ACT Government
Chief Minister, Treasury and Economic Development

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Kris
Dear ~~Ms Peach~~,

Exposure Draft (ED) 259 *Classification of Liabilities* Proposed Amendments to AASB 101 and (IASB ED/2015/1)

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the ED: Classification of Liabilities (Proposed amendments to AASB101).

HoTARAC is generally supportive of the proposals and provides specific comments on questions from the ED in the Attachment below.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance on 02 6215 3551.

Yours sincerely

David Nicol
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee

5 May 2015

ATTACHMENT

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 paragraph 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?

(a) HoTARAC agrees with the proposed amendment to paragraph 73.,

HoTARAC supports using the same word in both paragraphs 73 and 69(d), as that would likely increase consistency when classifying liabilities under IAS 1.
The rights and conditions surrounding the liability to be classified are to be assessed by both preparers and auditors. If there is a currently exercisable right (without impediment) for the reporting entity to defer settlement, the classification is clearly non-current.

(b) HoTARAC supports the proposed amendments to paragraphs 69(d) and 73, subject to the following comments.

HoTARAC agrees with the argument in paragraph BC2 that rights to defer settlement are often subject to specific conditions being met. It is questionable whether it is appropriate for an entity to take into account rights to defer settlement that exist at the end of the reporting period, before the entity has actually met the associated conditions.

HoTARAC notes that paragraph BC4 of the amending standard makes it clear that when a right is subject to a condition, it is whether the entity complies with that condition at the end of the reporting period that determines whether the right should affect the classification. However, HoTARAC is of the view that this intent is not clear in the proposed amendments to the existing standard. To avoid confusion and misinterpretation, HoTARAC recommends that the IASB clarify this in the final classification criteria and include further application guidance to reinforce this point.

(c) HoTARAC agrees with the proposed amendment to paragraph 69(d), subject to the following comments.

As discussed above, given the exercise of rights to defer settlement is usually based on the fulfilment of specific conditions, it seems appropriate to replace the term 'an unconditional right' with 'a right'.
HoTARAC notes that the term 'right' is used differently in other IFRSs/IASs, for example IAS 18 *Revenue* uses 'enforceable rights' and 'unconditional rights'. Therefore HoTARAC would prefer consistency between these amendments and the usage of the word 'right' in other standards (e.g. perhaps 'enforceable right' better conveys the intent of these amendments, consistent with paragraph BC4).

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?

HoTARAC generally agrees with the proposal subject to further clarification from the IASB. HoTARAC suggests the IASB clarify the scope of the proposed new paragraph for 'settlement of a liability' in paragraph 69, as to whether it encompasses circumstances where certain liabilities can be extinguished without the transfer of cash, equity instruments, other assets or services to the counterparty within twelve months after balance date.

In the public sector, certain arrangements allow for loans or part thereof to be forgiven. For example, a government department lends money to another public sector entity. Under the loan agreement, 100 per cent of the loan is repayable by a certain timeframe, but 30 per cent of the total amount may be waived by the government department if the borrowing entity meets certain terms and conditions. There is no assurance that the borrowing entity would meet those specific terms and conditions. Conceptually, the full amount of the loan should be initially recognised by the borrowing entity as a liability (i.e. at the inception of the agreement, the borrowing entity has a present obligation to repay the full amount of the loan). The 30 per cent of the loan would only be extinguished in subsequent periods upon the fulfilment of those terms and conditions.

Such an extinguishment (of the 30 per cent) does not involve the transfer of cash, equity instruments, other assets or services from the borrowing entity to the government department, and the borrowing entity is likely to be in control of whether and when it will fulfil those waiver terms and conditions. In such circumstances, it is unclear whether that constitutes a 'right to defer settlement'. HoTARAC therefore seeks clarification whether liabilities extinguished through mechanisms other than those specified in paragraph 69 would also represent a 'right to defer settlement'.

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?

HoTARAC accepts the IASB's justification that, in principle, retrospective application is more appropriate. However, HoTARAC recommends that - prior to finalising these amendments - the IASB undertake outreach work to assess the extent and nature of practical issues with identifying 'rights' in existence at a point of time in the past.

AASB Specific Matters for Comment

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
(a) not-for-profit entities; and
(b) public sector entities, including GAAP/GFS implications;

HoTARAC is not aware of any regulatory implications for public sector entities. HoTARAC cannot comment on implications for other not-for-profit entities. HoTARAC does not believe there will be GAAP/GFS implications.

2. whether, overall, the proposals would result in financial statements that would be useful to users;

HoTARAC believes the clarification (for preparers to classify liabilities as either current or non-current based on rights in existence at the end of the reporting period) would result in financial statements that are more useful to users.

3. whether the proposals are in the best interests of the Australian economy; and

An appropriate classification of liabilities is critical to the assessments of a reporting entity's financial characteristics (e.g. solvency, going concern assumptions and ability to manage debt). This may assist in reducing misleading presentation of liabilities that ultimately may lead to "surprise" entity collapses.

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

HoTARAC is unable to identify any additional quantitative or qualitative costs and benefits of the proposed amendments.