Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Classification of Liabilities as Current or Non-current**	**Meeting**	M174
Topic:	**Amendments to AASB 101**	**Agenda Item:**	6.1
		Date:	19 February 2020
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Objective of this paper

1 The objective of this paper is for the Board to decide on whether to issue the Australian-equivalent of the recent IFRS Standard *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1), which was released by the IASB in January 2020.

Reasons for bringing this paper to the Board

2 The IASB has issued amendments to IAS 1 *Presentation of Financial Statements* finalising its Classification of Liabilities as Current or Non-current project. In accordance with the Board's policy to issue Australian-equivalent IFRS Standards within 2 months of issuance, the Board will be required to vote on the Standard at the March Board meeting.

Summary of staff recommendations

3 Staff recommend that the Board approves the ballot draft of the Australian equivalent Standard incorporating the IASB amending Standard *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1).

Attachments

6.2 *Classification of Liabilities as Current or Non-current* (Amendments to AASB 101) Ballot Draft

Background

4 The IASB's focus was on developing amendments to IAS 1 *Presentation of Financial Statements*, to clarify its requirements for the presentation of liabilities in the statement of financial position.

5 The amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

6 The amendments include clarification:

(a) that an entity's right to defer settlement must exist at the end of the reporting period;

(b) that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;

(c) how lending conditions affect classification; and

(d) for classifying liabilities an entity will or may settle by issuing its own equity instruments.

7 In its Primary Financial Statements project, the IASB has introduced proposals to improve the way information is communicated in financial statements. The project proposes to issue requirements in a new IFRS Standard that, when finalised, would replace IAS 1.

8 In December 2019, the IASB published an exposure draft ED/2019/7 *General Presentation and Disclosures* which was then issued by the AASB in January 2020, ED 298 *General Presentations and Disclosures.*

9 The IASB is not reviewing all aspects of IAS 1 as part of the Primary Financial Statements project. It is not reviewing the requirements for classification of assets and liabilities as current or non-current. The existing requirements as amended by this Ballot draft would carry forward into the new Standard.

Summary of feedback received on the ED

10 In February 2015, the IASB issued Exposure Draft ED/2015/1 *Classification of Liabilities* (Proposed amendments to IAS 1). The AASB decided at its May 2015 meeting to make a submission to the IASB.

11 The AASB received six[1] Australian-specific comment letters on the Australian-equivalent Exposure Draft of the IASB's ED/2015/1 – ED 259 *Classification of Liabilities* (Proposed amendments to AASB 101) which expressed general support for the proposed amendments, however some concerns were raised by constituents (refer to paragraphs 12-13 below).

Issues submitted to IASB by AASB

12 Although the AASB was supportive of the IASB's efforts to clarify issues surrounding the classification of liabilities as current or non-current, the submission highlighted that the proposals do not achieve the intended clarity for the reasons below;

(a) The AASB agreed with the proposed deletion of the word 'unconditional' from paragraph 69(d) of IAS 1 Presentation of Financial Statements. However, clarification is required as to what 'a right' is. This was partially addressed by IASB's additional

[1] Westworth Kemp Consultants, Saward Dawson, PwC, HoTARAC, Deloitte, CPA/CAANZ – comment letters on the AASB website.

guidance in para 72A (*If the right to defer settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date)*;

(b) the proposed changes to paragraph 72R(a) relating to entity's right to roll over the obligation result in ambiguity in relation to the classification of loans under an existing loan facility when the loans are held with a consortium and/or there is a second counterparty included in the loan facility. Furthermore, that it is not clear how these changes would interact with the derecognition criteria in IAS 39 *Financial Instruments: Recognition and Measurement* and AASB 9 *Financial Instruments*. This paragraph is currently paragraph 73 in the standard, however, IASB did not change the wording significantly.

(c) AASB expressed disagreement with the proposed transition requirements. The Board considered the proposed amendments should be applied prospectively on the basis that in determining the classification of a liability an entity needs to have an understanding of the terms and conditions at that point in time. The Board was of a view that retrospective application would require an entity to use hindsight. The Board also decided to note in its submission that it views the proposals in the nature of a change in classification and accordingly that the requirements in IAS *8 Accounting Policies, Changes in Accounting Estimates and Errors* should not be specifically referred to. However, IASB did not change the retrospective application requirement in the standard issued.

13 The IASB proposed making the link between the settlement of the liability and the outlfow of resources from the entity clearer by adding '*by the transfer to the counterparty of cash, equity instruments, other assets or services*' to paragraph 69 of the Standard. AASB as well as other respondents to ED 259 supported this proposal, however raised concerns regarding paragraph 72R(a) focusing on 'an existing loan facility' and the word 'refinance' being omitted from the paragraph. The para 72R of ED 259 was replaced by para 73 in the standard, however does not address the concerns.

Specific issues considered by the IASB

14 *Replacing 'discretion' with 'right'.* The IASB proposed replacing 'discretion' with 'right' in paragraph 73 to align it with the requirements of paragrah 69(d)[2] of the Standard. The majority of respondents agreed with the proposals. However, some respondents, including the AASB recommended to include additional guidance, specifically around management intentions. The IASB added paragraph 75A, which explicitly clarifies that classification is unaffected by management intentions or expectations to settle the liability within twelve months after the reporting period, or by settlement of the liability between the end of the reporting period and the date the financial statements are authorised for issue.

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[2] Paragraph 69(d): it does not have ~~an unconditional~~ <u>the right at the end of the reporting period</u> 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.~~

New Zealand Accounting Standards Board (NZASB)

15 The NZASB staff will be seeking approval of the IASB amending standard *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) at the March NZASB meeting, and do not intend to propose any RDR concessions on the basis that the standard does not include any new disclosures.

Staff recommendations

16 AASB staff support the amendments made by the IASB. Staff are not aware that the proposed amendments would cause any significant issues for Australian entities. Staff do not consider that any not-for-profit (NFP) or public sector specific modification is needed as the amendments are clarifications to existing requirements that apply to both for-profit and not-for-profit entities. Staff recommended to approve the ballot draft so publicly accountable entities can remain IFRS compliant.

Next steps

17 The AASB will finalise the project by making an amending standard incorporating the IASB's Standard *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) if approved.

Questions to the Board

Does the Board agree with staff recommendation to approve the ballot draft of an Australian equivalent Standard incorporating the IFRS Standard 1 *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1)?