

Invitation to Comment

The International Accounting Standards Board invites comments on the amendment to IAS 1 *Presentation of Financial Statements* proposed in this Exposure Draft. It would particularly welcome answers to the question set out below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 1 not addressed in the Exposure Draft.

Question

This Exposure Draft proposes to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current. Do you agree with the proposal? If not, why?

Summary of Changes

IAS 1 *Presentation of Financial Statements* requires a liability to be classified as current if the entity does not have an unconditional right to defer settlement for at least twelve months from the balance sheet date. The *Framework for the Preparation and Presentation of Financial Statements* states that settlement includes conversion of the liability into equity. Consequently, the liability component of a convertible instrument that the entity could be required to settle in shares at any time would be classified as current.

This Exposure Draft proposes to limit the requirement for an entity to have an unconditional right to defer settlement to settlement by transfer of cash or other assets.

Proposed Amendment to IAS 1 *Presentation of Financial Statements*

In the Standard, paragraph 60 is amended (new text is underlined).

Balance sheet

Current liabilities

60 A liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the balance sheet date;
or
- (d) the entity does not have an unconditional right to defer its settlement by the transfer of cash or other assets for at least twelve months after the balance sheet date.

All other liabilities shall be classified as non-current.

Basis for Conclusions on Proposed Amendment to IAS 1 *Presentation of Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Classification of the liability component of a convertible instrument

- BC1 The International Accounting Standards Board has considered the classification of the liability component of a convertible instrument as current or non-current. Paragraph 60(d) of IAS 1 *Presentation of Financial Statements* states that when an entity does not have an unconditional right to defer settlement of a liability for at least twelve months after the balance sheet date, the liability should be classified as current. According to the *Framework for the Preparation and Presentation of Financial Statements* conversion of a liability into equity is a form of settlement.
- BC2 The application of these requirements means that if the conversion option can be exercised by the holder at any time, the liability component would be classified as current. This classification would be required even if the entity would not be required to settle unconverted instruments with cash or other assets for more than twelve months after the balance sheet date.
- BC3 IAS 1 and the *Framework* state that information about the liquidity and solvency positions of an entity is useful to users. The terms 'liquidity' and 'solvency' are associated with the availability of cash to an entity. Issuing equity does not result in an outflow of cash or other assets of the entity.
- BC4 The Board concluded that classifying the liability based on the requirements to transfer cash or other assets better reflects the liquidity and solvency position of an entity and proposes to amend IAS 1 accordingly.