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Mr Hans Hoogervorst, Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

09 June 2015

Dear Mr Hoogervorst,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the Exposure Draft ED/2015/1 *Classification of Liabilities – Proposed amendments to IAS 1*.

Principal authors of this comment letter were Peter Geyer, Erich Kandler, Christoph Krischanitz, Roland Nessmann, Gerhard Schwartz and Raoul Vogel. In order to assure a balanced Austrian view on the ED, the professional background of these authors is diverse.

GENERAL REMARKS

We strongly support the Board's goal, as stated in BC 1, to clarify the application of IAS 1 and to remove some inconsistencies with respect to the terms used in this standard. In our view, the proposals in the ED will lead to improved consistency in financial reporting. However, we see the need for additional guidance to avoid further, unnecessary diversity in practice and to prevent unintended outcomes.

SPECIFIC REMARKS

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?

(a) We are in favour of replacing 'discretion' with 'right', as this will eliminate the inconsistency between two paragraphs both dealing with the classification of liabilities. The term 'discretion' could lead to unnecessary diversity in practice, as different entities and their management may interpret (and exercise) 'discretion' differently. Using the term 'right' should significantly narrow the choices.

(b) and (c) We believe that further guidance is required with respect to rights existing at the reporting date and what is meant by 'conditions' – particularly if the term 'unconditional' is removed. Uncertainties with respect to rights at the reporting date could be linked to covenants with reference to either a date after the reporting date or to the reporting date but based on documents only available at a later point in time. Uncertainties related to the term 'conditions' could be based on options to defer the settlement of a liability on economically unfavourable terms.

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 believe that the clarification is not necessary as the definitions of (financial) liabilities and provisions are sufficiently clear. It is also not clear how the newly added requirement would interact with paragraph 69(d) which states that '[t]erms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect the classification'. Furthermore, the proposed wording does not fully tie in with paragraph 69(b) as far as instruments held for trading are concerned.

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?

As retrospective application will generally lead to more comparable reporting, we agree to this proposal. Moreover, we do not expect significant costs of or burdens for retrospective application of the proposed amendments to IAS 1.

Kind regards,

Romuald Bertl,

Chairman