EFRAG
European Financial Reporting Advisory Group

Draft Comment Letter

Comments should be submitted by 16 April 2015 to commentletters@efrag.org

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

[Date]

Dear Sir/Madam,

Re: Exposure Draft *Disclosure Initiative (Proposed amendments to IAS 7)*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft ED/2014/6 *Disclosure Initiative (Proposed amendments to IAS 7)* (the 'Amendments').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS in the European Union and European Economic Area.

When answering the questions included in the IASB's Exposure Draft, EFRAG is seeking input on the different views that have emerged. This Draft Comment Letter therefore sets out these views in order to seek input from constituents.

The different views can be summarised as follows:

Reconciliation of cash flows from financing activities

View 1: EFRAG agrees with the proposed amendments as they represent a short-term improvement over current disclosures on movements in debt and a first step in meeting the request of users for a net debt reconciliation. However, EFRAG recommends that the IASB should clarify in the body of the Standard that entities are not prohibited from providing a net debt reconciliation, i.e. similar (and more extensive) information.

View 2: EFRAG disagrees with the proposed amendments because (1) it is premature to issue a narrow-scope amendment, that is burdensome for preparers, before further research on necessary improvements to IAS 7 *Statement of Cash Flows* is conducted by the IASB; and (2) they fail to address the users' request for a net debt reconciliation.

Disclosures about restrictions on cash and cash equivalents

View 1: EFRAG agrees with the proposed amendments as they provide supplemental information on cash restrictions that is relevant for users to gain an understanding of the liquidity of an entity. However, EFRAG has some comments on the drafting of these amendments.

View 2: EFRAG does not support the proposed amendments because they do not sufficiently improve information about an entity's cash position and liquidity risk.

Our detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Hocine Kebli, Alejandro Saenz, Giorgio Acunzo or me.

Yours faithfully,

Roger Marshall
Acting President of the EFRAG Board

APPENDIX

EFRAG's responses to the questions raised in the ED

Question 1 – Disclosure Initiative amendments

This Exposure Draft of proposed amendments to IAS 7 forms part of the Disclosure Initiative. Its objectives are to improve:

(a) information provided to users of financial statements about an entity's financing activities, excluding equity items; and

(b) disclosures that help users of financial statements to understand the liquidity of an entity.

Do you agree with the proposed amendments (see paragraphs 44A and 50A)? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?

Notes to constituents

1 *The IASB developed these proposed amendments in response to requests from investors, received at the Financial Reporting Disclosure Discussion Forum and those included in the Feedback Statement which was issued in May 2013, highlighting the need for improved disclosures about an entity's debt, including changes in debt during the reporting period.*

2 *'Debt' is not defined by IFRSs and the IASB considered that finding a commonly agreed definition of debt would be difficult and could delay the project. The IASB identified that it could use the definition of 'financing activities' in paragraph 6 of IAS 7 and propose a requirement to disclose a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as 'financing activities' in the statement of cash flows, excluding equity items. The IASB concluded that capturing this information would be equivalent to the information investors are requesting about debt and that investors could calculate a net debt position from this.*

3 *The IASB also received feedback from investors that disclosures were needed to supplement those required by paragraph 48 of IAS 7 regarding cash and cash equivalent balances held by the entity that are not available for use by the group. Therefore, the IASB also proposes to amend IAS 7 regarding disclosures about cash and cash equivalent balances.*

4 *The IASB decided that if restrictions that affect the decisions of an entity to use cash and cash equivalent balances, including tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances, or similar matters, are relevant to an understanding of the liquidity of the entity, those matters shall be disclosed.*

5 *EFRAG has not reached a consensus on whether it believes the proposed Amendments are appropriate. This draft comment letter therefore sets out the different views and asks constituents for their comments.*

EFRAG's response

EFRAG is aware of different views and is seeking the comments of constituents.

6 EFRAG observes that the Amendments contain two distinct components as they:

(a) introduce an additional disclosure requirement on reconciliation of cash flows from financing activities; and

(b) aim to improve disclosures about restrictions on cash and cash equivalents.

7 EFRAG's comments on these IASB's proposals are presented in the subsections below as they have different objectives.

Reconciliation of cash flows from financing activities

8 EFRAG has identified two different views on the proposed amendments:

View 1:

9 Some support the IASB's objective to provide short term improvements to the information on the period-on-period movements on debt.

10 Those who support View 1 acknowledge that the proposed amendments do not fully respond to the request the IASB received from users of financial statements for entities to disclose a net debt reconciliation, albeit it will, in their view and as described by the IASB, assist users in deriving the information they seek. They also note that the IASB intends that this requirement should not impede those companies who wish to prepare a net debt reconciliation from doing so, although they would ask the IASB to make this clear in the body of the Standard (rather than the Basis for Conclusions). They believe these amendments would then represent some improvement in disclosure.

11 In addition, those supporting this view do not consider that the increased cost for preparers (either those who already prepare a net debt reconciliation or those who do not) is/will be significant.

12 Overall, those supporting this view believe that the benefits of the incremental disclosure will outweigh any costs. They note, however, that the benefits would be greater if a requirement for a net debt reconciliation were introduced. They therefore encourage the IASB to continue consider how to better address that request as part of its active research projects.

Question to constituents:

13 Do you believe that the requirement to provide a reconciliation for 'each item of the statement of financial position for which cash flows are classified as financing activities' would result in significant costs for preparers? Please explain.

14 Question specific to preparers: if you already provide on a voluntary basis a net debt reconciliation, would your current practice satisfy the requirements in the proposed amendments or would you be forced to add a supplementary disclosure or significantly amend what is provided today? Please explain.

15 Question specific to users: in the circumstances where entities provide a net debt reconciliation on a voluntary basis, do you think the new proposed requirements would benefit the overall usefulness of the information provided? Please explain.

16 Finally, those supporting this view also observe that the proposed amendments to the illustrative example contained in IAS 7, introduce a 'long-term debt' total that is not defined or required to be disclosed in current IFRS or under the proposed Amendments. They believe that elements to be added to the illustrative example should be limited to items that can directly be linked to existing authoritative IFRS literature, and therefore suggest changing the heading (e.g. 'total' or 'total reconciled components of financing activities').

<u>View 2:</u>

17 Those who do not support the amendments consider that the proposals set out in the Exposure Draft do not respond adequately to the request from users of financial statements, which was for a net debt reconciliation (rather than a "debt reconciliation" that the IASB proposes).

18 They believe that this request should not be addressed through a narrow-scope amendment; rather, it would be more appropriate to consider it in the broader context of the research that the IASB is currently conducting into IAS 7 *Statement of Cash Flows*.

19 Further, they believe that the requirement to prepare a reconciliation for each line item of the statement of financial positions for which cash flows are classified under financing activities would be burdensome for preparers and its cost would not be outweighed by the benefits.

Question to constituents:

20 Which view do you support? View 1 in paragraph 9 to 16, or View 2 in paragraph 17 to 19? Please explain.

Disclosures about restrictions on cash and cash equivalents

21 EFRAG has identified two opposing views:

<u>View 1:</u>

22 Those supporting View 1 consider that the proposed amendments supplement the existing requirements in paragraph 48 of IAS 7 where cash may be "available" for use by the group, but there are costs or other implications which effectively restrict its use.

23 They also observe that, under the proposed amendments in paragraph 50A, additional disclosures would only be required when they are relevant to an understanding of the cash position and the liquidity of the entity and therefore the new requirement is not expected to impose an unnecessary burden on preparers.

24 However, they believe that the IASB should improve the drafting of the amendments that currently refers to the repatriation of foreign cash and cash equivalent balances and other similar matter. In their view, the drafting of the amendments should be more principle-based and not focus unduly on one specific example.

<u>View 2:</u>

25 Those who do not support the amendments consider that they do not sufficiently improve information about an entity's cash position and liquidity risk beyond the disclosures already mandated in IFRSs.

26 Furthermore, they do not believe that the statement of cash flows can provide relevant information about the cash position and liquidity risk when applied to the consolidated financial information of a group. Therefore, they do not believe that the proposed amendments could be improved to meet that objective. This is because consolidated financial statements do not provide information about the location and the availability of assets, including cash items, and liabilities within the group (as was expressed in the alternative view put forward by Takatsugu Ochi).

27 Finally, they agree that there is a need for improved disclosures related to liquidity of an entity, including improved disclosures on cash and cash equivalents, and narrative disclosures about liquidity risk, but these would be better addressed after further research is conducted as part of the IASB's active research projects and/or as part of a post-implementation review of IFRS 7 *Financial Instruments: Disclosures* instead of through piecemeal changes to IAS 7.

Question to constituents:

28 Which view do you support? View 1 in paragraph 22 to 24 or View 2 in paragraph 25 to 27? Please explain.

Question 2 – Transition provisions

Do you agree with the proposed transition provisions for the amendments to IAS 7 as described in this Exposure Draft (see paragraph 59)?

If not, why and what alternative do you propose?

Notes to constituents

29 The IASB proposes that the amendments included in the ED should be applied prospectively from their effective date with early application permitted.

EFRAG's response

EFRAG agrees with the proposed transition requirements.

30 EFRAG is generally in favour of retrospective application of amendments and standards as this enhances comparability. However, EFRAG observes that the proposed amendments do not affect recognition and measurement and only supplement disclosure in the financial statements. Therefore, the benefit of retrospective application would be limited compared to the cost of providing the information.

31 Therefore, EFRAG agrees with the IASB's proposed requirements to apply the Amendments prospectively.

Question 3 – IFRS Taxonomy

Do the proposed IFRS Taxonomy changes appropriately reflect the disclosures that are set out in the proposed amendments to IAS 7 and the accompanying illustrative example? In particular:

(a) are the amendments reflected at a sufficient level of detail?

(b) should any line items or members be added or removed?

(c) do the proposed labels of elements faithfully represent their meaning?

(d) do you agree that the proposed list of elements to be added to the IFRS Taxonomy should be limited to information required by the proposed amendments to IAS 7 or presented in the Illustrative Examples in IAS 7?

Question 4 – IFRS Taxonomy due process

As referenced in paragraph BC20, the IASB is holding a trial of a proposal to change the IFRS Taxonomy due process. Although not constituting a formal public consultation of the IFRS Taxonomy due process, views are sought on the following:

(a) do you agree with the publication of the proposed IFRS Taxonomy Update at the same time that an Exposure Draft is issued?

(b) do you find the form and content of the proposed IFRS Taxonomy Update useful? If not, why and what alternative or changes do you propose?

Notes to constituents

32 *Currently, changes to the IFRS Taxonomy are not subject to approval of the IASB and a public consultation is only undertaken after a final Standard is issued. The IASB discussed proposed changes to the Taxonomy due process that would see future amendments to the IFRS Taxonomy be:*

(a) *described in accompanying material to an Exposure Draft or final Standard in the form of a 'Proposed IFRS Taxonomy Update' and published with that Exposure Draft or final Standard; and*

(b) *approved by the IASB*

33 *However, the IASB recommended, and the Due Process Oversight Committee accepted, that a trial should be performed prior to public consultation of the proposed changes to the IFRS Taxonomy due process.*

34 *Consequently, the ED includes a section constituting a Proposed IFRS Taxonomy Update and describing how the proposed changes to IAS 7 set out in the ED would be reflected in the IFRS Taxonomy. It has been included within the Exposure Draft as accompanying material and does not form an integral part of the Standard, although it has been reviewed and approved for publication by the IASB.*

EFRAG's response

EFRAG reiterates its previously expressed view that the IFRS Taxonomy should not be integrated into the IASB standard setting process but kept as a separate activity of the IFRS Foundation, as it may take the IASB away from a principle-based approach to standard setting, more particularly in the area of disclosures. Consistent with this position EFRAG does not intend to assess the proposed changes to the IFRS taxonomy.

35 In its final comment letter in response to the Report of the Trustees' Strategy Review for public consultation *IFRSs as the Global Standard*, sent in August 2011, EFRAG expressed the view that the IASB should not integrate the development of the IFRS taxonomy in the IASB standard setting process, but it should be kept as a separate activity of the IFRS Foundation.

36 We understand that the benefit of the integration in the IASB due process is that the IASB would consider, from the outset, the impact of its decisions on how the standards are represented in the IFRS Taxonomy and their usability for end-users of financial data with access to XBRL data. We also concur that a formal methodology for considering developing the IFRS Taxonomy alongside the development of the Standard could be established.

37 However we continue to caution the IASB that integrating the development of the Taxonomy in the standard setting process may take the IASB away from a principle-based approach, more particularly in the area of disclosures; since the IASB has decided to make disclosures more principle-based by indicating the objective of the disclosures, rather than a prescriptive list of disclosures.