

15 June 2015

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir,

RESPONSE TO EXPOSURE DRAFT – CLASSIFICATION OF LIABILITIES (PROPOSED AMENDMENTS TO IAS 1)

ISCA sought views from its members on the above ED through a one-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

We agree with the proposed amendments in Question 1. However, we note that there may be situations where conditions attached to the right to defer settlement can only be met after the end of the reporting period. We recommend that IASB provides clarity on such types of conditions that would not affect the right to defer settlement in a substantive way as at the end of the reporting period.

We also agree with the Board's proposal to make clear the link between settlement of the liability and the outflow of resource from an entity in Question 2. However, we are of the view that settlement through transfer of an entity's own equity instruments would not provide a meaningful measure of an entity's liquidity position for the purposes of classifying the liability as current or non-current. In addition, we believe that the proposed additional wording in Question 2 contradicts with the existing requirements in paragraph 69(d).

Our detailed comments and responses to specified questions in the ED are set out below.

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 with the proposed amendments as they clarify existing requirements on the classification of liabilities in IAS 1. However, we would like to have clarity on the types of conditions that can only be met after the end of the reporting period; that would not affect the right to defer settlement of a liability in a substantive way as at the end of the reporting period.

For example, if the lender has agreed to grant the entity a right to roll over the liability, subject to a major condition that the entity meets a certain net profit target at the end of the reporting period alongside a series of other administrative conditions which are to be fulfilled after the end of the reporting period; should the entity then interpret that it has substantively obtained the “right” by complying with the major condition at the end of the reporting period, notwithstanding that the other administrative conditions will only be fulfilled subsequent to the end of the reporting period?

In the situation described above, we recommend that IASB considers providing additional guidance to clarify the application of the proposed requirements on the classification of liabilities.

Question 2 — Linking settlement with 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's proposal to make clear the link between the settlement of the liability and the outflow of resources from the entity.

However, we noted that IASB had previously concluded in paragraphs BC38N and BC38O in the Basis for Conclusions of IAS 1 that *"issuing equity does not result in an outflow of cash or other assets of the entity"* and that *"classifying the liability on the basis of the requirements to transfer cash or other assets rather than on settlement better reflects the liquidity and solvency position of an entity"*.

The Basis for Conclusions in the above paragraph appear to contradict with the proposed additional wording in paragraph 69 of IAS 1 which states that *'For the purposes of classification as current or non-current, settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services that results in the extinguishment of the liability'*.

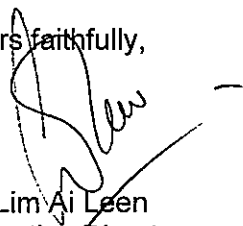
For the purposes of classification as current or non-current, "settlement of a liability" should not refer to the transfer of an entity's own equity instruments, as such transfer does not represent an outflow of cash or other assets of the entity; and would not provide a meaningful reflection of an entity's liquidity and solvency position.

The proposed additional wording above also appears to contradict the existing requirement in paragraph 69(d) which states that *'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'*.

We recommend that IASB resolves the above two inconsistencies, and ensures that the requirement in paragraph 69(d) remains unaffected and intact.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Technical Standards Development and Advisory, or Mr Benjamin Oh, Manager, Technical Standards Development and Advisory, from ISCA via email at jumay.lim@isca.org.sg or benjamin.oh@isca.org.sg respectively.

Yours faithfully,



Ms Lim Ai Leen
Executive Director
Technical Knowledge Centre and Quality Assurance