

## IFRS in Focus

# IASB proposes amendments to IAS 1 to clarify the criteria for the classification of a liability as either current or non-current

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### The Bottom Line

- The IASB proposes amendments to IAS 1 that, if finalised, will:
  - align the requirements of paragraphs 69(d) and 73 of IAS 1;
  - clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period;
  - make the link clear between the settlement of a liability and the outflow of resources from an entity, and explain that the ‘settlement’ of a liability for classification purposes may be achieved in different forms, for example, cash, other assets, services, and in some cases, equity; and
  - reorganise the guidance in IAS 1 with respect to classification of liabilities as current or non-current so that similar examples are grouped together.
- The IASB did not propose an effective date for the proposed amendments. However, early application is proposed to be permitted.
- Comments on the proposals are due by 10 June 2015.

This edition of IFRS in Focus outlines the proposed amendments to IAS 1 *Presentation of Financial Statements* set out in the recent exposure draft ED/2015/1 *Classification of Liabilities (Proposed amendments to IAS 1)* (the “ED”) which was issued in February 2015 for public comment.

### Why are the amendments being proposed?

The amendments proposed in the ED result from a request received by the IASB to clarify the criteria for the classification of a liability as either current or non-current.

The issue raised was whether the classification requirements in paragraph 69 of IAS 1 were consistent with the circumstances detailed in paragraph 73.

The submitters questioned how having an *unconditional right to defer settlement* (specified in paragraph 69(d)) reconciled with having *the discretion to refinance or roll over an obligation* (specified in paragraph 73) as two bases for the classification of a liability as non-current, because having an unconditional right to defer settlement was seen as a much higher hurdle than having the discretion to defer settlement.

For more information please see the following websites:

[www.iasplus.com](http://www.iasplus.com)

[www.deloitte.com](http://www.deloitte.com)

### When would the proposed amendments apply?

The IASB did not propose an effective date for the proposed amendments. However, if finalised, earlier adoption is proposed to be permitted.

The proposed amendments, if finalised, would be applied retrospectively.

The comment period for the ED ends on 10 June 2015.

### What are the changes proposed by the ED?

The IASB proposes to delete the word 'unconditional' from paragraph 69(d) of IAS 1 so that 'unconditional right' is replaced by 'right', and to replace 'discretion' in paragraph 73 of IAS 1 with 'right' to align it with the requirements of paragraph 69(d). The IASB noted that rights to defer settlement are rarely unconditional, because they are often conditional on compliance with covenants in future periods.

The IASB explains in their proposed Basis for Conclusions that when a right is subject to a condition, an entity should take into account whether it complies with that condition at the end of the reporting period in determining whether the right should affect classification. Rights granted after the reporting period should not affect classification.

Accordingly, the IASB proposes to make it explicit in paragraphs 69(d) and 73 of IAS 1 that only rights in place at the reporting date should affect the classification of a liability.

#### Observation

The IASB decided not to include in the amendments an explicit requirement that rolled-over lending must be with the same lender, as proposed in the Annual Improvements 2010-2012 ED. Instead the IASB proposes to clarify that the classification of liabilities should be based on rights that are in existence at the end of the reporting period to roll over an obligation under an existing loan facility that directly relates to the loan being classified.

The amendments also propose to explain the link between the settlement of a liability and the outflow of resources from the entity by adding to paragraph 69 of IAS 1 that settlement refers to the 'transfer to the counterparty of cash, equity instruments, other assets or services'.

The IASB also proposes to reorganise the guidance in the Standard so that similar examples are grouped together to distinguish between circumstances that do affect the rights in existence at the reporting date, and those that do not.

#### Observation

The IASB also considered whether events after the reporting period, such as a breach of covenant or early repayment by an entity, should affect the classification of a liability. The IASB decided not to propose amending the guidance on the effect of events after the reporting period, because of concerns that it placed too much emphasis on management intentions and expectations and because such a proposal could represent an exception to IAS 10 *Events after the Reporting Period*.

## Key contacts

*Global IFRS Leader*  
Veronica Poole  
ifrsglobalofficeuk@deloitte.co.uk

### IFRS Centres of Excellence

#### Americas

<i>Canada</i>	Karen Higgins	ifrs@deloitte.ca
<i>LATCO</i>	Claudio Giaimo	ifrs-LATCO@deloitte.com
<i>United States</i>	Robert Uhl	iasplus-us@deloitte.com

#### Asia-Pacific

<i>Australia</i>	Anna Crawford	ifrs@deloitte.com.au
<i>China</i>	Stephen Taylor	ifrs@deloitte.com.cn
<i>Japan</i>	Shinya Iwasaki	ifrs@tohatsu.co.jp
<i>Singapore</i>	Shariq Barmaky	ifrs-sg@deloitte.com

#### Europe-Africa

<i>Belgium</i>	Thomas Carlier	ifrs-belgium@deloitte.com
<i>Denmark</i>	Jan Peter Larsen	ifrs@deloitte.dk
<i>France</i>	Laurence Rivat	ifrs@deloitte.fr
<i>Germany</i>	Jens Berger	ifrs@deloitte.de
<i>Italy</i>	Massimiliano Semprini	ifrs-it@deloitte.it
<i>Luxembourg</i>	Eddy Termaten	ifrs@deloitte.lu
<i>Netherlands</i>	Ralph Ter Hoeven	ifrs@deloitte.nl
<i>Russia</i>	Michael Raikhman	ifrs@deloitte.ru
<i>South Africa</i>	Nita Ranchod	ifrs@deloitte.co.za
<i>Spain</i>	Cleber Custodio	ifrs@deloitte.es
<i>United Kingdom</i>	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk

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