BUSINESSEUROPE

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

31 March 2015

Dear Board Member,

**Re: ED - Proposed Amendments to IAS7**

BUSINESSEUROPE appreciates the opportunity to comment on the proposed amendments to IAS 7.

When commenting on the first exposure draft (ED) ED/2014/6 of what has turned out to be a continued piecemeal process aimed at “improving the effectiveness of disclosures in financial statements”, we indicated our view that we did not feel the selected way of introducing these rather minor changes was appropriate. This latest ED reinforces our concern raised to you in July 2014 and we would like to stress that we are of the opinion that releasing a constant stream of smaller changes on disclosure may result in aggravating the problem that it is meant to resolve, that is, the real (i.e. not perceived) disclosure overload and the need to provide relevant information, and therefore it is not an appropriate way forward. We therefore urge the Board to reconsider its approach.

Furthermore, we are convinced that the costs of these proposed amendments exceed their benefits, and that they will not achieve their objectives as drafted. If the Board nonetheless decides to continue with the current approach we suggest that it revisits the wording of the requirements along the lines discussed hereafter.

Our detailed comments and responses to the question in the ED are set out in the appendix to this letter.

Please do not hesitate to contact us should you wish to discuss these issues any further.

Yours sincerely,

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## APPENDIX

*Question 1 – Disclosure Initiative amendments*

We appreciate that investors have expressed their desire to understand cash flows better for their analysis, and have stated that understanding elements such as, for example, the movements in free cash flows and net debt is one of the cornerstones of their work. We are thus generally supportive of initiatives that help to achieve this.

However, the current proposal would not achieve that goal because currently there is an incomplete accounting framework when it comes to the definition of what represents debt, net debt, free cash flow and cash and cash equivalents and alike (i.e. other highly liquid financial assets). The requirement to provide a reconciliation of every item in the balance sheet for which cash flows have been, or would be, classified as financing activities in the cash flow statement will potentially require adding numerous reconciliations (including comparative information!) resulting in tremendous preparation efforts and costs and a level of granularity, which in our view, is of - at the very least - doubtful usefulness. In that respect, the illustrative example draws a completely oversimplified view of what can be expected to occur in reality. We believe that the following illustrative example for one year (ignoring the discussion on gross or net presentation) shows a more realistic image on how such a reconciliation would look:

| | | | Non-cash Changes | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 20X1 | Cash flow* | Reclassifications | Acquis./ Divest. | New Leases | Unwind of discount | Fair value changes to P&L | Fair value changes taken to OCI | For. Exch. Impact | Currency Translation | 20X2 |
| **Non-current financial liabilities** | 7,000 | 2,500 | -1,800 | 225 | 350 | 300 | 145 | 0 | 400 | -390 | 8,730 |
| *Of which* | | | | | | | | | | | |
| Bonds | 5,000 | 2,000 | -1,000 | 0 | 0 | 120 | 130 | 0 | 300 | -250 | 6,300 |
| Lease liabilities | 1,250 | 500 | -450 | 150 | 350 | 180 | 0 | 0 | 95 | -125 | 1,950 |
| Other long-term borrowings | 750 | 0 | -350 | 75 | 0 | 0 | 15 | 0 | 5 | -15 | 480 |
| **Current financial liabilities** | 1,500 | -1,545 | 1,800 | -35 | 25 | 20 | 10 | 0 | 15 | -90 | 1,700 |
| *Of which* | | | | | | | | | | | |
| Current portion of bonds | 500 | -500 | 1,000 | 0 | 0 | 5 | 0 | 0 | 0 | -50 | 955 |
| Current portion of leases | 250 | -295 | 450 | -50 | 25 | 15 | 0 | 0 | 10 | -20 | 385 |
| Other current liabilities | 750 | -750 | 350 | 15 | 0 | 0 | 10 | 0 | 5 | -20 | 360 |
| **Derivative (Assets) *** | -250 | -50 | 0 | 0 | 0 | 0 | -130 | -153 | 0 | 3 | -580 |
| **Derivative Liabilities *** | 325 | -45 | 0 | 0 | 0 | 0 | 0 | -188 | 0 | 3 | 95 |

** Only includes the portion of the derivative hedging foreign exchange impact on principal of bonds and leases where these are hedged.*
*These balances are included in the respective totals in the Balance Sheet and the details of derivative balances of note 13.1d...*

The additional Illustrative Example E on page 8 of the ED is inconsistent with the proposed requirement in paragraph 44A, which specifically refers to amounts in the opening and closing statements of financial position for which cash flows have been classified as financing activities in the statement of cash flows. The only such item in the consolidated statement of financial position for the relevant Illustrative Example in IAS 7 is “long-term debt”, whereas the new part E analyses “long-term borrowings” and “lease liabilities”. We trust that the Example will be amended, as we believe that the amendment should be focused on movements in line items actually shown in the statement of financial position.

We do not believe that there is a "one-size–fits-all" solution in this respect and as such there should be no standard requirement, as this potentially just leads to further disclosure overload. Instead of requiring the inclusion of a reconciliation, as suggested by the IASB in the ED, we think companies should provide information that helps users to understand the specifics when it comes to the movement of free cash flow for their entity, which **might** include a definition and reconciliation of net debt and free cash flow. We also hold the view that the market will eventually ensure that relevant information will be disclosed, as investors play a significant role in influencing what companies decide to disclose beyond the mandatory IFRS disclosure requirements.

In connection with the suggested additional requirement to provide extensive disclosure on restrictions on liquidity, we are not convinced by the points brought forward in the basis of conclusion and are unclear on exactly what the IASB is aiming to achieve. In times of global cash pool systems and capital markets, combined with unpredictability in changes of tax laws, the legal location of cash and cash equivalents does not necessarily coincide with the economic reality. The disclosure requirement therefore seems to us to be burdensome and to provide very limited information value to the reader of the financial statements, because it would seem that it would be driven by management intent (i.e. management's plan for liquidity) rather than legal or contractual restrictions (which represent actual liquidity restrictions). In our view, the latter should be the driver of such a disclosure.

In any event, we believe that the content of the newly suggested paragraph 50A seems somewhat confusing when read in conjunction with existing paragraphs in IAS 7. For example paragraph 50 also refers to additional information that may be relevant to users in understanding liquidity. We also wonder if IAS 7 is the appropriate place for guidance on liquidity issues, since IFRS 7 deals in principle with that topic, and IFRS 12 and IAS 12 (in connection with the distribution of dividends) would seem already to provide useful information in this respect.

*Question 2 – Transition provisions*

As we explained in our response to question 1, we do not believe that the IASB should continue with this project in its current manner and form. If the Board would decide to issue any guidance on this topic, we would support a prospective application and suggest to specifically exempt entities from providing comparative information.

*Questions 3 and 4: IFRS Taxonomy*

We take note of the simultaneous inclusion of the corresponding updated of the XBRL taxonomy. We are fully supportive of ensuring that the XBRL taxonomy is updated at the same time as the accounting literature, but we do not think that this should be published as part of the ED.

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The IASB should not consider the form of delivery when developing presentation and disclosure requirements. This is not part of the objective of financial reporting and should not influence the outcome. Therefore consideration of proposed updates to the IFRS Taxonomy should form no part of the Exposure Draft process, which must be focused on changes to IFRS. Updates to the taxonomy should only be considered after a new standard or amendment to an existing standard has been finalised.

While certain of our members are in the process of tagging their financial statements with the current taxonomy, the vast majority of readers of the ED will not be interested in nor able to understand the technical implementation of the change in the XBRL taxonomy. Finally, from the perspective of sustainability, this inclusion in the ED is not a desirable direction to take, as it would seem that unnecessary resources will be consumed in printing the XBRL section of the ED since it precedes the basis for conclusions and the alternative view.

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