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By email: commentletters@hkicpa.org.hk and by post

Ms. Christina Ng
Head of Financial Reporting, Standard Setting
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East, Wanchai
Hong Kong

Dear Ms. Ng

IASB Exposure Draft: Classification of Liabilities (Proposed Amendments to IAS 1)

Thank you for your letter dated 16 February 2015 inviting the Association's comments on the IASB Exposure Draft: Classification of Liabilities (Proposed Amendments to IAS 1). Our comments on the specific questions raised in the exposure draft are set out in the enclosed annex.

We hope you would find our comments useful. Should you have any questions, please do not hesitate to contact Ms. Emily Ngan of the Secretariat at 2526 6080.

Yours sincerely

Henry Chan
Secretary

Enc.

Chairman The Hongkong and Shanghai Banking Corporation Ltd
Vice Chairmen Bank of China (Hong Kong) Ltd
Standard Chartered Bank (Hong Kong) Ltd
Secretary Henry Chan

主席 香港上海匯豐銀行有限公司
副主席 中國銀行（香港）有限公司
渣打銀行（香港）有限公司
秘書 陳崇禧

Response of the Hong Kong Association of Banks (“HKAB”) to the International Accounting Standards Board’s Exposure Draft on Classification of Liabilities (Proposed Amendments to IAS 1)

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 proposals, as these amendments are to clarify inconsistent terms used in paragraphs 69(d) and 73 of IAS 1. However, we would like to recommend that further guidance/clarification be provided to address situations where a right to defer settlement is subject to condition(s) that can only be met after the reporting period. For example, further guidance could be provided to address how the borrower should assess whether its right to defer is substantive as of the reporting date, where a loan covenant requires a collateral asset to have a given loan to value ratio as at a date which is subsequent to the end of the reporting period.

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 the proposed clarification on the definition by linking “settlement of liability” with “the transfer of cash, equity instruments, other assets or services”. However, further clarification should be made on the use of “equity instruments” to distinguish issuance of own equity which was envisioned under paragraph 69(d) whereas the proposed change seems to address the transfer of equity instruments other than the borrower’s own equity.

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 proposal of retrospective application for consistency and comparability in financial reporting.