# STAFF PAPER

September 2014

## IASB Meeting

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| **Project** | **Narrow-scope amendment: IAS 1 *Presentation of Financial Statements*—Classification of liabilities** |
| Paper topic | Summary of due process |

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## Purpose

1. The purpose of this paper is to explain the steps in the due process that the IASB has taken before publication of the Exposure Draft *Classification of Liabilities* (Proposed amendments to IAS 1 *Presentation of Financial Statements*) and to ask the IASB whether they think that the proposed amendment has been subject to adequate due process.

## Structure of the paper

2. The paper is organised as follows:
   (a) meetings when the proposed amendments to IAS 1 have been discussed;
   (b) background;
   (c) summary of the proposed amendments to IAS 1;
   (d) effect of the proposed amendments;
   (e) intention to dissent;
   (f) proposed timetable for balloting and publication;
   (g) transition arrangements;
   (h) confirmation of due process.

## Meetings when the proposed amendments to IAS 1 have been discussed

3. The proposed amendments to IAS 1were discussed:

   (a) by the IFRS Interpretations Committee (the Interpretations Committee) at its meeting in January 2013 (Agenda Paper 15C).

   (b) by the IASB at its meetings in March 2013 (Agenda Paper 2B), Sept 2013 (Agenda Paper 8C), Oct 2013 (Agenda Paper20) and March 2014 (Agenda Paper 8).

## Background

4. The IFRS Interpretations Committee received two submissions requesting clarification of the criteria for the classification of a liability as either current or non-current. The issue concerned whether the classification requirements of paragraph 69 of the Standard were consistent with the circumstances detailed in paragraph 73. 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 paragraph 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. Following outreach on this topic, the Interpretations Committee recommended a proposed amendment to IAS 1 as part of the Exposure Draft: *Annual Improvements to IFRSs: 2010-2012 Cycle* (Annual Improvements 2010-2012) to clarify that the refinancing arrangement detailed in paragraph 73 of the Standard should only result in a non-current classification if the arrangement was with the same lender and on the same or similar terms. That proposal included guidance on the nature of 'same or similar terms' that was linked to the derecognition requirements for financial liabilities in IFRS 9 *Financial Instruments.*

6. Many respondents thought that this additional guidance about 'same or similar terms', was not useful.

7. The Interpretations Committee agreed with these comments and accepted that the application of the proposed guidance would also raise practical issues, as mentioned by some respondents.

## Summary of the proposed amendments to IAS 1

8. At its March 2013 meeting the IASB agreed not to proceed with the proposed amendment as part of the Annual Improvements 2010-2012 and asked for an alternative clarification to be developed. The revised proposed amendment was discussed by the IASB at its September 2013, October 2013 and March 2014 meetings. At these meetings the IASB tentatively decided:

    (a) to delete 'unconditional' from paragraph 69 (d) of the Standard so that 'unconditional rights' is replaced by 'rights';

    (b) to replace 'discretion' in paragraph 73 of the Standard with 'right' to more clearly align with the requirements of paragraph 69(d) of the Standard;

    (c) to link the settlement of the liability with the outflow of resources from the entity by adding 'by the transfer of cash, other assets or services' to paragraph 73 of the Standard; and

    (d) to make it explicit in paragraphs 69(d) and 73 of the Standard that only rights in place at the reporting date should affect the classification of a liability.

9. The IASB also decided that guidance in the Standard should be reorganised so that similar examples are grouped together.

10. The IASB considered whether events after the reporting period that prevented application of the right, such as breach of covenant or early repayment by the entity, should affect the classification of the liability. The IASB decided not to include the additional guidance proposed, because of concerns that it placed too much emphasis on management intentions and because the proposal represented an exception to IAS 10 *Events after the Reporting Period*.

11. The IASB also decided not to include any reference to ‘same lender’ or ‘same or similar terms’ as proposed in the Annual Improvements 2010-2012 ED. Instead, the IASB decided to clarify that the classification of liabilities should be based on the rights and obligations that exist at the end of the reporting period with respect to those liabilities. Those existing rights and obligations will necessarily be with the same lender.

## Effect of the proposed amendments

12. Feedback from outreach conducted to the members of the International Forum of Accounting Standard-Setters (IFASS), accounting firms and securities regulators indicated that there is significant diversity in practice with respect to the classification of liabilities. The purpose of the proposed amendments is to reduce the diversity in practice.

## Intention to dissent

13. Paragraph 6.9 of the *Due Process Handbook* requires that we formally ask whether any members intend to dissent from the proposals in the ED.

## Comment period

14. We propose a comment period of 120 days, in accordance with paragraph 6.7 of the *Due Process Handbook*.

## Proposed timetable for balloting and publication

15. The balloting process of the Exposure Draft *Classification of Liabilities* (Proposed amendments to IAS 1 *Presentation of Financial Statements*) will start in October 2014 and its publication is scheduled for December 2014.

## Transition arrangements

16. The requirements for transition arrangements are set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This Standard requires that changes in accounting policies are applied retrospectively in accordance with paragraph 19(b) and changes in accounting estimates are applied prospectively in accordance with paragraph 36. We do not think that these proposals would result in a *change* of accounting policy; the proposed amendment clarifies existing requirements about the classification of liabilities. In our view, any resulting change in classification would be more in the nature of a change in accounting estimate which, in accordance with IAS 8, would warrant prospective application.

17. We think, however, that these proposals should nonetheless be applied retrospectively because:

    (a) paragraph 41 of IAS 1 requires that, if an entity changes the presentation or classification of items in its financial statements , it shall reclassify comparative amounts unless reclassification is impracticable;

    (b) we do not consider that the retrospective application of the proposed narrow-scope amendments is onerous, because they deal solely with classification, rather than recognition or measurement;

    (c) the proposed narrow-scope amendments clarify existing requirements rather than imposing additional requirements; and

    (d) information about the classification of liabilities is most useful if current and prior period information is presented on the same basis.

18. We propose that early application should be permitted.

19. We considered the effects of the amendments when an entity adopts IFRS for the first time and do not think that an exemption to the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* is required.

## Confirmation of due process

20. The *Due Process Handbook* sets out the due process steps that should be taken in developing a proposed amendment. We note that the required due process steps

applicable to date for the publication of the proposals have been completed, as documented in Appendix A.

| **Questions for the IASB** |
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| 1. Do any IASB members intend to dissent from the proposed amendment?<br>2. Do the IASB members agree with the staff recommendation that the proposals should be applied retrospectively? Do the IASB members agree that earlier application should be permitted?<br>3. Do the IASB members agree that no specific additional relief is required for first-time adoption?<br>4. Are the IASB members satisfied that all required due process steps to date that pertain to the publication of the Exposure Draft *Classification of Liabilities* (Proposed amendments to IAS 1) have been complied with?<br>5. Do the staff have permission to ballot the Exposure Draft *Classification of Liabilities* (Proposed amendments to IAS 1)? |

## Appendix A

### Confirmation of due process steps followed in the development of the Exposure Draft *Classification of liabilities* (Proposed amendments to IAS 1).

The following table sets out the due process steps followed by the IASB before the publication of the Exposure Draft.

| *Step* | *Required/ Optional* | *Actions* |
|---|---|---|
| **Board meetings held in public, with papers available for observers. All decisions are made in public session.** | Required | This issue was discussed by the IFRS Interpretations Committee (the Interpretations Committee) at its January 2013 meeting and by the IASB at its March 2013, September 2013, October 2013 and March 2014 meetings.<br>An *IFRIC Update* and an *IASB Update* were posted after the Interpretations Committee meeting and each of the IASB meetings at which the issues were discussed.<br>A project webpage has been maintained throughout the process. |
| **Consultation with the Trustees and the Advisory Council.** | Required | Because of the narrow-scope nature of the amendments this was considered to be unnecessary. |
| **Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.** | Required | This is a narrow-scope amendment and its objective is to clarify the guidance in IAS 1.<br>We assessed the likely effects of the proposed amendment as being limited, because the scope of the proposed amendment is narrow and the proposed amendment represents a clarification of existing requirements rather than the introduction of new requirements. |
| **Finalisation** | | |
| **Due process steps reviewed by the IASB.** | Required | The IASB will review the due process steps in its September 2014 meeting. |
| **IASB members asked whether they intend to dissent from the proposals.** | Required | The IASB will be asked this question in its September 2014 meeting. |

| *Step* | *Required/ Optional* | *Actions* |
|---|---|---|
| **The ED has an appropriate comment period.** | Required | The IASB proposes a comment period of 120 days, in accordance with paragraph 6.7 of the *Due Process Handbook*. |
| **Drafting** | | |
| **Drafting quality assurance steps are adequate.** | Required | The editorial team will be asked to review the pre-ballot draft. |
| **Drafting quality assurance steps are adequate.** | Required | The translation team will be asked to review the pre-ballot draft. |
| **Drafting quality assurance steps are adequate.** | Required | The XBRL team will be asked to review the pre-ballot draft. |
| **Publication** | | |
| **ED published.** | Required | The ED will be made available on the public web site on the publication date. The DPOC will be informed of publication. |
| **Press release to announce publication of ED.** | Required | A press release will be published announcing the ED. |