Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

17 June 2015

Dear Kris

Re: Exposure draft 259 *Classification of Liabilities*

I am enclosing a copy of PricewaterhouseCooopers' response to the International Accounting Standards Board's exposure draft ED/2015/1 *Classification of Liabilities (Proposed amendments to IAS 1).*

The letter reflects the views of the PricewaterhouseCoopers (PwC) network of firms and as such includes our own comments on the matters raised in the request for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment
We are not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit and public sector entities.

Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 7104 if you would like to discuss our comments further.

Yours sincerely,

Paul Shepherd
Partner, PricewaterhouseCoopers

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

10 June 2015

Exposure Draft ED/2015/1 – Classification of Liabilities: Proposed amendments to IAS 1

We are pleased to respond to the invitation by the IASB to comment on the Exposure Draft, 'Classification of Liabilities: Proposed amendments to IAS 1' (the 'Exposure Draft'), on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the Exposure Draft.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Context of the proposed amendments

We understand that the proposed amendment is intended to clarify how the detailed guidance in IAS 1 interacts with the overall classification principle, which requires that liabilities are classified as current or non-current based on the rights and obligations that exist at the end of the reporting period. We support the objective of the proposed amendment.

Some of the proposed clarifications, however, raise questions about classifying liabilities as current or non-current based on this principle and the distinction between a liability and equity. For example, should liabilities that are settled in an entity's own equity instruments be classified as current liabilities or even liabilities at all given that they do not affect the entity's liquidity? We are aware that the IASB is considering some of these questions as part of its research agenda, and we have therefore not commented on broader issues, such as whether classification should be based on expectations of settlement or the usefulness of the information provided about an entity's liquidity.

Classification based on the entity's rights at the end of the reporting period

We support the IASB's proposal to clarify that the classification of liabilities as either current or non-current is based on an entity's rights at the end of the reporting period. This principle is consistent with the principles in IAS 10.

We are concerned, however, that the interaction between the sub-paragraphs in paragraph 69 is not clear. The proposed amendments do not make clear whether the notion in paragraph 69(a) that a liability should be classified as current if the entity 'expects' to settle within the normal operating cycle should be applied to financing liabilities. We suggest that this could be resolved by clarifying that operating liabilities are classified as current liabilities when they will fall due within the normal operating cycle and deleting the notion of expected settlement in paragraph 69(a).

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We note that the proposed amendments do not define the circumstances in which an obligation that can be 'rolled over' should be presented as a non-current liability. We observe, however, that the basis for conclusions states that emphasis should be placed on there being a right to rollover an obligation under an existing facility that 'directly relates to the loan being classified' (BC11). We are concerned that this will create confusion and potentially increase diversity in practice because it introduces a new notion that is not explained. We suggest that the IASB provides more explicit guidance on how to assess whether a right to rollover/refinance 'directly relates to the loan being classified'. This could be accomplished by clarifying the principle that underpins classification when there is a right to 'rollover or refinance' and explaining how that principle might be constrained.

We suggest that these paragraphs are removed from the Basis for Conclusions if the IASB decides not to clarify the principles. This will avoid unintended consequences and the risk of increased diversity in practice.

Linking settlement with the outflow of resources

We support clarifying the link between the settlement of the liability and the outflow of resources from the entity. We are concerned, however, that the proposed revisions might contradict the principle in paragraph 69(d) that a counterparty's option to convert into an equity instrument should not affect classification. We are also concerned that the reference to 'equity instruments' in the newly added section of paragraph 69 is not clear. We suggest that the revised text and related Basis for Conclusions is clarified so that it does not contradict paragraph 69(d) and by adding the word 'own' before 'equity instruments'.

Our answers to the specific questions in the Exposure Draft provide more detail on the views expressed above and are included in the Appendix.

Interaction with other standard setters

We note that the Financial Accounting Standards Board (the "FASB") in the US has begun to debate the same issue and has not, at this stage, limited its consideration of alternatives. We recognise that the existing debt classification framework is described differently under US GAAP, however, we believe that divergence in this important area is not helpful to the global capital markets, and we therefore encourage the IASB to coordinate its efforts with the FASB.

If you have any questions on this letter, please contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322) or Tony de Bell (+44 207 213 5336).

Yours faithfully

PricewaterhouseCoopers.

PricewaterhouseCoopers

pwc

APPENDIX A

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?

We support the IASB's proposal to clarify that the classification of liabilities as either current or non-current, within the limited context of the proposed amendments, is based on an entity's rights at the end of the reporting period. This is consistent with the principles in IAS 10. Some believe that this approach might not always provide the most relevant information about liquidity, for example, when a short-term liability is refinanced after the reporting period but before the financial statements are issued. We therefore suggest the IASB explains that disclosure should be used to address situations in which the presentation required by IAS 1 might not provide complete information.

We are concerned about the interaction between the sub-paragraphs in paragraph 69. The proposed amendments clarify that an entity's 'expectation' is not sufficient evidence to classify a liability. It is not clear whether the notion in paragraph 69(a) that a liability should be classified as current if the entity 'expects' to settle should be applied to financing liabilities. We suggest that this is clarified by replacing the notion of expected settlement in paragraph 69(a) with a requirement that operating liabilities are classified as current liabilities when they will fall due within the normal operating cycle. This will make the principle for the classification of operating and financing liabilities consistent.

We note that the proposed amendments do not define the circumstances in which an obligation that can be 'rolled over' should be presented as a non-current liability. We observe, however, that the basis for conclusions states that emphasis should be placed on there being a right to rollover an obligation under an existing facility that 'directly relates to the loan being classified' (BC11). We are concerned that this will create confusion and potentially increase diversity in practice because it introduces a new notion that is not explained. We suggest that the IASB provides more explicit guidance on how to assess whether a right to rollover/refinance 'directly relates to the loan being classified'. This could be accomplished by clarifying the principle that underpins classification when there is a right to 'rollover or refinance' and explaining how that principle might be constrained.

The notion of 'directly relates' could be interpreted differently depending on how the objectives of classification between current and non-current liabilities are articulated. We have set out two examples below:

	Objective	
	Will the entity have an outflow of resources in the next 12 months?	**Will the entity settle the liability in the next 12 months?**
Existing loan contract permits the borrower to extend the term with original counterparties for another 12 months	No, loan classified as non-current	No, loan classified as non-current
Entity has a rolling 1-year commercial paper (CP) and a facility with a bank that is contractually linked to the CP and can be drawn if maturing CP cannot be re-issued	No, CP classified as non-current	Yes, CP classified as current as it will be settled and the facility represents a new liability

We suggest that these paragraphs are removed from the Basis for Conclusions if the IASB decides not to clarify the principles. This will avoid unintended consequences and the risk of increased diversity in practice.

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 support clarifying the link between the settlement of the liability and the outflow of resources from the entity. We are concerned however that the proposed revisions might contradict the principle in paragraph 69(d) that a counterparty's option to convert into an equity instrument should not affect classification. We are also concerned that it is unclear whether the reference to 'equity instruments' in the proposed additional guidance in paragraph 69 refers to an entity's investments in the equity instruments of other entities (i.e. financial assets) and/or its own equity instruments that may or may not be issued at the option of the counterparty.

We suggest that the revised text is clarified so that it does not contradict paragraph 69(d) and that the Basis for Conclusions explains clearly the objective of this amendment and how it interacts with the principle in paragraph 69(d) that a counterparty's option to convert to equity instrument should not affect classification.

We believe that a liability can be settled using both an entity's investments in equity instruments and an entity's own equity instruments. We therefore suggest clarifying that the reference to 'equity instruments' in paragraph 69(d) refers to own equity instruments used to settle a financial liability by adding the word 'own' before 'equity instruments'. An entity's investment in equity instruments is captured by the existing reference to other assets.

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 support retrospective application as it provides more relevant and consistent information to users of financial statements. The information required to apply the amendments retrospectively should be readily available to preparers. We suggest, however, clarifying in the basis for conclusions the rationale for retrospective application is that this is a change in accounting policy arising from a change in an IFRS rather by reference to the change being 'more in the nature of a change in accounting estimate'.