STAFF PAPER

September 2013

Project	IAS 1 *Presentation of Financial Statements* Current/non-current classification of liabilities		
Paper topic	Summary of possible alternatives for development		
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Purpose of this paper

1. In 2010 the IFRS Interpretations Committee (the 'Interpretations Committee') received two submissions requesting clarification of the criteria for the classification of a liability as either current or non-current. This topic has been discussed six times by the Interpretations Committee and twice by the IASB since September 2010. The discussions have ranged over a number of fact patterns and staff have developed a number of approaches to resolve this issue.

2. The issues originally submitted to the Interpretations Committee concerned how two paragraphs in IAS 1 would affect the classification of different types of debt as either current or non –current. Paragraph 69 of IAS 1 relates to the classification of current liabilities:

    69 An entity shall classify a liability as current when:

    (a) it expects to settle the liability in its normal operating cycle;

    (b) it holds the liability primarily for the purpose of trading;

    (c) the liability is due to be settled within twelve months after the reporting period; or

    (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after

> the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
>
> An entity shall classify all other liabilities as non-current.

3. Paragraph 73 relates to non-current liabilities:

> 73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

4. The submitters thought that these two paragraphs were asymmetrical and asked for further guidance on the classification of different types of debt as either current or non-current. In their view, having *an unconditional right to defer settlement* (specified in 69(d)) is irreconcilable with having *the discretion to refinance or roll over an obligation* as the two stated criteria for the classification of a liability as non-current.

5. The purpose of this paper is to:

   (a) summarise the issues and arguments considered to date;

   (b) describe the approaches proposed to date to resolve how debt is classified; and

   (c) outline a more general approach to the classification of liabilities, based on the arrangements in place at the reporting date, not previously discussed by the IASB.

6. In this paper we recommend that this general approach should be developed to provide a solution to the issues submitted and ask whether you agree with that recommendation. We also ask for your preliminary views on some aspects of how that general approach could be developed.

Structure of the paper

7. The paper is organised as follows:

   (a) context;

   (b) outreach conducted in 2010;

   (c) classification link with the derecognition of financial instruments;

   (d) comment letters received on the proposed annual improvement;

   (e) possible approaches identified to date;

   (f) outline of a more general approach;

   (g) significance of management's expectations in the classification of liabilities;

   (h) staff summary and recommendation; and

   (i) Appendix A Summary of earlier Agenda Papers.

Context

8. In order to provide context to an assessment of how to address this issue, the Agenda Papers previously discussed by the Interpretations Committee and the IASB are noted in Appendix A.
9. In reassessing the topic, we also think that it is useful to revisit an early fact pattern, last discussed in November 2010, that formed the basis of its own submission. It was this second submission that introduced complexity into the fact pattern; the initial submission had been concerned solely with whether the entity had an unconditional right to roll over debt subject to a call option.

Original submission

10. A fact pattern that was typical of the original submission was included in the November 2010 Agenda Paper and the analysis from that paper is included below:

> Company B decides to issue commercial paper into the market. The issue is managed by BigBank. BigBank issues the first tranche of 180 day commercial paper into the market on behalf of Company B, and remits the funds received to

Company B. After 180 days, BigBank settles the commercial paper with the holders, and issues a second tranche. This process will continue for longer than 12 months according to the agreement between Company B and BigBank. In the event that the commercial paper does not sell, Company B can draw on a committed facility from BigBank up to the line of credit of the issue. BigBank receives a service fee for managing the issue and for any drawdown. Company B recognises a liability in respect of the commercial paper issued and a separate liability for any amounts drawn on the facility with BigBank.

11. The first question that arises in the November 2010 analysis is whether the commercial paper liability is classified as current or non-current. The commercial paper is issued to the public and the obligation to the public is with Company B and not BigBank. However, by drawing on the facility, Company B can ensure that it does not need to repay the notes from its own cash resources. Company B can be said to be 'rolling over' or 'refinancing' the commercial paper in this case with a long-term loan facility.

Support for current classification

12. In 2010, some thought that the commercial paper should be classified as current for the following reasons:

    (a) The commercial paper instrument is a short-term instrument.

    (b) The commercial paper is redeemed at the end of each 180-day cycle.

    (c) Following the redemption, the paper is reissued, to the same or new lenders. This leads to continual redemption and reissue, although there is little or no liquidity risk for Company B, because BigBank provides the backup finance.

    (d) The fact that the commercial paper is redeemed is an indicator of a current classification, even though it may be immediately reissued.

Support for non-current classification

13. In 2010, others thought that the commercial paper should be classified as non-current, because it is backed up by a committed long-term facility from BigBank. In their view, the effect of this facility is that, in substance, the short-term commercial paper obligation is transformed into long-term finance because

holders of commercial paper are repaid by BigBank either from the proceeds of issuing new commercial paper or from the committed facility.

14. They do not dispute that BigBank is a different lender from the purchasers of the commercial paper, but they say that paragraph 73 is not clear that the 'roll over' or 'refinance' has to be with the same party. They interpret 'roll over' to mean 'with the same party' and 'refinance' to mean 'with a different party'. They read paragraph 73 in such a way that the commercial paper is viewed as 'refinanced' by another party but, because it is backed by the long-term facility, it can be classified as non-current.

15. The non-current classification was not recommended by the staff and this fact pattern was not further developed. Instead, the staff's subsequent discussion of examples of debt focused on distinguishing whether the liability had been 'refinanced' or 'rolled over' and whether classification would change if the new, replacement facility was with another bank.

Outreach conducted in 2010

16. In 2010 the Interpretations Committee conducted outreach on this topic by sending out a request for information to the National Standard-Setters group. The fact pattern used, and the questions asked, were:

> Consider an existing borrowing that was originally taken out for 5 years, and that is due to mature 6 months after the entity's reporting date. How would you classify this existing borrowing at the reporting date, under the following circumstances:
>
> 1. An agreement is reached before the reporting date to refinance the existing borrowing with the same lender for longer than 12 months, at the same or similar terms?
> 2. An agreement is reached before the reporting date to refinance the existing borrowing with the same lender for longer than 12 months, at different terms?
> 3. An agreement is reached before the reporting date to refinance the existing borrowing with a different lender for longer than 12 months, at similar or different terms?

17. The Interpretations Committee received 11 responses to this outreach request.

(a) Most respondents thought that an agreement with the same bank on the same or similar terms was non-current debt.

(b) All respondents thought that a loan negotiated with another lender would be current whether or not the terms were the same.

(c) Respondents were divided about fact pattern 2, when the debt is with the same lender but the terms are different.

18. As a result of this consultation, the Interpretations Committee recommended the following proposed amendment to IAS 1 as part of the Exposure Draft: *Annual Improvements to IFRSs: 2010-2012 Cycle* ('Annual Improvements 2010-2012'):

> If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

19. The proposed annual improvement was discussed at the IASB's September 2011 meeting and approved subject to the Basis for Conclusions being extended to clarify what 'same or similar terms' meant.

Classification link with the derecognition of financial instruments

20. 'Same or similar terms' was clarified in the Annual Improvements 2010-2012 Exposure Draft by including a link with the derecognition of financial instruments in the proposed Basis for Conclusions to a proposed amendment to IAS 1:

> …The Board observed that there is currently diversity in practice when different loan terms apply. According to paragraph 3.2.2 of IFRS 9 and paragraph 40 of IAS 39, a substantial modification of the terms of an existing liability

shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability….

Comment letters received on the proposed annual improvement

21. In January 2013, the Interpretations Committee discussed the comment letters received on the proposed amendment to IAS1.

22. A majority of the respondents expressed views that agreed with the messages received from the Interpretations Committee's original outreach conducted in 2010, namely:

    (a) that the liability should be classified as non-current when the entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms;

    (b) that the liability should be classified as current when the entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with a new lender; and

    (c) that the liability should be classified as current when the refinancing or rollover is with the same lender at different terms.

23. The link with financial instruments in an attempt to clarify 'same or similar terms' gave rise to a range of views in the comment letters received on the 2010-2012 Annual Improvements Exposure Draft:

    (a) Some respondents think that the derecognition requirements for financial liabilities in IFRS 9/IAS 39 are not consistent with the classification principles for financial liabilities in IAS 1. In particular, they think that the notion of 'settlement' in paragraph 69(d) of IAS 1 (on which classification is based) is different from the notion of 'extinguishment' in IFRS 9/IAS 39 (on which derecognition of financial liabilities is based). They think that a liability should be classified on the basis of the requirement to transfer cash.

(b) Most of the respondents also note that the wording used in the proposed amendment to IAS 1 differs from the wording used in IFRS 9 and IAS 39. They question whether the notion of 'same or similar terms' is similar to the notion of 'substantially different terms' in IAS 39/IFRS 9.

(c) Some respondents also note that if the classification requirements for financial liabilities in IAS 1 are tied to the derecognition requirements for financial liabilities in IAS 39/IFRS 9, the assessment of whether the terms are substantially different will include a quantitative analysis based on the so-called '10 per cent test'. Those respondents think that this test is not appropriate for classification purposes and would be burdensome to apply. In particular, the likelihood of classification of a liability as current would increase if the loan is refinanced for a longer period. In their view, this does not seem an appropriate outcome.

(d) Many respondents think that linking classification as either current or non-current with the derecognition requirements of financial instruments would result in a significant change in practice.

24. The Interpretations Committee agreed with these comments and noted that the 10 per cent test was developed for derecognition purposes and not for presentation purposes. They also accepted that the application of the 10 per cent test would raise practical issues, as mentioned by some respondents.

25. At its March 2013 meeting the IASB agreed not to proceed with the proposed amendment as part of the 2010-2012 Annual Improvements and asked for an alternative clarification to be developed.

Possible approaches identified to date

26. Up to and including the IASB's March 2013 meeting, the following approaches to this issue have been identified for possible development:

(a) *Approach A*: specify that loans longer than 12 months from an existing lender are non-current and all loans from a new (ie future) lender are current and define when terms are 'the same or similar' (but not in terms of financial instrument derecognition).

(b) *Approach B*: clarify the meaning of 'unconditional right' in paragraph 69 (d) and 'discretion' in paragraph 73; and/or

(c) *Approach C*: distinguish 'settlement of the liability' in paragraph 69 (d) with 'refinance' or 'roll over an obligation' in paragraph 73.

27. Approach A above; when terms are the same or similar; and the difference between 'refinancing' and 'roll over' have all been discussed extensively in this project over the last three years. We are uncertain whether a further discussion of these individual terms will solve this issue or shed light on how we should interpret the requirements of the Standard as a whole.

Outline of a more general approach

28. The objective of IAS 1 is to set out overall requirements for the presentation of elements in general purpose financial statements that ensure comparability both between entities and within the same entity over time. Consequently, we think that we should also consider a more general approach to the classification of liabilities that is less dependent on specific borrowing fact patterns and that does not require the definition of terms that are common to many types of transactions and are used frequently in IFRSs.

29. In order to reduce the variety of fact patterns for initial consideration, we returned to the original analysis of the second submission in November 2010, in which an entity issues short-term commercial paper that is underwritten by a long-term facility. In the November 2010 Agenda Paper the staff put the emphasis in interpreting paragraph 73 on whether the liability had been 'refinanced' or 'rolled over'. In the paper the staff concluded that the *rollover* of an obligation must always be with the same lender, and on similar terms; but *refinancing* can be with another lender or on different terms with the same lender. Paragraph 73 of the Standard identifies both activities as being compatible with a non-current classification.

30. The November 2010 paper concludes that the lack of clarity in the classification of liabilities arises because refinancing can mean either or both of the following circumstances:

(a) replace the existing finance arrangement with a new one, with the same lender, but on different terms, and/or

(b) replace the existing finance arrangement with a new one, with a new lender, on similar or different terms.

General approach based on date of settlement

31. We wonder whether distinguishing ‘rollover’ from ‘refinancing’, or ‘different terms’ from ‘similar terms’, is really necessary for the purposes of classifying current or non-current liabilities or interpreting IAS1? In our view, the relevant condition for the presentation of a liability as non-current as specified in paragraphs 69 (d) and 73 is not based on whether it is rolled over or refinanced, but is instead based on the existence of an arrangement that ensures the entity is not required to settle the liability for at least 12 months after the reporting period:

> 69 (d) it does not have an unconditional right *to defer settlement of the liability for at least twelve months* after the reporting period (see paragraph 73).
>
> 73 If an entity expects, and has the discretion, *to refinance or roll over an obligation for at least twelve months* after the reporting period under an existing loan facility, it classifies the obligation as non-current,
>
> (*emphasis added*)

32. This accords with a general view in IFRS that the presentation of any individual transaction is dependent on the rights and obligations that exist at the reporting date and that arise from that transaction. In accordance with that view, it is not whether the avoidance of settlement of the liability arises because of refinancing or rollover that is significant, but whether there is a contractual arrangement in existence at the reporting date that means that the entity will not be required to settle the liability within the next 12 months.

33. Liabilities, and their settlement, are defined in terms of an outflow of resources from the entity. We are sympathetic, consequently, to the view received from outreach that a liability should be classified based on the nature and timing of the existing obligation to settle that liability. We also think that classifying liabilities

in a way that is based on the timing of the settlement of the liability, and consequently on the timing of the cash outflows of the entity, provides useful information for investors.

Classification of the liability based on the contractual arrangement

34. In this more general approach we think that the classification of liabilities should be based directly on the contractual arrangements in place at the reporting date. We propose linking classification more directly with the contractual arrangement, to the effect that classification of a liability as non-current is dependent on whether a contractual arrangement is in place at the reporting date that is intended to result in the liability being settled in more than 12 months. We think that this is the principle on which classification is based in both paragraphs 69 (d) and 73. (Paragraph 66 of the Standard sets out similar requirements for the classification of current and non-current assets.)

Comparison of current with non-current classification

35. We need to address why this principle is unclear to some in applying this Standard and we think that the diversity in practice arises because of a perceived asymmetry between paragraphs 69(d) and 73 of the Standard in interpreting the entity's rights. Paragraph 69 (d) states that the liability is current unless the entity has an unconditional right to defer settlement. Paragraph 73, on the other hand, states that an obligation is non-current if the entity expects and has the discretion to roll the obligation over or refinance it. Many readers see an inconsistency between 'unconditional right' and 'discretion' and consequently have difficulty in reconciling the application of these two paragraphs. In the light of this seeming contradiction, the question for us is - which level of the entity's ability to act, unconditional right or discretion, should be the right one for the purposes of classifying the liability?

Unconditional right

36. We think that, in practice, if paragraph 69(d) were applied as worded it would be rare to classify the liability that relates to any borrowing arrangement as non-current. This is because the majority of-some would say all- borrowing

arrangements contain a number of covenants or conditions included by the lender. These may include restrictions on the borrower accessing other sources of borrowings; the achievement of gearing or liquidity ratios or capital maintenance measures. Specific material adverse condition clauses may also be included. If any of these conditions or covenants are breached the lender generally has the right to immediate settlement of the liability. The requirement in the Standard for an unconditional right is a high hurdle that we think is unlikely ever to be complied with in practice.

37. We also think that the use of unconditional in 69 (d) is confusing when compared with the requirements of paragraph 74 of the Standard. This paragraph refers to breaches of conditions in the arrangement and, in accordance with paragraph 74, if the entity is in breach of a condition or covenant it doesn't have an unconditional right. The implication is that until the entity breaches the condition, the right is unconditional. We think this is confusing and contradictory.

38. Consequently, we would propose deleting 'unconditional' so that paragraph 69(d) reads:

> 69 An entity shall classify a liability as current when:
>
> (a) …
>
> (d) it does not have a~~n unconditional~~ right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73).

39. In our view, this wording no longer causes a contradiction with paragraph 73 when that additional guidance is applied:

> 73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period.

40. We think that management's 'discretion', in the sense of 'freedom to act' is compatible with having a right to defer settlement, but that management discretion is not compatible with an unconditional right. Removing 'unconditional' would improve the symmetry of the articulation of current and non-current classification in the Standard and would remove diversity in the application of the Standard.

41. We don't think that removing 'unconditional' changes the principle involved in classifying liabilities as a non-current. Classification would still be based on the rights of the entity in existence at the reporting date and on the entity's contractual obligation to settle the liability later than 12 months after the reporting date.

Benefits of this approach

42. We think that there are several benefits of an approach based on the existence of an arrangement that requires the entity to settle the liability at least 12 months or longer after the reporting period:

    (a) There would be no need to distinguish between a rollover and refinancing. The existence of an arrangement that defers the settlement of the liability for longer than 12 months is the condition required for a non-current classification.

    (b) Similarly, it would not matter whether the terms of the rollover or refinancing were the same – or not.

    (c) It avoids trying to anticipate the facts and circumstances of a range of transactions in order to define the precise circumstances in which a liability should be classified as non-current. We have tried earlier in this project to develop this guidance (eg same lender, same terms), but with limited success.

    (d) There would be no need to define terms within the existing wording or extend the wording significantly. We are concerned that any guidance about common contractual terms with respect to the classification of liabilities could have unintended consequences if that guidance were applied to other circumstances when the term is used in IFRS.

Further considerations

43. If this general approach, based on arrangements in place at the reporting date, is developed there are three further aspects of the guidance that might be considered:

    (a) linkage with cash;

    (b) compliance with covenants and conditions in the arrangement; and

(c) alignment with US GAAP.

Linkage with cash outflows

44. We think that the linkage with cash outflows referred to in paragraph 33 is an important one both for investors and conceptually.

45. We also note the two different current wording with respect to the classification of a liability as non-current:

> 69 (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73).
>
> 73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current,

46. The settlement of a liability is based on the notion of an outflow of a resource and this generally is an outflow of cash. The effect of referring to 'settlement' in paragraph 69 (d), we think, is that the cash outflow is deferred. The effect of using 'refinancing' and 'roll over' in paragraph 73 is that one liability replaces another. The outcome that is shared by these seemingly contradictory paragraphs is that in neither case does the entity recognise a cash outflow for at least 12 months after the reporting date. Consequently, we think that 'no cash outflow for 12 months' is the characteristic that identifies a non-current liability in IFRS.

47. If we were to develop the more general approach to classifying liabilities, we think that we should consider whether settlement should explicitly be 'cash settlement' for the purposes of classification of a liability. Linking the deferral to a cash outflow could be a useful development:

(a) A cash outflow is a readily identifiable and clearly defined event.

(b) Information about future cash flows is useful information for investors.

(c) Specifying settlement as cash settlement would remove any tension with respect to whether the replacement liability is with the same lender or on similar terms.

Compliance with covenants and conditions in the arrangement

48. In developing this approach we will need to consider whether compliance with those conditions or covenants contained in the arrangement should be addressed in the proposed amendment. This could be addressed through:

    (a) an explicit requirement for compliance with covenants and conditions being included in the amendment;

    (b) a discussion of the effect of an assessment of the covenants or conditions on the assessment of the entity's rights to defer settlement in the proposed amendment; or

    (c) a proposed disclosure requirement that would explain the covenants or conditions and/or provide details of management's assessment of their effect or confirmation that they are not breached.

Alignment with US GAAP

49. Some have suggested that we should look to US GAAP for help in resolving this issue and consider incorporating:

    (a) the guidance in Topic 470 on classifying debt as short term or long term into IAS 1; and/or

    (b) the guidance in Topic 210 on the classification of short-term assets and liabilities into IAS 1.

50. A comparison of IAS 1 and Topic 470 with respect to the classification of debt was made in April 2010 as part of the financial statement presentation project. Topic 210 was not compared with IAS 1 at that time. Instead an appendix to that paper indicated which retained parts of IAS 1 and which retained parts of Topic 210 would be combined in the creation of a proposed joint Standard.

51. The work on financial statement presentation highlighted a number of differences between US GAAP and IFRS with respect to classification. As an illustration of this, the differences between IAS 1 and Topic 470 with respect to debt are extracted below from that 2010 paper for convenience:

IAS 1	Codification Topic 470
An entity must have an "unconditional right to defer settlement" as well as expect and have the discretion to do so.	An entity must be able to demonstrate the ability to "consummate the refinancing" and have the intent to do so.
If the terms of the liability provide that the liability could be settled by the issue of equity that has no effect on the classification of the liability.	If equity is issued after the reporting date but before the issuance of the financial statements the liability is classified as long-term.
Events, such as entering into an agreement to refinance for a period greater than twelve months from the reporting date that occur after the reporting date but before issuance of the financial statements are disclosed as non-adjusting events and the related debt due within twelve months as at the reporting date would be classified as short-term.	Events, such as entering into an agreement to refinance for a period greater than twelve months from the reporting date, that occur after the reporting date but before issuance of the financial statements result in the related liabilities being classified as long-term.
A breach of a provision in a loan agreement that results in that long-term liability becoming payable on demand results in that liability being classified as short-term. If a waiver is obtained after the reporting date but before the financial statements are issued, the entity would disclose the waiver as a non-adjusting event and classify the liability as short-term.	A breach of a provision in a loan agreement that results in that long-term liability becoming payable on demand results in that liability being classified as short-term. If a waiver is obtained after the reporting date but before the financial statements are issued, the entity would classify the liability as long-term.
In the case of a breach of an agreement that contains a grace period of at least 12 months to cure a breach during which the lender cannot demand payment, the liability may be classified as long term (as long as it is not otherwise due within 12 months).	In the case of a breach of an agreement that contains a grace period, and that breach is expected to be cured within that period, the liability may be classified as long term (as long as it is not otherwise due within 12 months).

52. We think that it is unnecessary to consider the guidance in US GAAP to resolve this issue and that there are significant differences between IFRS and US GAAP. We would also be concerned at introducing specific guidance for debt from that of other liabilities. We prefer the more general nature of classification in IAS 1 in which the classification of all liabilities is considered without separate requirements for liabilities and debt and we think that including debt-specific guidance with respect to some types of liabilities would go against that principle. Accordingly, we have not pursued an alignment with US GAAP in resolving this issue.

Significance of management's expectations in the classification of liabilities

53. With respect to a classification of the liability as current, paragraph 69 states that:

> An entity shall classify a liability as current when:
>
> (a) it expects to settle the liability in its normal operating cycle; …

54. Paragraph 73 also includes expectation in its guidance about classifying liabilities as non-current:

> If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period.

55. We think that the IASB's intention to include expectation is clear and is consistently applied to its description of both current and non-current classification. Consequently, in developing any of the proposed approaches we think that we would need to continue to take into account management's expectations of when the liability will be settled.

56. The wording of the Standard is explicit that these expectations should be included in any assessment of classification. The limited amendment proposed by the general approach, based on the arrangements in place at the reporting date, would leave this intention unchanged.

Staff summary and recommendation

57. We think that there are four alternative ways in which this issue could be approached:

    (a) refine our initial approach, ie specify that loans for longer than 12 months from an existing lender are non-current and all loans from a new (ie future) lender are current and define when terms are 'the same or similar' (although not in terms of financial instrument derecognition);

(b) refine our initial approach and develop the additional guidance identified in Agenda Paper 2B of the IASB's March 2013 meeting, ie clarify the meaning of 'unconditional right' in paragraph 69 and 'discretion' in paragraph 73 and/or distinguish 'settlement of the liability' in paragraph 69 (d) from 'refinance' or 'roll over an obligation' in paragraph 73;

(c) develop a more general approach to the classification of liabilities that is based on an assessment of the arrangement(s) in existence at the reporting date and addresses the tension between an unconditional right in paragraph 69(d) of the Standard and the entity's discretion in paragraph 73 of the Standard. This approach could also be extended to link the classification of liabilities with the timing of cash outflows.; or

(d) defer providing guidance on the classification of elements as current or non-current to a wider review of presentation as part of the disclosure framework.

58. We do not recommend pursuing approaches (a) or (b) because we think these topics have been discussed frequently over the last three years, but have not resulted in a solution. We also do not recommend approach (d). We think that this issue should be addressed now and not deferred to a wider review of presentation because of the reported diversity in the application of paragraphs 69 (d) and 73 of the Standard.

Staff recommendation

59. We recommend that we develop a more general approach to the classification of liabilities, approach (c) above, based on the arrangements that are in place at the reporting date and linked to the timing of cash outflows for the reasons noted in paragraphs 42 and 47:

(a) There would be no need to distinguish between rollover and refinancing or define same or similar terms.

(b) A general approach avoids trying to anticipate the facts and circumstance of a range of transactions in order to define the precise circumstances when a liability should be classified as non-current.

(c) There would be no need to define terms within the existing wording or extend that wording significantly.

(d) Classification of liabilities would be linked with the timing of cash outflows resulting in the clearer application of the Standard and more useful information for investors.

Question
Do you agree with the staff recommendation to develop a more general approach to the classification of liabilities based on the arrangements that are in place at the reporting date? If that approach is developed, what preliminary views do you hold on whether: (a) 'unconditional' should be removed with respect to the rights discussed in paragraph 69 (d) of the Standard? (b) settlement should explicitly refer to cash settlement for the purposes of classification? (c) the amendment should address the entity's compliance with conditions and covenants contained in the arrangements in place at the reporting date?

Appendix A Summary of earlier Agenda Papers

Meeting	Reference	Title	Hyperlink	Outcome
IFRIC Sept 2010	AP 16	IAS 1 Current/non-current classification of callable loan	http://www.ifrs.org/Meetings/Documents/IFRS-IC-Sep10/1009obs16.pdf	Submission rejected. IAS 1 69 (d) is clear
IFRIC November 2 010	AP 6	IAS 1 Current/non-current classification of callable loan	http://www.ifrs.org/Meetings/Documents/IFRS-IC-Nov10/1011obs6IAS1CurrentvsNoncurrentLiabilitydoc.pdf	Comment letters confirmed agenda decision
IFRIC November 2010	AP 11	IAS 1 Current/non-current classification of debt	http://www.ifrs.org/Meetings/Documents/IFRS-IC-Nov10/1011obs1111AIAS1.pdf	Outreach requested by IFRIC.
IFRIC November 2010	AP 11A	IAS 1 Current/non-current classification of debt (supplementary issue)	http://www.ifrs.org/Meetings/Documents/IFRS-IC-Nov10/1011obs1111AIAS1.pdf	Borrower does not need to assess financial stability of lender in assessing classification of debt
IFRIC January 2011	AP 8	IAS 1 Current/non-current classification of debt (rollover agreements) outreach results	http://www.ifrs.org/Meetings/Documents/IFRICJan11/IFRIC-Jan-2011-08IAS1.pdf	Outreach analysed. AIP to include ‘same lender on same or similar terms’
IASB September 2011	AP 7H	AIP 2010-2012 IAS 1 Current/non-current classification of debt (rollover agreements) outreach results	http://www.ifrs.org/Meetings/Pages/IASB-Meeting-September-2011.aspx	IASB request that basis be extended to clarify similar terms or a change in terms
IFRIC January 2013	AP15 C	AIP 2010-2012 Comment letter analysis	http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/January/151301AP15C%20AIP%20IAS%201%20Classification%20of%20debt.pdf	Proposed AIP is not clear; IFRS IC refer topic to IASB as narrow-focus amendment
IASB March 2013	AP 2B	IAS 1 Current/non-current classification of liabilities	http://www.ifrs.org/Meetings/MeetingDocs/IASB/2013/March/02B%20-%20Annual%20Improvements%202010-2012.pdf	Interpretations Committee asked to reconsider alternative clarification.