

STAFF PAPER

September 2014

IASB Meeting

Project	Disclosure Initiative
Paper topic	Amendments to IAS 7—Summary of Due Process
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Objective

1. The objective of this paper is to set out the due process steps that the IASB has taken before the publication of the Exposure Draft (Disclosure Initiative: *Amendments to IAS 7 Statement of Cash Flows*) and to ask the IASB to confirm it is satisfied that it has complied with the due process requirements to date.

Background

2. The proposed amendments to IAS 7 are part of the Disclosure Initiative project. At its meeting in July 2014 the IASB tentatively decided to:
 - (a) proceed with short-term amendments to IAS 7 by requiring a reconciliation of the carrying amounts of the opening and closing liabilities where the cash flows are classified as financing activities.
 - (b) asked the staff to perform further outreach to identify whether it is possible to improve disclosure about cash and cash equivalents in the short term or whether to address the topic as part of the Principles of Disclosure research project, which incorporates a more fundamental review of IAS 7.
3. At this meeting the IASB will consider the feedback received from the Global Preparers Forum and the staff recommendation to develop improvements to

disclosures about cash and cash equivalents as part of the Principles of Disclosure research project.

4. Assuming the IASB agrees with the staff recommendation, this paper outlines the due process steps undertaken in relation to amending IAS 7 to include disclosure of a reconciliation of the carrying amounts of the opening and closing liabilities where the cash flows are classified as financing activities. This paper also asks the IASB's permission to commence balloting for publication.

Objective of the proposed amendments

5. The objective of the proposed amendments to IAS 7 is to provide information that improves investors' understanding of changes in an entity's liabilities whose cash flows are classified within financing activities in accordance with IAS 7.

Effects Analysis

6. An analysis of the effects is set out in Appendix A of this paper. In developing the proposals to be included in the Exposure Draft we have:
 - (a) discussed, in October 2013, the requirements for improved disclosures regarding 'net debt' with the Capital Markets Advisory Committee (CMAC), World Standard Setters and the Accounting Standards Advisory Forum. The results of the outreach were presented to the IASB at its meeting in October 2013.
 - (b) undertaken a survey with investors (January 2014). We received 103 responses to the survey, of which 90 were from investors or analysts. The survey was divided into two sections. The first was aimed at improving our understanding of the information requirements of users regarding debt disclosures. The second part of the survey focused on disclosures about cash and on significant restrictions on an entity's ability to access cash.
 - (c) We also discussed the survey questions with the European Financial Reporting Advisory Group (EFRAG) Users Panel, and the IFRS

Advisory Council Investor subcommittee. The results of this outreach were presented to the IASB at its meeting in March 2014.

- (d) Following the IASB's decision to proceed with the proposed amendments to IAS 7 and improve disclosures regarding an entity's debt, the staff prepared illustrative examples. These examples were discussed with investors prior to being discussed at the joint meeting of CMAC and the Global Preparers Forum held on 30 June 2014.

Intention to dissent

- 7. In accordance with paragraph 6.23 of the *Due Process Handbook*, we are also formally asking whether any IASB members intend to dissent from the amendment, before we ballot.

Proposed timetable for balloting and publication

- 8. The balloting process of Disclosure Initiative: Amendments to IAS 7 will commence in October 2014, with the publication of the Exposure Draft to follow in December 2014.

Transition

- 9. It is proposed that the amendments should be applied retrospectively, because they are disclosure-only amendments and preparers currently already have access to the information. No changes are proposed to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Comment period

- 10. The *Due Process Handbook* proposes a minimum period of 120 days for comments on an Exposure Draft. The staff are not aware of any reason to extend or shorten this period and therefore a 120-day comment period is proposed.

Confirmation of due process steps

11. In Appendix B of this paper we have summarised the due process steps we have taken in developing the proposed amendments to IAS 7. We note that the required due process steps for the publication of the proposed amendments have been completed.

Questions to the IASB—compliance with due process

1. Is the IASB satisfied that all due process steps required to date that relate to the publication of the proposed amendments have been complied with?
2. Do any of the IASB members intend to dissent from the publication of the proposed amendments?
3. Do the IASB members agree with the proposed timetable and give permission to ballot for publication?
4. Do the IASB members agree with the proposed transition requirements?
5. Do the IASB members agree with a comment period of 120 days for the proposed amendments?

Appendix A

Effects Analysis

A1 The IASB is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and the likely ongoing associated costs and benefits of each new Standard—the costs and benefits are collectively referred to as effects. In forming its judgements on the evaluation of the likely effects, the IASB considers several issues. We have shown below our evaluation of the draft proposal against those considerations.

- (a) How the proposed changes are likely to affect how activities are reported in the financial statements of those applying IFRS:
 - (i) The draft proposal requires additional information about changes in financing activities (excluding contributed equity).
 - (ii) No change is proposed that will affect how those activities are currently reported in the financial statements.
- (b) How those changes improve the comparability of financial information between different reporting periods for an individual entity and between different entities in a particular reporting period:
 - (i) The draft proposals require a reconciliation of the carrying amounts of the opening and closing liabilities where the cash flows are classified as financing activities.
 - (ii) The reconciliation aims to improve users' understanding of changes in an entity's liabilities that relate to cash flows from financing activities. The information contained in the reconciliation assists users in understanding the sources of finance and how those sources have been used over time.
 - (iii) A better understanding of the sources and use of cash flows related to financing improves users' understanding of the financing structure of an entity (and thereby the risks associated with the structure) and improves users' ability to compare and contrast entities and the risks attributable to entities.

- (c) How the improvements to financial reporting will result in better economic decision-making:
- (i) Paragraph 4 of IAS 7 notes that cash flow information enables users to develop models to assess and compare the present value of the future cash flows of different entities. Paragraph 5 of IAS 7 notes that cash flow information is useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between the profitability and net cash flow and the impact of changing prices. The reconciliation of liabilities related to financing activities assists investors in verifying their understanding of an entity's cash flows and hence improve economic decision-making.
- (d) The likely effect on compliance costs for preparers, both on initial application and on an ongoing basis:
- (i) The proposed disclosures supplement information that is already provided in the financial statements, so we do not consider there would be significant additional costs in collating information. Any additional costs are likely to arise from recoding existing data and altering collation systems. As a consequence we do not consider that there are likely to be significant additional costs to preparers of financial statements.
- (e) How the likely costs of analysis for users are affected:
- (i) The draft proposal responds to requests from investors (users) of financial statements who have identified the need for improved disclosures regarding debt. We do not consider that there are any significant additional costs for users of financial statements.

Appendix B—Confirmation of the Due Process Steps followed in the development of the Exposure Draft.

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion.	The IASB has discussed this project at its meetings in October 2013, March 2014, July 2014 and. September 2014 . Details of the project are available on the IASB website. No papers have been posted late.
Consultation with the Trustees and the Advisory Council.	Required	Discussions with the Advisory Council.	The project is a limited-scope amendment. The amendment has been discussed with the Advisory Council Investors subcommittee. The IASB noted in its Feedback Statement: Discussion Forum—Financial Reporting Disclosure that it would consider amending IAS 1 <i>Presentation of Financial Statements</i> ¹ .
Fieldwork is undertaken to analyse proposals.	Optional	The IASB has described publicly the approach taken on fieldwork. The IASB has explained to the DPOC why it does not believe fieldwork is warranted, if that is the preferred path. Extent of field tests taken.	As a narrow-scope amendment, this was not deemed necessary. Illustrative examples were, however, discussed with investors and at a joint meeting of GPF and CMAC.
Outreach meetings with a broad range of stakeholders, with special effort to consult investors.	Optional	Extent of meetings held. Evidence of specific targeted efforts to consult investors.	A summary of outreach is set out in the main section of this paper. This outlines the survey undertaken with investors.
Online survey to generate evidence in support of or against a particular approach.	Optional	Extent and results of surveys.	Undertaken in January 2014 and discussed at the IASB meeting in March 2014.
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	Publication of the Effects Analysis as part of the Basis for Conclusions.	See Appendix A of this paper.
Due process steps reviewed by the IASB.	Required	Summary of all due process steps discussed by the IASB before a Standard is issued.	Presented at the IASB meeting in September 2014.
The ED has an appropriate comment period.	Required	The period has been set by the IASB. If outside the normal comment period, an explanation from the IASB to the DPOC has been provided, and the decision has been approved.	To be discussed with the IASB at its meeting in September 2014.
Drafting			
Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.	The translations team will be asked to review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	The proposed amendments to the IFRS Taxonomy will be published as part of the Exposure Draft.

¹[Feedback Statement: Discussion Forum Financial Reporting Disclosure](#)

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Publication			
ED published.	Required	ED has been posted on the IASB website.	The DPOC has been informed at part of the routine reporting to it. As part of July routine reporting an early version of this paper was distributed to the DPOC.
Press release to announce publication of ED.	Required	Press release has been published. Media coverage of the release.	A press release will be published announcing the ED.