

9 May 2015

Kris Peach CA
Australian Accounting Standards Board
Level 7, 600 Bourke Street
Melbourne, VIC 3000

By email: standard@aab.gov.au

Dear Ms Peach

Submission on Exposure Draft ED 259: Classification of liabilities (ED)

Thank you for the opportunity to comment on the proposed amendments to AASB 101 *Presentation of Financial Statements* relating to the classification of liabilities. CPA Australia and Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) have considered the Exposure Draft and our comments are set out below.

CPA Australia and Chartered Accountants ANZ represent over 250,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia in Australia and internationally.

We broadly support the amendments to AASB 101 to clarify when a liability should be classified as current or non-current, as we understand there are difficulties in applying the extant requirements in practice. The classification of liabilities provides important information to investors about when an entity may be required to settle a liability, and therefore its financial position. However, we are concerned that there will be inconsistent application of some of the proposed amendments, particularly in relation to the classification of loans as current or non-current liabilities, in accordance with proposed paragraphs 69(d) and 73.

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Nature of the rights

The ED proposes to remove the word ‘unconditional’ from paragraph 69(d) so that the extant “unconditional right to defer settlement for at least 12 months” becomes a “right to defer settlement for at least 12 months”. This changes the meaning of paragraph 69(d), and consequently it may be difficult to establish whether a borrower has a ‘right’ to defer settlement.

This may be particularly relevant in the case of annual review clauses contained in bank loan agreements, which give the financial institution the potential to call in the loan. Many standard loan agreements in Australia include such clauses and have subsequently been classified as current on the basis that the borrower did not have an unconditional right to defer settlement. In such instances, the absence of the word ‘unconditional’ may cause loans to be classified as non-current.

We acknowledge the rationale outlined in the *Basis of Conclusions* (BC) for the proposed amendment to paragraph 69(d), and we agree that the wording should be consistent with paragraph 73, where the word ‘discretion’ (to refinance or roll over an obligation) has also been replaced with the word ‘right’. However, we encourage the provision of additional guidance to cover specific circumstances where annual review clauses exist.

Conditions at the reporting date

We appreciate the intention of the proposed amendments to paragraphs 69(d) and 73 is to make it explicit that only rights that exist at the reporting date should affect the classification of a liability. We also note the concerns raised in paragraph BC16 that the classification of liabilities should not depend on management’s intentions and expectations. Furthermore, paragraph BC16 highlights the Board’s reluctance to propose amendments in relation to post-reporting date events, as this may result in ambiguity around the application of IAS 10 *Events after the Reporting Period*.

However, there may still be instances where it is difficult to assess whether an entity has complied with the liability conditions (e.g. debt covenants) at the reporting date. A breach of a debt covenant indicated by a calculation subsequent to the reporting period may or may not point to the existence of the breach at the end of the reporting period. We believe that additional guidance is required in situations where it is evident that a breach has occurred but the timing of the breach is less apparent.

We note the concerns raised in paragraph BC16 on the classification of liabilities and their dependence on management’s intentions and expectations. However, it is not clear how management intentions or expectations are considered in the classification of liabilities in circumstances where a long-term liability is expected to be settled within the next 12 months. In such circumstances, the classification of the liability as current in accordance with paragraph 69(a) may be appropriate. We are of the opinion that clarification and further guidance is required on how management intention should affect the classification of liabilities in such circumstances.

Right to roll over an obligation

Due to the difficulties in applying paragraph 73 in the context of lender consortia, we note that the ED did not include an explicit requirement for rolled over lending to be with the ‘same lender’. Without any amendment, practical difficulties remain when determining whether an entity still has a right to defer settlement of the liability by rolling over the borrowing under an existing loan facility. We encourage consideration of how changes in consortia members that may result in a change in loan facility be addressed in the amended standard, and the provision of guidance to assist with the application of the proposed amendments in such circumstances.

We also seek clarity and guidance on how to classify a liability in a situation where an agreement to refinance a loan is entered into before the reporting period end and involves the settlement of the liability with the old lender by a new lender after the reporting period end.

Transition and first-time adoption

Paragraph BC19 indicates that the changes in classification are changes in estimate rather than changes in accounting policy. However, the proposals require retrospective application and paragraph BC20 provides the reasons for this approach. As changes in estimates normally require prospective application and to ensure consistent application of the requirements, we suggest reconsideration of the conclusion that the changes are to be considered as changes in estimates.

If you have any questions regarding this submission, please do not hesitate to contact either Dr Michael Fraser CA (Chartered Accountants ANZ) michael.fraser@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) ram.subramanian@cpaaustralia.com.au.

Yours sincerely



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