



FINANCIAL REPORTING COUNCIL
(Established under the Financial Reporting Act 2004)

FRC/Adm/133

05 June 2015

The Director
International Accounting Standards Board
30 Cannon Street
EC4M 6XH
London
UNITED KINGDOM

Dear Sir

Exposure Draft on: Classification of Liabilities (Proposed amendments to IAS 1)

The Financial Reporting Council (Mauritius) has one of its main functions to ensure co-ordination and cooperation with international institutions in the development and enforcement of financial reporting, accounting and auditing standards.

The FRC is pleased to respond to the International Accounting Standards Board's (IASB's) Exposure Draft, *Classification of Liabilities (Proposed amendments to IAS 1)*. The comments and responses to the specific questions are included in the following pages.

For any further clarifications, please contact us at **frc.mauritius@intnet.mu**.

Yours faithfully

A handwritten signature in black ink, appearing to read 'V. Tuhobol', written over a white background.

V. Tuhobol
Officer in Charge



Classification of Liabilities

Proposed amendments to IAS 1

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?

Comments to Question 1

Agree with the proposal in the ED. The proposed amendments are geared towards a clarification rather than amending the existing requirements contained in IAS 1 and it is likely to ensure consistency in the application of the principles of IAS 1.

However, additional guidance could be provided especially in specific situations when a right to defer settlement is subject to conditions that are assessed after the reporting period. In some cases it might be difficult to assess whether an entity complies with conditions at the reporting date.

For instance, a company may have a loan with repayment within 1 year with a roll over option attached to the loan such that it will be repayable after 1 year provided it meets certain financial covenants. However this covenant can be calculated either with reference to the financial position at the reporting date based on information available or upon receipt of the audited financial statements after year end.

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?

Comments to Question 2

Agree with the proposed amendments as these provide a link between the settlement of a liability and the outflow of resources and at the same time provide guidance, for example, a rollover of a borrowing does not constitute settlement and would not result in the liability being classified as current.

However, in case a company has a liability that need to be settled at the option of the lender either in cash in 2 years or by transferring a variable number of shares within 1 year. How should this transaction be classified? Should it be non-current taking into consideration that the option to settle in shares is disregarded; or current taking into consideration the exercise of the option?

Guidance could be provided about disclosure requirements should there be any event which could render a current liability to non-current liability or vice-versa.

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?

Comments to Question 3

Agree for retrospective application in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) as it results in financial information that is comparable.