

Highlights on Exposure Draft: Classification of liabilities (*proposed amendments to IAS 1*)

1.0 Background

The principle relating to the classification of liabilities is contained in paragraph 69 of IAS 1 *Presentation of Financial Statements*, which defines the criteria for current classification. Liabilities that do not meet these criteria are classified as non-current in accordance with that paragraph. The International Accounting Standards Board received a request to clarify how that classification principle interacts with the detailed guidance contained in two paragraphs in the Standard. The Board was asked how having an unconditional right to defer settlement (specified in paragraph 69(d)) related to having the discretion to refinance or roll over an obligation (specified in paragraph 73) as two bases for the classification of a liability as non-current.

2.0 Objective of the Exposure Draft:

The objective of this exposure draft is to clarify the criteria for the classification of a liability as either current or non-current based on the rights that are in existence at the end of the reporting period.

3.0 Proposed amendments

The IASB proposes:

- (a) replace ‘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’.

The IASB also proposes making clear the link between the settlement of the liability and the outflow of resources from the entity by adding that settlement ‘refers to the transfer to the counterparty of cash, equity instruments, other assets or services’ to paragraph 69 of the Standard.

The IASB further proposes that guidance in the Standard should be reorganised so that similar examples are grouped together.

Finally, the IASB proposes that retrospective application should be required and that early application should be permitted.