



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



The Chairman of the IASB

IASB
30 Cannon Street
London EC4M 6XH
UK

9 June 2015

Dear Mr. Hoogervorst

Ref: ED/2015/1 Classification of Liabilities Proposed amendments to IAS 1

We are pleased to respond to the Exposure Draft Classification of Liabilities Proposed amendments to IAS 1 (the ED).

We agree with the proposed amendments and have some additional comments to make as laid out in the Appendix.

If you would like to have any further information or have questions about our response, please do not hesitate to contact us.

Yours sincerely,

ACTEO

Patrice MARTEAU
Chairman

AFEP

François SOULMAGNON
Director General

MEDEF

Agnès LEPINAY
Director of economic
and financial affairs

Appendix. Questions for respondents

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

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

We agree that the changes proposed bring clarification to the meaning of the paragraphs.

We agree that it is only rights actually in force at the end of the reporting period which should be considered when determining the classification of the liability. We think that is consistent with the current principles and text of IAS 1.

We would, however, like to test our understanding of the application of the amendment with the following examples:

- 1) An entity has a loan with a contractual maturity of more than 12 months from the balance-sheet date, subject to the entity not breaching a financial covenant (for example, certain financial ratios at the quarterly balance-sheet date). If the covenant is breached, the loan must be repaid within 6 months.
 - a) If the covenant is breached at the end of the period (31 December), the loan is reclassified to current, even if the breach is not "certified" until the date of the audit opinion. This is an adjusting event under IAS 10.
 - b) If the covenant is not breached at the end of the period (31 December) but it is expected that it will be breached at the end of the next period (31 March), then the loan will still be classed as non-current at 31 December. Disclosure of the expected breach might be appropriate.
- 2) An entity has a loan with a contractual maturity of less than 12 months from the balance-sheet date, but has the contractual right, subject to the entity not breaching a financial covenant (for example, certain financial ratios at a specified balance-sheet date) to extend the loan for more than 12 months.
 - a) If the covenant is based on the financial position at 31 December, and is breached at that date, the loan is classed as current, even if the breach is not "certified" until the date of the audit opinion. At the balance-sheet date the entity does not have the right to extend since the breach has already occurred. The identification of the breach is an adjusting event under IAS 10.

- b) If the covenant is based on the balance sheet at 31 March following and there has not been a breach at the end of the preceding annual period (31 December), then the loan will be classed as current at 31 December, since the right to extend cannot be acquired until the non-occurrence of a breach at the specified date has been determined. In effect, in application of paragraph 73R (b)(ii) the refinancing agreement is not in place until that date.

The presentation of the examples in paragraphs 72R and 73R is very helpful in explaining which circumstances create, or do not create, a right to defer settlement and hence to classify as non-current. If our understanding of different scenarios as presented above is correct, then it may be helpful to include such examples in these paragraphs.

Finally, we think that it would be helpful to specify that the rights in question must be substantive rights and not rights which have a legal form but realistically could not be enforced or would not be exercised in practice. For example, a roll-over right might not be exercised if it were at an interest rate which is out of any realistic range).

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?

We agree with the Board (BC12) that the rollover of borrowing does not constitute “settlement” of the existing liability (and the creation of a new liability). The specification of what “settlement” means for the purposes of classification between current and non-current is helpful.

This clarification does however raise the question of what the Board intends the effect of the sentence “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” in paragraph 69(d) to be.

Consider the following example drawn from BC38L and BC38M of the current text: an entity has a loan to be settled in cash in 3 years from the balance-sheet date, but which it may be forced to settle in equity instruments within 12 months from the balance-sheet date at the option of the counterparty. The entity therefore does not have the right to defer settlement for more than 12 months and according to the proposed amendments should classify the liability as current. This also is the conclusion of the existing BC38L and BC38M.

Given that the effect of settlement on the classification would appear to be clear from the rest of the proposed guidance, the retention of the sentence quoted above creates uncertainty about whether that conclusion is correct. In addition, paragraphs BC38N and BC38O of the existing text imply that settlement by the issue of equity instruments should not determine the classification of a liability. It may therefore be appropriate to remove or redraft the last sentence of paragraph 69 and redraft the relevant paragraphs of the Basis for Conclusion.

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?

We agree with the retrospective application of these clarifications.