

# Alert

Updates on financial reporting and auditing



Issue 11 (29 November 2010)

Dear Members,

## **HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause***

The institute has become aware that over the last two or three years there has been an increased incidence of the inclusion of unconditional "repayment on demand" clauses in term loan agreements. This has resulted in confusion and inconsistency in disclosure of term loans in financial statements as current or non-current liabilities.

HKAS 1 *Presentation of Financial Statements* requires classification of loans with "repayment on demand" clauses as current liabilities.

The Institute is bringing this matter to the attention of the market to encourage all borrowers to re-examine the terms of their borrowings and to discuss or negotiate with their lenders to ensure that contract terms reflect the commercial reality of the loans and that financial statement disclosures correctly and consistently reflect the classification of borrowings, as required by HKAS 1. In some cases borrowers may be able to obtain "comfort letters" from their lenders indicating that loans will not be called within the next twelve months.

The Institute is taking these steps through the issue of Interpretation 5 to draw attention to the requirements of HKAS 1. The full text of Interpretation 5 can be found at [http://www.hkicpa.org.hk/ebook/HKSA\\_Members\\_Handbook\\_Master/volumell/hk-int5.pdf](http://www.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumell/hk-int5.pdf)

To assist its members and other stakeholders in completing this exercise, the Institute is developing a series of questions and answers on the topic and example disclosures to illustrate the potential effect of restatements if non-current liabilities need to be reclassified as current liabilities.

A lunch forum has been organized on 10 December 2010 to update and explain to members the details of the Interpretation and its impact. Click [here](#) to enroll.

Sincere regards,

Chris Joy  
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Hong Kong Institute of Certified Public Accountants

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