

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

1 April 2015

Dear Mr Hoogervorst

Exposure Draft ED 2014/6 – Disclosure Initiative (Proposed amendments to IAS 7)

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Disclosure Initiative (Proposed amendments to IAS 7)* ('the exposure draft').

We continue to support the Board's Disclosure Initiative, but believe that it is premature to make additional disclosure requirements of the sort proposed in the exposure draft ahead of discussions on the Principles of Disclosure element of that project. Specifically, we are concerned that a conceptual basis for a 'debt' or 'net debt' reconciliation has not been established at this time and that, as drafted, the proposals would provide only an incomplete view of movements in items used to fund an entity's activities.

In respect of the inclusion of updates to the IFRS Taxonomy in individual exposure drafts, whilst we recognise that this could have advantages compared to the current system of biannual updates in terms of efficiency and clarity, we note that development of the standard itself should remain the primary function of an exposure draft. The ease or otherwise of incorporation in the Taxonomy should not be a driver for the determination of whether a particular disclosure would enhance transparency and improve the quality of information provided to users of financial statements. As such, we recommend that if such updates are to be included at all it should be as an appendix to the exposure draft.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V. Poole', with a long horizontal flourish extending to the right.

Veronica Poole
Global IFRS Leader

Appendix

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?

We do not agree with the proposed amendment to require a reconciliation of the amounts in the statement of financial position for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items.

Although a reconciliation of 'debt' or 'net debt' is a common feature of reporting that is considered to be of value by users in some jurisdictions (and is sometimes included in IFRS financial statements on a voluntary basis), we do not believe that it would be appropriate to make such disclosure compulsory prior to establishing a conceptual basis for requiring reconciliations in general (and the reconciliation of a net debt measure, in particular). In addition, we do not believe that the practical issues of implementing such a requirement have been sufficiently developed to merit an amendment to IAS 7 at this time.

From a conceptual point of view, we note that the Principles of Disclosure project is still at an early stage. We hope to see both cash flow reporting and the circumstances in which reconciliation of opening and closing balance sheet amounts is necessary considered as part of this project and believe that it would be premature to add disclosure requirements of this sort in advance of those considerations.

We also note that the proposed amendments would require reconciliation of only a subset of the items that might be considered to constitute entity's financing activities. Indeed, transactions in equity items (specifically excluded from the proposed reconciliation) and cash (according to paragraph BC8 of the Basis for Conclusions on the exposure draft, apparently included on an optional basis) are often considered to be an integral part of financing activities.

The use of cash flow classification as the qualifying characteristic for inclusion in the reconciliation also raises questions about the treatment of items for which cash flows classification is either not clear or may be partially within financing activities and partially within other captions (for example, vendor refinancing and debt factoring liabilities, convertible debt with embedded derivative features or any item with interest cash flows classified as operating or investing). In the former case, any lack of clarity on cash flow classification will be extended to a lack of clarity over inclusion in the proposed reconciliation. In the latter, it is unclear whether items with cash flows partially classified as financing are to be included in the reconciliation in full, in part (based on an allocation between financing and non-financing cash flows) or not at all.

Similarly, we do not believe that the principles underpinning the proposed requirement to provide additional disclosures on the liquidity of an entity are sufficiently developed and, as such, it is unclear what matters other than the example provided of tax liabilities arising on the repatriation of cash are intended to be disclosed under the proposed requirement and are not covered by the existing

requirement of paragraph 13 of IFRS 12 *Disclosure of Interests in Other Entities* to provide details of significant restrictions on an entity's ability to use the assets of the group. Again, we do not believe that additional disclosure requirements of this type should be added in advance of the Board's conclusions on relevant elements of its Principles of Disclosure project.

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?

Given the reference in paragraph BC17 of the Basis for Conclusions on the exposure draft to prospective application, it is unclear whether a comparative reconciliation of financing items is required in the first year of applying the proposed amendments. If the Board proceeds with the proposed amendments, we recommend that this be clarified but note that provision of comparative information should not in most cases be problematic.

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?*

We agree that the proposed IFRS Taxonomy changes reflect the proposed amendments to IAS 7 subject to the following comments.

- As stated in our response to Question 1, the appropriate application of the term “items for which cash flows are classified as financing activities, excluding equity items” is unclear. If the Board proceeds with an amendment based on this term, its use should be clarified in both the Standard itself and the related IFRS Taxonomy content. Currently, the proposed IFRS Taxonomy changes refer to ‘long-term borrowings’ and ‘lease liabilities’ whereas, for example, IAS 7.17(c) includes a more extensive list of items giving rise to financing cash flows.
- The examples of ‘other non-cash changes’ (effect of changes in foreign exchange rates and changes in fair values) are not exhaustive and, as such, may need to be supplemented by common practice examples.
- The proposal for a monetary element of “tax liabilities that would arise on repatriation of foreign cash and cash equivalent balances” suggests a value would always be assigned to this item. This is not specified by the exposure draft itself and it is unclear what this value would represent and how it would be calculated.

In addition, we recommend that the labels included in the ‘IFRS Taxonomy Illustrated’ (instant/duration, debit/credit etc. be included in the update to the Taxonomy itself.

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?*

We recognise that development of the IFRS Taxonomy concurrently with individual new standards or amendments to standards would have advantages compared to the current system of biannual updates in terms of efficiency and clarity in aligning the Taxonomy with developing presentation and disclosure requirements. In an environment where the importance of digital reporting is growing, it is appropriate to consider how the requirements of IFRSs translate to clear definitions for digital disclosure and for constituents to be given the opportunity to comment on this in a timely manner.

We note, however, that IFRSs are currently applied by many entities and in many jurisdictions that do not currently utilise the IFRS Taxonomy. As such, the constituency for updates to the Taxonomy is significantly narrower and we would caution that an absence of comment from constituents that do not use the Taxonomy may not amount to support for the proposed updates.

In addition, for larger, more complex new standards developing updates to the Taxonomy will be a more significant undertaking than for this exposure draft. We would be concerned by any delays to the standard setting process that might result from this as well as by the possibility that exposure of proposed Taxonomy updates at the exposure draft stage might prove premature as a result of changes made between the exposure draft and final standard stages of a project.

For these practical reasons as well as conceptually we believe that standard-setting, and in particular the development of sound principles underpinning a new standard or change to an existing standard, should remain the primary objective of an exposure draft. The ease or otherwise of incorporation in the Taxonomy should not be a driver for the determination of whether a particular disclosure would enhance transparency and improve the quality of information provided to users of financial statements. If the proposed approach is, nonetheless, pursued we suggest that the proposed updates to the IFRS Taxonomy are included only as an appendix.