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Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Berlin, 25 March 2015

Dear Hans,

IASB Exposure Draft ED/2015/1 Classification of Liabilities - Proposed amendments to IAS 1

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's Exposure Draft ED/2015/1 (herein referred to as the 'ED'). We welcome the opportunity to comment on the ED and provide our answers to the specific questions raised in the ED in the appendix to this letter.

We appreciate the IASB's clarification efforts regarding the current/non-current classification of liabilities recognised in the balance sheet. We believe the proposals in the ED are capable of removing the existing lack of clarity in IAS 1. Nonetheless, we have identified additional clarification needs, particularly regarding clarification of the economic characteristics of the entity's right to defer the settlement of a liability. In addition, we think the IASB should provide more information from a cross-cutting perspective, whether the proposed basis of current/non-current distinction in IAS 1 should also serve as the underlying principle for the disclosure of different time bands about remaining maturities of liabilities, eg disclosure of a maturity analysis in accordance with paragraph 39 (a) of IFRS 7.

Overall, we think the ED proposals would result in a change of current classification practice. In our view, some liabilities, currently classified as current based on management's expectation, would have to be classified as non-current in accordance with the ED proposal because of its focus on the legal right to defer settlement.

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Prof. Dr. Andreas Barckow (Präsident), Peter Missler (Vizepräsident)



If you would like to discuss any aspect of our comments further, please do not hesitate to contact Holger Obst or me.

Yours sincerely,

Andreas Barckow

President

ENTWURF

Appendix – Additional responses to the questions of the Exposure Draft

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?

In general, we agree with the proposed amendments. However, we consider the following issues as necessary to be addressed and clarified by the IASB in light of the proposed current/non-current classification of liabilities.

Characteristics of an entity's right to defer settlement

We understand the IASB's conclusion of deleting the term 'unconditional' from paragraph 69(d). Nonetheless, it is necessary to make clear that a right to defer the settlement must be substantial. Exercising the right to defer the settlement should not result in a renegotiation of the terms, ie new conditions about interest expense, for deferring settlement of the obligation. Furthermore, in our view the right would not be substantial if exercising the right would be an economically disadvantageous alternative for the entity, eg roll over of settlement would be far more expensive compared to borrowing new capital from another lender. In our view the clarification for the right to be substantial derives from the general concept of economic substance over legal form. In other words, the classification of current/non-current distinction should not consider roll over rights that only exist on paper but do not represent a realistic alternative from an economic perspective for the entity.

Management expectations

We note that the proposals in the ED focus on the right to defer settlement rather than the expectation of the timing of settlement. On the other side, paragraph 69 (a) of IAS 1 refers to an entity's 'expectation' for settling the liability in the normal operating cycle. In our view, this



might raise further questions whether it conflicts with the revised criterion in paragraph 69 (d). Especially, it appears to be unclear whether the criteria in paragraphs 69 (a)–(d) should apply to different kinds of liabilities, ie liabilities from operating activities vs. liabilities from financing activities. To avoid new application questions and clarification requests from constituents, we encourage the IASB to clarify the interaction of paragraphs 69 (a)–(d). For example, to clarify that management expectation only plays a role for the classification if the timing of settlement of the liability is not contractually determined, eg stand-ready obligations of the entity.

We also think it would be helpful to strengthen the understanding of the objective of making the current/non-current distinction for recognised amounts in the balance sheet. From the list of criteria in paragraph 69, it appears difficult to derive a clear purpose.

Cross-cutting issues

We think the IASB should further clarify the interaction between the proposed clarifications of current/non-current classification and other disclosure requirements in IFRS regarding the maturities of liabilities. Especially, we see the necessity to provide information whether the right to defer settlement shall also be considered by the entity for disclosure of remaining maturities of particular liabilities, eg maturity analysis in accordance with paragraph 39 (a) of IFRS 7.

Expected change in current practice

Beside the clarification issues listed above, we would like to share our initial assessment about the possible impact of the proposed changes. In our view, the proposed changes would impact the current reporting practice and, in tendency, more liabilities would be classified as non-current obligations. For example, the current practice tends to focus on the expected settlement of liabilities and not on the latest contractually possible date of settlement. Thus, we expect a shift of classification for some liabilities towards non-current classification.

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 agree with that proposed clarification.



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?

We agree with the proposed transition arrangements for the amendments.

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