period would not affect the classification of a liability.

Meaning of 'settlement'

To provide further guidance for the classification of liabilities, the proposals include an explanation of the term 'settlement' within IAS 1.69. Settlement would be clarified as meaning an outflow of resources of an entity which may be achieved in different forms, being cash, assets, services and sometimes equity instruments.

Reorganisation of the guidance

In addition, the proposals include a reorganisation of the guidance for the classification of liabilities in IAS 1. For this purpose, similar examples of circumstances where rights to defer exist would be grouped together.

Effective Date and Transition

An effective date for the amendments to IAS 1 has not yet been proposed.

The IASB views the proposals as being more in the nature of a change in accounting estimate which would normally be applied prospectively, as they only clarify existing guidance.

However, retrospective application of the changes has been proposed, with reference to IAS 1.41 which requires an entity that changes the presentation or classification of items to reclassify comparative amounts unless impracticable. It was considered that retrospective application would not be onerous, and would enhance consistency of presentation.

The deadline for comments on ED/2015/1 *Classification of Liabilities* is 10 June 2015.



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