Exposure Draft *Disclosure Initiative - Proposed amendments to IAS 7*

Feedback to constituents − EFRAG Final Comment Letter

June 2015

Summary of contents

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft ED/2014/6 *Disclosure Initiative Proposed amendments to IAS 7* ('the ED') in May 2015. This feedback statement summarises the main comments received and explains how those comments were considered by EFRAG during finalisation of the EFRAG comment letter.

Background to the ED

The objectives of the proposed amendments 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.

To meet the first objective, the IASB proposed that an entity should 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 result of requiring this reconciliation is that investors will be provided with improved disclosures about an entity's debt and movements in debt during the reporting period.

To meet the second objective, the IASB proposed extending the disclosures required by IAS 7 *Statement of Cash Flows* about an entity's liquidity and introducing disclosures about the 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.

The ED also proposed changes to the IFRS Taxonomy to reflect the effect of the proposed amendments to IAS 7 and the IASB plans to assess the form, content and timing of the proposed IFRS Taxonomy Update based on feedback received on these proposals. Further details are available on the EFRAG website.

EFRAG's draft comment letter

EFRAG published a draft comment letter on the proposals on 11 February 2015 and requested comments by 16 April 2015. In the draft comment letter, EFRAG had not reached a consensus on whether it believed that the proposals in the ED are appropriate; and therefore, the draft comment letter set out different views and sought input from constituents.

Comments received from constituents

EFRAG received twenty comment letters. The table below provides an overview of views expressed by respondents by category.

A majority of respondents, (twelve out of twenty):

- supported the IASB's objective to improve disclosures on movements in debt but expressed concerns that the IASB was proposing piecemeal and overly prescriptive requirements without first setting clear principle-based objectives for the disclosure; and
- did not support the proposed amendments on cash restrictions, as they believed that the proposed guidance lacked a clear objective, and the requirements were unclear and largely overlapped with requirements that exist in other IFRS.

Most respondents supported EFRAG's view that the proposals in the ED should be applied prospectively (as proposed by the IASB) and the Taxonomy should not be part of the IASB standard-setting process.

Table 1: Summary of views expressed by respondents

	Reconciliation		***Restriction on cash***		***Total***
	Agrees	***Disagrees***	***Agrees***	***Disagrees***	
Standard Setters	7	3	5	5	10
Preparers[1]	2	4	0	6	6
Users [2]	2	0	2	0	2
Auditors	0	1	0	1	1
Regulators	1	0	1	0	1
	12	**8**	**8**	**12**	**20**

EFRAG's final comment letter

EFRAG published its final comment letter on 11 April 2015; the comment letter is available on the EFRAG website. In its letter, and considering the feedback received, EFRAG:

- supported the objective of providing disclosures on movements in debt but expressed concern that the IASB is proposing piecemeal and prescriptive requirements without first setting clear principle-based objectives for the disclosures. Therefore, EFRAG recommended that the IASB establish the objectives for the disclosures and allow entities to determine the most appropriate way to provide the required information;
- disagreed with the proposal to introduce a supplementary requirement on restrictions on cash and cash equivalent balances as the proposed amendments lack a clear objective, are not clear and overlap with existing requirements. Instead, EFRAG recommended that the IASB clarify the existing requirements rather than introducing supplementary guidance;
- agreed with the proposed transition requirements; and
- reiterated its view that the IFRS Taxonomy should not be integrated into the IASB standard-setting process.

A description of the main comments received and changes made to the EFRAG final comment letter is provided in the section '*Detailed analysis of issues, comments received and changes made to EFRAG final comment letter*' of this document.

[1] Including associations of preparers.

[2] Including associations of users.

Detailed analysis of issues, comments received and changes made to EFRAG final comment letter

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Reconciliation of components of financing activities

Proposals in the ED

The proposed amendments to IAS 7 introduce 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.

EFRAG's tentative position

EFRAG had not reached a consensus on whether it believed that the proposals in the ED are appropriate; and therefore, its draft comment Letter set out different views and sought input from constituents. The different views can be summarised as follows:

- *View 1*: agrees with the proposed amendments as they represent a short-term improvement over current disclosures; and
- *View 2*: disagrees with the proposed amendments because they fail to address the users' request for a net debt reconciliation and it is premature to issue a narrow-scope amendment before further research is conducted.

Constituents' comments

<u>Supportive of the proposed amendments</u>

A majority of respondents (twelve out of twenty) supported the objectives of the proposed amendments because they believed that they could

EFRAG's response to constituent comments

EFRAG final position

Considering the feedback received, EFRAG supported the objective of improving the disclosures on movements in debt but expressed concerns that the IASB was proposing to do so on a piecemeal basis and through overly prescriptive requirements that lacked clear objectives.

In forming its final view, EFRAG also considered that a majority of respondents, including all users and associations of users that participated in the consultation, supported the <u>objectives</u> of the proposed amendments as a step in the right direction and believed they provided short-term improvements to the information on the period-on-period movements in debt. This was also consistent with the feedback provided by the EFRAG User Panel

EFRAG also observed that, despite the split views expressed by constituents, many of them, both among proponents and opponents of the proposals, expressed a shared concern that the proposed reconciliation requirement was overly prescriptive and lacked clear principles-based objectives. Furthermore, many respondents emphasised that the IASB should allow flexibility as to the form of the disclosure, for instance by allowing entities that already provide similar or more extensive information to continue to do so.

EFRAG therefore recommended that the IASB should first establish the principle-based objectives for the disclosures and then derive the requirements from these objectives while allowing greater flexibility for

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

EFRAG's response to constituent comments

Reconciliation of components of financing activities

improve the information available to investors when an entity does not provide such a reconciliation on a voluntary basis.

However, many of these respondents believed that flexibility should be allowed for entities to determine the most appropriate way to provide the information. Instead of the proposed overly prescriptive guidance requiring a tabular reconciliation, these respondents believed that the IASB should set clear principle-based objectives for the disclosures and then derive the proposed requirement from these objectives while allowing flexibility for entities to determine the most appropriate way to provide the information.

These respondents also believed that the information needed to provide this or similar type of disclosures would generally be readily available and did not anticipate significant costs associated with the requirements. They also generally agreed with EFRAG's recommendation that the IASB should clarify in the body of the standard that entities are not prohibited from providing a net debt reconciliation; as this flexibility will enable entities to provide more useful and relevant disclosures that meet the information needs of investors without any additional costs.

Only a few of these respondents also encouraged the IASB to work towards a definition of 'net debt' in the future as an IFRS definition of net debt would improve the comparability of net debt figures currently reported by companies.

<u>Not supportive of the proposed amendments</u>

A significant number of respondents − albeit a minority − expressed an opposite view and disagreed with these proposals as they did not adequately respond to the original request from users regarding net debt

entities to determine the most appropriate way to provide the information.

In its final comment letter, EFRAG also encouraged the IASB to reconsider the purpose and use of statement of cash flows for financial institutions (such as banks and insurers). Feedback received from users shows that they place minimal value on information contained in the statement of cash flows because it is inadequate to depict the business of this type of entities. EFRAG is already conducting some proactive research on *Statement of Cash Flows for Financial Institutions* which aims to address this issue.

Lastly, EFRAG included in the comment letter a number of aspects suggested by respondents that the IASB should clarify, were it to finalise the proposals in the ED.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	**EFRAG's response to constituent comments**

Reconciliation of components of financing activities

reconciliation (eight out of twenty). They believed that the IASB should first conduct research on the statement of cash flows (and more broadly into the principle of disclosure) to respond more adequately to user's needs rather than introducing additional disclosure requirements on a piecemeal basis.

Some of these respondents believed that the proposed requirements would impose an undue burden on preparers with no clear benefits.

Other comments

On a broader note, some respondents (both opponents and proponents of the proposals) expressed the view that the IASB should reconsider more broadly the usefulness of the information provided by the statement of cash flows for financial services and insurance where users of financial statements place minimal value on the information in the statement of cash flows because it is inadequate to depict their business model.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Disclosures about restrictions on cash and cash equivalents

Proposals in the ED

The ED proposes to extend the disclosures required by IAS 7 about the 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.

EFRAG's tentative position

EFRAG did not reach a consensus on whether it believed that these proposals are appropriate. Therefore, the draft comment letter set out two different views and sought feedback from constituents:

- *View 1*: agrees with the proposed amendments as they provide supplemental information on cash restrictions that is relevant; and
- *View 2*: does not agree with the proposed amendments because they do not sufficiently improve information about an entity's cash position and liquidity risk.

Constituents' comments

A majority of respondents (twelve out of twenty) did not support the proposed amendments in the ED. They believed that the proposals, at best, duplicated existing disclosures requirements and lacked of clear objectives.

In their view, the proposed guidance largely overlaps with requirements that exist in IFRS on liquidity and on restrictions in the access or use of assets to settle liabilities (for instance paragraph 48 of IAS 7 *Statement of Cash Flows*, paragraph 13(a) of IFRS 12 *Disclosure of Interests in Other*

EFRAG's response to constituent comments

EFRAG final position

Considering the feedback received, EFRAG did not support the proposed amendments.

EFRAG agreed that there was a need for improved disclosures related to the liquidity of an entity, including improved disclosures on cash and cash equivalents, and narrative disclosures about liquidity risk. However, EFRAG believed that the IASB should clarify the existing requirements in IFRS rather than introducing supplementary disclosure requirements in IAS 7 *Statement of Cash Flows*.

EFRAG agreed that the proposed guidance (in paragraph 50A) largely overlapped with requirements that already exist in other IFRS on liquidity and on restrictions in the access or use of assets to settle liabilities. It was not clear how the proposed amendment would actually improve the already existing disclosures.

EFRAG also agreed that, in the absence of an objective for the proposed disclosures, the scope of the proposed amendments was not clear and, in particular, it was unclear what other circumstances and legal or economic impediments or constraints (other than when there are tax liabilities arising on repatriation of foreign cash) would result in cash or cash equivalents being 'restricted'.

Finally, EFRAG did not believe that the statement of cash flows could provide relevant information about liquidity risk when applied to the consolidated financial information of a group. This is because consolidated financial statements do not provide information about the

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Disclosures about restrictions on cash and cash equivalents

Entities; paragraphs 34(a) and 39 in IFRS 7 *Financial Instruments: Disclosures*, and disclosures about the management of capital in IAS 1 *Presentation of Financial Statements*). It was not clear how the proposed amendment would actually improve the already existing disclosures.

Some respondents (both opponents and proponents) also believed that it was not clear which circumstances (other than when there are tax liabilities that would arise on repatriation of foreign cash and cash equivalents, the example provided in paragraph 50A) result in cash or cash equivalents being 'restricted'. For instance, it was unclear whether internal policies on working capital, planned investment or higher cost of fund raising could be considered as a restriction, or if restrictions are limited to constraints imposed by third parties.

EFRAG's response to constituent comments

location and availability of assets (including cash) and liabilities within the group. Therefore, EFRAG did not believe that the proposed amendments could be improved to meet that stated objective. If it was the intention of the IASB to improve disclosures about the entity's cash position and liquidity risk, EFRAG recommended a more holistic approach across all IFRS with clear disclosure objectives and consistent requirements derived from such objectives.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Transition provisions

Proposals in the ED

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

EFRAG's tentative position

EFRAG agreed with the proposed transition requirements. EFRAG is generally in favour of retrospective application of amendments and standards as this enhances comparability. However, EFRAG observed that, in this specific instance, 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.

Constituents' comments

All respondents that commented on this topic (thirteen) supported the proposed transition requirements in the ED and, therefore, EFRAG's initial position.

Two respondents recommended that the proposals in the ED be revised to require that the proposed amendments are applied prospectively. Currently, paragraph BC17 of the Basis for Conclusions refers to a prospective application but no explicit mention is made in the transition requirement paragraph in the ED (paragraph 59).

EFRAG's response to constituent comments

EFRAG final position

Considering the support received from all respondents, EFRAG maintained its initial support for the proposed transition requirements in the ED.

EFRAG also recommended that paragraph 59 of the ED be revised to explicitly state that the amendments should be applied prospectively as from their date of application.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Taxonomy

Proposals in the ED

The ED includes for the first time proposed changes to the IFRS Taxonomy to reflect the effect of the proposed amendments to IAS 7. The IASB is also holding a trial on proposed changes to the IFRS Taxonomy due process that would see future amendments to the IFRS Taxonomy published together with the relevant exposure draft or final standard.

EFRAG's tentative position

EFRAG believed 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 did not intend to assess the proposed changes to the IAS 7 Taxonomy.

Constituents' comments

Regarding the taxonomy due process, all but one respondents supported EFRAG's initial position that the IASB should keep the two processes separated.

Only one respondent explicitly supported the IASB's initiative to bring the two processes together as it could be beneficial for stakeholders who could rapidly gain visibility on the way the ED would reflect in electronic report. However, this respondent recommended that the IASB include adequate explanations in the ED to ensure that the proposed IFRS Taxonomy is only a by-product of the standard.

EFRAG's response to constituent comments

EFRAG's final position

Based on the input received from respondents, EFRAG maintained its initial position that IFRS Taxonomy should not be integrated into the standards setting process.

Consistent with this position EFRAG did not assess the proposed changes to the IAS 7 taxonomy in its final comment letter.

APPENDIX 1: List of respondents

Table 2: List of respondents	**Country**	**Nature**
European Securities and Markets Authority (ESMA)	Europe	Regulator
Swedish Financial Reporting Board (SFRB)	Sweden	National Standard Setter
Danish Accounting Standards Committee (DASC -FSR)	Denmark	National Standard Setter
Gesamtverband der Deutschen Versicherungswirtschaft (GDV)	Germany	Association of preparers
Autorité des Normes Comptables (ANC)	France	National Standard Setter
Accounting Standard Committee of Germany (ASCG)	Germany	National Standard Setter
Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter
ACTEO – AFEP – MEDEF	France	Association of preparers
Business Europe	Europe	Association of preparers
Financial Reporting Council (FRC)	UK	National Standard Setter
Insurance Europe	Europe	Association of preparers
European banking Federation (EBF)	Europe	Association of preparers
Deloitte	Global	Accounting Firm
CFA UK	UK	Association of users
Fédération Bancaire Française	France	Association of preparers
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
Federation of Financial Analysts Societies (EFFAS CAR)	Spain	Association of users
Polish Accounting Standard Committee (PASC)	Poland	National Standard Setter
Dutch Accounting Standard Board (DASB)	The Netherlands	National Standard Setter
Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter