



Our Ref.: C/FRSC

Sent through electronic mail

20 December 2019

Mr Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

**Classification of Liabilities as Current or Non-current (Amendments to IAS 1):
Liabilities with equity-settled features**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, and ethics for professional accountants, in Hong Kong.

The HKICPA supports the IASB's initiative to clarify the criteria for classification of a liability as current or non-current. The HKICPA also supports the IASB addressing the diversity in practice of the classification of liabilities with equity settlement features to improve comparability. However, we want to highlight a concern with the IASB's tentative decision to clarify the statement in paragraph 69(d) of IAS 1 'terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification as current or non-current'. Specifically in July 2019, the IASB tentatively decided to clarify that this statement applies only to a counterparty conversion option recognised separately from the liability as an equity component of a compound financial instrument.

The HKICPA understands that many entities currently classify the host liability of a convertible bond (CB) as current or non-current based on features such as early redemption options and contractual cash flows due in the next twelve months. However, conversion options classified as liabilities are not considered when making this classification as the exercise of such conversion options do not have any cash flow effect nor affect the liquidity position of the issuers.

The HKICPA observes that the host liability of a CB¹ will be classified differently applying the IASB's tentative decision depending on whether the CB is denominated in the entity's functional currency (non-current classification) or a foreign currency (current classification). It is unclear why there is a different current/non-current classification

¹ Assuming a maturity of more than twelve months that is convertible immediately at the holders' option into a fixed number of shares



when for both CBs there are no cash outflows in the next twelve months. The HKICPA noted that some members of the IFRS Interpretations Committee also expressed a similar view². The HKICPA thinks that unless the IASB's rationale for this difference is clear and logical, many entities and users of their financial statements will find the classification outcome confusing and counterintuitive and may fail to apply the amendments as intended. Clarification should be made in the basis for conclusions or illustrative examples accompanying the amendments through a direct comparison between these two CBs.

In the illustrative examples accompanying IAS 1, we also recommend that the IASB illustrates how the principle in the amendments is applied to the current/non-current classification of a functional currency denominated CB with a maturity of more than twelve months, convertible immediately at the holders' option into fixed number of shares, subject to down round anti-dilution adjustment (conversion price adjusted downward to be equal to the issue price of shares newly issued to another new investor) upon the occurrence of anti-dilution event (the occurrence of which, i.e. share issue, is subject to the control of the issuer). This is a common instrument globally for which we think confusion is also likely to arise on application of the amendments. The HKICPA noted that some IFRS Interpretations Committee members also brought to the IASB's attention similar instruments that depend on a triggering event³.

The HKICPA and our stakeholders would be very grateful if you would consider the recommendations made above to help understanding of the rationale and the outcome of applying the amendments to the classification of these common CBs. Without clear and logical rationale the diversity issue may not be easily resolved.

If you have any questions regarding the matters and examples raised in this letter, please contact me, or Katherine Leung (katherineleung@hkiipa.org.hk), Associate Director of our Standard Setting Department.

Sincerely,

A handwritten signature in black ink, appearing to read 'CNg'.

Christina Ng
Director, Standard Setting Department

² [IASB meeting July 2019 Agenda 29A Staff Paper paragraph 20\(c\)](#)

³ [IASB meeting July 2019 Agenda 29A Staff Paper paragraph 15](#)