



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

June 8, 2015

commentletters@ifrs.org

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Proposed amendments to IAS 1
Reference: Classification of Liabilities

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to this exposure draft.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

Our detailed responses to the specific questions posed in the ED are set forth in the following pages.

We also state our view about the basis for conclusion and ask for a deeper analysis of the board in the covenants issue.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Silvio Takahashi".

Silvio Takahashi
Chair of International Affairs Comitê de Pronunciamentos Contábeis (CPC)

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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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?

Answer to question 1

We agree with the exchanges proposed (a), (b) and (c).

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?

Answer to question 2

We agree. Nevertheless we would appreciate the board discussion, and conclusion, about how a liability settlement would impact the classification of this element, in current or non-current. In our view, this definition is important, but it seems to fit better in the project of conceptual framework improvement.

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?

Answer to question 3

We agree.



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Comments to be added

Yes, we agree with the proposed amendments and transition application proposed. Nevertheless, we have the following specific comment:

Covenants issue

We believe that if a debt arrangement is renegotiated after year-end (e.g. a waiver was obtained for a covenant default), but before the release date of the financial statements, should be classified as non-current liability at year end in order to provide meaningful information to the users of the financial statements. In many cases, entities realize that they are in default after the preparation of the financial statements, thus after year-end, and immediately request a waiver to the counterparty, obtaining such waiver before the release date of the statements. In paragraph 73 (R) the Board express its view that said waiver is not a company “right” at the end of the report date, and as such, the company should classify the debt breach as a current liability. We kindly request that the Board reassess such issue in this revised standard. We believe that classifying the debt as a current liability, and disclosing the waiver in a subsequent event note may not be fully meaningful for the user of the information in this specific scenario, and in fact, will provide incorrect and misleading information to such user.

We would like to propose the exchange of the matter contained on paragraph 73R (a) to paragraph 72R with the following wording:

“When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, if the lender agreed not to demand payment as a consequence of the breach, after the reporting period and before the authorisation of the financial statements for issue, it classifies the liability as non-current. An entity classifies the liability as non-current because, although at the reporting date, the entity did not have a right to defer its settlement for at least twelve months after that date, before the issuance of the financial statements such right was granted by the lender, providing more useful information to the users of the information, while meeting the provisions of IAS 10 – Events after the Reporting Period.”