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Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Re: Comments on Exposure Draft, Classification of Liabilities
(Proposed amendments to IAS 1)

General comments

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcomes the opportunity to provide comments on the International Accounting Standards Board's ("IASB") Exposure Draft proposing to amend IAS 1 *Presentation of Financial Statements* ("ED").

2. We support the IASB's initiative to clarify the requirements of IAS 1, because we believe that appropriate classification of liabilities is critically important for users to assess the liquidity of an entity and assess the prospects for future net cash inflows to an entity using financial statements.

3. However, we suggest that the IASB make further clarification about the following matters, either through the main body of the standard or the Basis for Conclusions:

   (a) Rationale behind eliminating the word "unconditional" in paragraph 69(d) of the ED;

   (b) Intended difference between the terms "refinance" and "roll-over"; and

   (c) Implications of not using the word "expect" in paragraph 72R(a) of the ED.

Rationale behind eliminating the word "unconditional"

4. By eliminating the word 'unconditional' from the term "unconditional rights" in paragraph 69(d) of the existing IAS 1, the ED seemingly proposes to require an entity to classify a liability as current when it does not have a 'right' at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period end, regardless of whether the right is 'conditional' or 'unconditional'. This may be interpreted by some that an entity would be required to classify a liability as non-current even when the right is conditional and has only a remote probability of the condition being

exercised. Yet having considered the IASB's deliberations to date, we doubt if that interpretation is consistent with what the IASB intends.

5. Accordingly, we suggest that the IASB clarify its intent for the proposed change by providing additional explanations or examples so that preparers and auditors would have a better understanding of the proposed requirement.

Intended Difference between the terms "refinance" and "roll-over"

6. By eliminating the word "refinance", paragraph 72R (a) of the ED seems to prohibit an entity classifying a liability as non-current even when it has the right to 'refinance' an obligation that would accompany cash-outflows but that would substantially defer repayment of the liability for at least twelve months after the reporting period. When we discussed the proposals of the ED, some argued that a roll-over and refinance are substantively the same in an economic sense, and questioned why an entity's right to "roll-over" and "refinance" should be treated differently. There is also a question about whether there is common understanding of the terms "roll-over" and "refinance", given the subtle differences between the two.

7. Accordingly, we suggest that the IASB explain the intended difference between these terms, and more fully explain whether an entity's right to "roll-over" and "refinance" should be treated differently, and if so why.

Implication of not using the word "expect"

8. Paragraph 72R(a) of the ED explains that a liability shall be classified as non-current when under an existing loan facility an entity has the right to 'roll over' an obligation for at least twelve months after the reporting period end.

9. As we discussed with our constituents, we have been informed that entities often classify the period-end balance of their short-term notes (such as, commercial papers) that they issue under certain programmes as non-current to the extent that they have a reasonable expectation that they will rollover such liabilities for at least twelve months after the reporting period end taking into account the terms and conditions set forth in the programme. This is because the terms and conditions of the programme grant an entity the right to roll-over the liabilities but an entity does not necessarily expect to roll over all of the balance outstanding as of the reporting period end.

10. With the deletion of the word "expects", paragraph 72R(a) of the ED is not sufficiently clear about whether, and if so, how the IASB intends to change such a practice. Accordingly, we suggest further clarification on this paragraph.

11. For our comments on specific questions in the ED, please refer to the Appendix to this letter.

We hope our comments will contribute to the IASB’s redeliberation.

Yours sincerely,

Tomo Sekiguchi

Tomo Sekiguchi
Board member of the Accounting Standards Board of Japan

Appendix

Comments on Specific Questions in the ED

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?

12. Except for our suggestions stated in paragraphs 3 to 10 of this comment letter, we agree with the proposed clarifications.

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?

13. We agree with the proposed clarification because, as with the proposal in the ED, we understand that the settlement of a liability accompanies outflows of resources of the entity and such outflows can take various forms (not just the outflow of cash).

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?

14. We agree with the proposal to require an entity to apply the proposals retrospectively, because they would not necessitate an entity use hindsight when it applies the proposed standards in a retrospective manner.