

7th June 2015

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Dear Sir/Madam

Exposure Draft – Classification of Liabilities

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the Exposure Draft *Classification of Liabilities*.

We support the initiative to provide guidance on the classification of liabilities. However, we are concerned that the exposure draft does not address the typical challenges in applying the classification criteria in IAS 1. We are of the opinion that additional guidance on classification of liabilities should be included.

Furthermore, we would like to point out that the amendment to IAS 1.69 referring to a debt settled by transferring equity instrument could be interpreted to either refer to (i) equity instruments held by the entity as financial assets or (ii) the entity's own equity instrument. This ambiguity should be removed. In our opinion, issuing own equity instrument is not an "outflow of resources", and a debt that is agreed to be settled by issuing own equity instruments, should be classified as non-current.

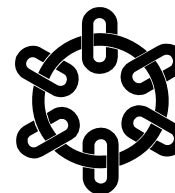
Our detailed comments to the questions in the order suggested by you are set out in the appendix to this letter.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response.

Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

CC: EFRAG



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?

We agree with the proposed clarifications as it removes inconsistency in terms used in the different paragraphs. However, we do not believe that the challenges in applying the classification requirements relate to the inconsistency in terms used, and we question whether the amendments/clarifications will impact current practice and/or reduce diversity in practice.

The Exposure Draft *Annual Improvement to IFRS 2010-2012 Cycle* suggested clarifying that a refinancing arrangement should only result in a non-current classification if the arrangement was with the same lender and on the same or similar terms. It concluded not to proceed with the proposed amendment as many respondent did not find the additional guidance about "same or similar terms" useful, and because the proposed amendment would raise practical issues.

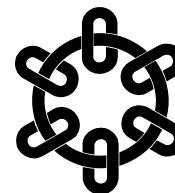
However, it is still unclear whether a roll-over or refinancing has to be with the same lender and or at similar terms. The comment in BC11, indicates that the right to refinance should be with the same lender. Would that also apply if the new lender pays directly to the old lender, so that no outflow of resources is required by the entity? We recommend the Board to clarify if refinancing with other than the same lender may allow for the use of the reclassification exception proposed in paragraph 72R (a).

Furthermore, the procedure of first proposing to include a "same lender" requirement, for later to decide not to proceed with it based on feedback received, and finally reintroducing the requirement through a comment in the basis for conclusion when making other related changes to IAS 1, is not a proper way of addressing the issue.

There does not seem to be any requirement for the refinancing right to be at the same term for the debt to be classified as non-current. The main principle seems to be whether an outflow of resources can be avoided. This indicates that an entity having a debt that originally is due three months after the balance sheet date which before year end receives an offer from the bank to extend maturity at different terms (eg: higher interest rate), may classify that debt as non-current. If this understanding is correct, it should be stated more explicitly.

There are other practical issues relating to classification of liabilities than those mentioned above. In our view, it would be helpful if additional application guidance or illustrative examples were included on how to apply the guidance in 72R and 73R.

We would also like to point out that it is unclear to us why 72R is changed from including a right to "refinance or roll over" an obligation, to only include a right to roll over an obligation. The ED provides no further explanation for the removal of the reference to refinancing. We recommend that the objective of this amendment is clarified.



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 that there should be a link between the settlement of the liability and the outflow of resources. This clarifies that if no outflow of resources is required within 12 months, the liability should be classified as non-current. We further agree that an outflow of resources can include more than cash.

However, we would like to point out the following:

- i) The guidance in paragraph 69 (d) of IAS 1 states that “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 the classification” and
- ii) The proposed additional wording in paragraph 69 states that “For the purposes of classification as current or non-current, settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services that results in the extinguishment of the liability.”

Paragraph 69 d) clearly says that a long term liability that may be settled by the issue of equity instrument of the option of the counterparty, is classified as non-current. However, the proposed additional wording may be interpreted in different ways. One way to interpret the amendment is that “transfer of equity instruments” refers to financial assets held by the entity. Alternatively, it could be interpreted to include the entity’s own equity instrument. In the latter case, the amended text seems inconsistent with the paragraph 69 d). The meaning of the reference to “equity instruments” in the amended text should be clarified. In our opinion, issuing own equity instrument is not an “outflow of resources”. A debt that will be settled by issuing own equity instruments eg 3 months after the balance sheet date, should in our opinion be classified as non-current.

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 that the proposed amendment should be applied retrospectively as it results in financial information that is comparable.

However, we do not agree with the reasoning for the transition requirements in BC 19-22 that states that this is not a change in accounting policy, but would be more in nature of a change in accounting estimate. In our opinion, this is not a change in accounting estimate, but more in nature of a change in accounting policy. In our opinion, retrospective application is in accordance with the general principles of IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*. We recommend that the arguments given in the basis for conclusion are removed.