BUSINESSEUROPE

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

8 June 2015

Dear Board Member,

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

BUSINESSEUROPE is pleased to have the opportunity to respond to the Exposure Draft Classification of Liabilities Proposed amendments to IAS 1 (the ED).

In general, BUSINESSEUROPE agrees with all the proposed amendments. However we have some additional remarks as you can see from our replies to the questions.

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?

BUSINESSEUROPE agrees that the changes proposed at (a) and (c) above make the meaning of the paragraphs clearer.

In respect of (b), we also agree that it is only rights actually in force at the end of the reporting period which should be considered when determining the classification of the liability. This is consistent with the current principles and text of IAS 1.

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BUSINESSEUROPE does not agree with the statement in BC8 that this "represents an exception to the classification principle of paragraph 69" but think that it is fully consistent with existing paragraph 69(d).

BUSINESSEUROPE believes that it would be helpful to specify that the rights in question must be substantive rights and not rights which have a legal form but realistically could not be enforced or rights which would not be exercised in practice since to do so would be economically unfavourable (e.g. an option to extend the term of a loan at an interest rate which is outside any realistic range).

We think that having added the definition of the settlement of a liability to paragraph 69 (with which we agree), the IASB should consider whether the existing sentence in paragraph 69 "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" requires further explanation or modification.

BUSINESSEUROPE believes that it is now unclear whether this sentence refers only to the form of the settlement or whether it refers to the right of the entity to defer settlement. We think it is the former.

Finally, it would also be useful to clarify the link between these proposed requirements and the requirements of IFRS 7, such as, for example, the meaning of "contractual maturities" as used in paragraph IFRS 7.39.

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?

BUSINESSEUROPE agrees with the Board (BC12) that the rollover of borrowing does not constitute "settlement" of the existing liability (and the creation of a new liability). We think that settlement of a liability is equivalent to the extinguishment of a financial liability, the criteria for which are provided in IAS 39 (paragraphs 39 and 40)/IFRS 9 (section 3.3).

The proposed new specification of what "settlement" means for the purposes of classification between current and non-current liabilities is helpful.

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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?

BUSINESSEUROPE agrees with the retrospective application of these clarifications.

Please do not hesitate to contact us should you wish to discuss these issues any further.

Yours sincerely,

Jérôme P. Chauvin
Deputy Director General