STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative**
Paper topic	Proposed amendments to IAS 7: feedback summary

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Purpose of this paper

1. This Agenda Paper summarises the main feedback received from comment letters in response to the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7) (the 'ED'). The ED also includes proposed changes to the IFRS Taxonomy to reflect the effect of the proposed amendments to IAS 7 *Statement of Cash Flows*.

2. The ED was published for public comment in December 2014 and the120 day comment period ended on 17 April 2015.

3. This paper does not include any staff recommendations. The staff will provide a more detailed analysis of the issues raised by respondents for the question on the Proposed amendment to require a reconciliation of components of financing activities (Questions 1(a)) , the Proposed transition provisions and effective date (Questions 2), the proposed IFRS Taxonomy Update relating to those amendments (Question 3) and staff recommendations to the IASB in Agenda Paper 11B.

4. The staff will also provide a more detailed analysis of the issues raised by respondents for the question on the Proposed amendment to require disclosure about the restrictions that affect the decisions of an entity to use cash and cash equivalent balances (Questions 1(b)) and the proposed IFRS Taxonomy due process (Question 4) in July. Recommendations for approval for an IFRS

Taxonomy due process will be presented to the Due Process Oversight Committee (DPOC) at its meeting in October.

Structure of this paper

4. This Agenda Paper is set out as follows:

   (a) summary of feedback (paragraph 5);

   (b) investor outreach (paragraph 6);

   (c) overall feedback and key issues raised by respondents to the ED (paragraphs 7–11);

   (d) responses to the proposed Disclosure Initiative amendments (paragraphs 12–47);

   (e) responses to the transition provisions and effective date (paragraphs 48–50);

   (f) responses to the IFRS Taxonomy Update (paragraphs 51–70);

   (g) responses to the IFRS Taxonomy due process (paragraphs 71–90); and

   (h) next steps for the Taxonomy (paragraph 91)

   (i) appendix A—Comment letter demographic information.

Summary of feedback

5. As of 22 May 2015, the IASB had received 111 comment letters. Appendix A of this paper provides a summary of the comment letters received by the type of respondent and the geographical region. In addition, during this period, the staff conducted 19 outreach meetings, 14 of which were with investors, analysts or data aggregators.

Investor outreach

6. A limited response from investors is common on IASB consultation documents and for this reason the staff performed additional targeted investor outreach. A number of these outreach meetings were conducted with investor representative groups. Unless otherwise indicated, feedback received from these outreach

activities was consistent with the comments made by respondents to the ED that have been summarised in this Agenda Paper.

Overall feedback and key issues raised by respondents to the ED

Disclosure Initiative

7. Almost all the investors who responded to the proposals (through comment letters and via outreach) support the proposals in the ED and the IASB for undertaking this project. The proposals in the ED were identified as a positive first step towards improving disclosures about 'debt'; and one that could be achieved within a reasonable time. They also confirmed that the proposed amendments in the ED illustrate the period-to-period movement of the components of debt as well as the quality of the cash and cash equivalents available to settle debt. These investors understand the proposals are a short-term solution and that a broader review of IAS 7 may be considered by the IASB as a part of the Performance Reporting project.

8. In contrast, many preparers, particularly financial institutions or entities with significant captive financial service activities, do not support the proposals in the ED. They are concerned that the requirements would put an additional burden on the preparation of financial statements that would outweigh the benefit to the investors.

9. Some respondents raised concerns that the proposals in the ED reflect a piecemeal approach to addressing the request for improvements to disclosure about debt and that these proposals fall short of the original investor request for a 'Net Debt' reconciliation. Many of these respondents preferred to have these issues addressed as part of a broader project on the statement of cash flows.

10. Along with drafting suggestions, respondents requested clarifications to some of the terminology used (for example, 'for each item' and 'equity items') and whether these amendments will result in consequential amendments (for example, IAS 34 *Interim Financial Reporting*). These suggestions will be considered during the drafting of the final amendments.

IFRS Taxonomy

11. As anticipated, not all respondents to the ED provided input on the proposed IFRS Taxonomy update—18 responded to the taxonomy update and 69 responded to the taxonomy due process questions. In general, many of the respondents who commented on the proposed changes to the IFRS Taxonomy stated that these changes appropriately reflect the disclosures set out in the proposed amendments to IAS 7 and the accompanying illustrative example. Some respondents, on the other hand, did not support this view and suggested that the proposed IFRS Taxonomy Update should be supplemented with anticipated common practice elements.

Question 1: Responses to the proposed Disclosure Initiative amendments

12. Question 1of the ED asked respondents whether they agreed with each of the proposed amendments to IAS 7. We have grouped the feedback for the purposes of this analysis as follows:

    (a) components of financing activities (paragraphs 13–35); and

    (b) other disclosures (paragraphs 36–47);

Question 1(a): Components of financing activities

Introduction

13. The ED proposed to insert a paragraph into IAS 7 under the ‘Components of financing’ section as paragraph 44A. The proposed amendment requires that an entity shall 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.

Feedback

14. Almost all the investors and regulators who commented on the proposed reconciliation of financing activities broadly supported the amendment. Although

they acknowledged that they preferred the benefits of this narrow-scope amendment, instead of waiting for a longer time for a more comprehensive change to IAS 7, investors reiterated that the IASB should continue its effort to enhance disclosure regarding cash and cash equivalent as well as debt within a longer-term project.

15. Most of the respondents echoed the reasons already set out in the Basis for Conclusions in the ED for their support, stating that the proposed reconciliation provides information which can be used to verify an investor's understanding of the entity's cash flows to:

    (a) improve investors' confidence in forecasting an entity's future cash flows;

    (b) provide information about an entity's sources of finance and how those sources have been deployed over time; and

    (c) enable investors to better understand an entity's exposure to risks associated with financing.

16. In addition, investors highlighted that the proposed amendment will assist them in analysing the period-on-period movement of a company's debt to:

    (a) assess how the level of financial debt (either gross or net) has changed and could change in the future;

    (b) assess the financial structure of a group and its sustainability;

    (c) better understand the evolution of debt, which was often provided only on a voluntary basis; and

    (d) not only confirm the amounts of debt drawdowns and repayments, but also to differentiate these transactions from other factors affecting the debt balance (for example, foreign exchange movements or acquisitions) that, from an economic perspective, are equivalent to cash flows but do not appear in the statement of cash flows.

17. Most investors value the flexibility that the proposed amendment provides to entities to:

(a) extend the required disclosure to include items that it considers to be debt but that are not captured under ‘components of financing activities’;

(b) identify items whose cash flows have been or will be classified as financing for the purposes of the statement of cash flows, but that the entity does not consider to be debt; and

(c) deduct liquid assets held for settling/financing debt as a separate line item, from the gross closing balance of the reconciliation.

Extending the required disclosure in this way will allow the investors to understand the entity’s debt and/or net debt position through the eyes of the management.

18. Some investors explained that they currently struggle to construct a debt reconciliation on their own because of insufficient disclosures about movements in debt or because the existing disclosures are scattered throughout the financial statements. In their view, the proposed amendment, is not only crucial to compensate for the lack of information but it also collates and provides easier access to this information.

19. The feedback to the effect that the proposed amendment would provide useful information was consistently repeated by investors in outreach meetings. No differences in views among geographical regions were identified.

20. Investors did not agree with the preparers’ sentiment that the proposed amendment triggers significant additional costs that would outweigh the usefulness and potential benefits of the resulting information. Investors are of the view that the proposed disclosure collates data that should be already available to the management within its current accounting system.

21. In contrast to investors, most preparers did not support the proposed amendment. Many respondents, mainly preparers and the majority of standard-setters, were concerned that the proposed requirement will not necessarily provide relevant and useful information for investors.

22. In their view, in its current form, the proposed amendment lacks clarity as to the purpose and objective it seeks to fulfil. They also highlighted the fact that the

amendment does not define what constitutes debt, nor does it require a net debt reconciliation, which they think diminishes its usefulness. In their view, this lack of definition may negatively affect the consistency and comparability of the reconciliations between entities. The following paragraphs from 23 to 28 points to other factors that the respondents cited for the proposed amendment not being sufficiently useful to outweigh the costs.

23. Many respondents who disagreed with the proposals echoed the reasons set out in the alternative view of Mr Takatsugu Ochi in the ED that the proposed amendment:

(a) will add operational costs, ranging from updating the accounting system to the operational difficulty of preparing such information on a consolidated basis, which would collectively outweigh the corresponding benefit of providing more information to the users;

(b) should more appropriately be considered after the conclusion of the Principles of Disclosure project and that a more comprehensive review of IAS 7 is preferable, rather than introducing disclosure requirements on a piecemeal basis; and

(c) will not provide relevant information about liquidity risk, if consolidated cash and cash equivalent balances are deducted from the amounts included in the reconciliation, because consolidated financial statements do not provide complete information about the location and the availability of assets, including cash items, and liabilities within the group.

24. Many respondents, mainly preparers, were concerned that the proposed requirement will, at times, overlap with existing IFRS disclosure requirements. For example:

(a) debt assumed by the acquirer as a result of an acquisition of an another entity is already required to be disclosed under paragraph B64(i) of IFRS 3 *Business Combinations* and paragraph 40 of IAS 7; and

(b) the guidance in paragraph 43 of IAS 7 requires the disclosure of significant non-cash movements in liabilities.

25. Some respondents representing highly regulated industries such as banking and other financial services cited comprehensive disclosure requirements that are already in place to enhance the transparency of an entity's liquidity and financial position but that are currently presented outside of the financial statements (for example, the Basel Pillar 3 disclosures). In these respondents' view, the existence of such disclosures reduces the need and the value of new disclosure requirements.

26. Most preparers and accountancy bodies disagreed with the 'financing activities' approach, because the wording appears to capture only some, but not necessarily all, of the items that an entity may consider to be part of its debt and debt-related transactions such as interest payments. In the respondents' view, this prevents:

    (a) the inclusion of items that entities consider to be debt but whose cash flows are not considered to be a component of financing activities in accordance with IAS 7; and/or

    (b) the exclusion of items whose cash flows are captured as components of financing activities but that are not considered to be debt by the entity.

27. Respondents argue that some specific items, such as pension liabilities, have cash inflows/outflows classified under operating activities in accordance with IAS 7.[1] In addition, for certain items such as interest payments, IAS 7 provides a preparer the option to classify the cash inflows/outflows as either operating, investing or financing. These instances would result in the above items being excluded from the scope of this reconciliation, even though they are considered as debt by the entity itself and the credit rating industry.

28. Preparers who were banks and other financial institutions particularly reiterated that cash flows of financial institutions are more interrelated and not normally used as a management tool to assess an entity's liquidity or ability to generate cash flows. They also added that the proposed reconciliation is incapable of capturing a bank's liquidity management activities, such as:

    (a) the issue of long-term instruments that are designed to comply with capital requirements, such as Basel III, which may be classified as

[1] Paragraph 14 of IAS 7 describes what constitute as an operating activity and lists one of the examples (IAS 7.14. (d)) as 'cash payments to and on behalf of employees'.

equity for accounting purposes. Within this context, such long-term debt instruments would be outside the scope of the proposed reconciliation; and

(b) other funding sources such as deposits, money market borrowings, commercial paper and other similar debt with relatively shorter tenors will form part of operating activities within the statement of cash flows. These funding sources will thus be outside the scope of the proposed reconciliation, even though they are a significant component of a financial institution's financing and liquidity management.

29. It is important to note that a few preparers from the banking and finance industry did support the proposed amendment in spirit, but stated that it's irrelevant for the users of financial statements of their sector. These respondents also noted that the proposed amendment could lead to a partial disclosure (citing the shortcomings previously mentioned), and may project an incomplete picture of the financial position of the entity. These respondents went on to suggest that the IASB should provide an exemption to financial institutions regarding this proposed amendment.

30. Many respondents, including some of the preparers who disagreed with the financing activities approach (whereby items whose cash flows are classified as financing activities are included in the reconciliation), agreed with the concept of a debt reconciliation. These respondents supported leaving the onus of defining debt and therefore the components of the reconciliation solely up to management. In their view this approach would:

(a) prevent pitfalls that may arise when there is an option available for the classification of the cash flow; for example, classifying the interest component of a repayment of debt as either an operating or a financing activity, which may prevent some cash flows from meeting the criteria for inclusion in the proposed debt reconciliation;

(b) would allow investors to see how management views and manages its debt and/or net debt position, which would increase the relevance of information on the entity's debt; and

(c) compared to a compulsory disclosure of uniform information across all entities (as the proposal requires in its current form), would reduce cost and expenditure of time for both management and users.

31. A few respondents cited a similar requirement in paragraph 135 of IAS 1 *Presentation of Financial Statements*, which provides guidance to entities to define 'capital' themselves in disclosing the entity's objectives, policies and processes for managing capital.

32. A few preparers, mostly from the UK, who agreed with the proposed amendment, stated that this information is already available to them from their systems and that a similar disclosure is already provided in their annual financial statements.

33. It is important to note that auditors who responded had split views regarding the proposed amendment. While some respondents aligned their support with investors, others were sympathetic towards the preparers' reasons for not supporting the proposal. Most of those auditors who disagreed with the 'financing activities' approach, noted that because of the reasons highlighted in paragraph 26, the comparability and enforceability of the proposed amendment cannot be fully achieved.

34. The ED did not propose to prohibit an entity from presenting the [proposed] reconciliation either as a gross reconciliation or as part of a net debt reconciliation (discussed in paragraph BC8 of the ED). Many respondents suggested that the proposed amendment should incorporate an explicit statement to this effect, instead of only making this clear in the Basis for Conclusions.

35. Other points raised by respondents include:

(a) a few respondents pointed to the interaction between the proposals developed within the Leases project, which rejected a reconciliation for lease liabilities on cost-benefit grounds. These respondents asked why the IASB interpreted the cost-benefit aspect differently in the amendment to IAS 7 and the Leases project; and

(b) suggestions were raised by respondents that:

(i) the rationale and clear objectives for the reconciliation of the new disclosure should be set out in the main body of the Standard instead of the Basis for Conclusions;

(ii) entities should be encouraged to disclose this reconciliation together with those required by similar disclosure requirements in IFRS (for example, the liquidity risk analyses and risk management processes stipulated under paragraph 39 of IFRS 7 *Financial Instruments: Disclosures*), or by cross-references to other disclosures (for example, Basel Pillar 3 disclosures) outside of the financial statements;

(iii) the illustrative example is too simplistic and should be expanded to include some of the components commonly found in similar reconciliations (such as accrued interest, changes in the fair value of derivatives); and

(iv) the choice/flexibility of selecting the format to present this reconciliation should be left to management's discretion.

Question 1(b): Other disclosures

Introduction

36. The ED proposed to insert a paragraph (50A) into IAS 7 under the 'Other disclosures' section to extend the disclosures required by IAS 7 about an entity's liquidity. Specifically the proposals require disclosure 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.

Feedback

37. Almost all investors and regulators agreed with the proposed amendment. Most of the respondents echoed the benefits already set out in the Basis for Conclusions to the ED for their support and highlighted that the proposed amendment will:

(a) assist investors in assessing costs or other implications that effectively restrict the use of cash and cash equivalent balances, in order to:

(i) identify the true net debt position of an entity, confident that all the relevant liquidity constraints have been considered;

(ii) enhance their understanding of the liquidity risk exposure of an entity;

(iii) perform a single top-down assessment of liquidity for a group entity as a whole, which is more beneficial than being required to perform a number of bottom-up assessments of liquidity for each entity within the group individually;

(iv) avoid having to make a number of adjustments (for example, applying a ‘discount’ to reported cash and cash equivalents) to financial statements to reflect an estimate of costs that may be associated with accessing funds; and

(b) not cause significant additional costs or undue delay in the publication of financial statements, because the information required to produce this disclosure should be already available through the treasury function within an entity.

38. Most preparers and auditors disagreed with the proposed amendment and added that the IASB should work on this issue in a more comprehensive manner within the Principles of Disclosure project or other relevant project, in order to fully understand what information related to liquidity is of most use for investors. This would also avoid creating a patchwork of overlapping piecemeal disclosures, which reduces the decision-usefulness of the resultant information.

39. They added that the proposed amendment overlaps with multiple disclosure requirements on the liquidity position of a group, such as in:

(a) paragraphs 34(a), 39 and B10A–B11F of IFRS 7;

(b) paragraph 13(a) of IFRS 12 *Disclosure of Interests in Other Entities*;

(c) paragraph 48 of IAS 7; and

(d) paragraph 81(f) of IAS 12 *Income Taxes*.

40. Many respondents therefore requested that the IASB clarify the relationship between the disclosure requirements cited in paragraph 40 and the proposed paragraph 50A, or alternatively to consider extending the scope of one of those disclosures to include the current discussion on the proposed paragraph 50A. In their view, this would avoid any instances of duplication or overlap within the financial reporting package as a whole.

41. In addition, they suggested that in its current form, the proposed amendment:

(a) does not clearly articulate the rationale or the objective of the proposed disclosure (including how the resulting information will enhance decision-making by users of financial statements). This could lead to the requirement being interpreted too broadly to include the disclosure of management's policies on the use of its own funds, for example, minimum cash floats or thresholds to ensure debt/equity ratios are maintained, which, in their view, does not fit with the purpose of general purpose financial statements;

(b) would result in some liquid financial assets that are not recognised as cash and cash equivalents (for example, marketable securities) but that are managed against an entity's debt being excluded from the proposed disclosure; and

(c) does not include some specific matters that are important to a review of an entity's liquidity position, such as the entity's ability to settle debt by issuing equity. For example, one respondent stated:

> We believe that investors would be interested in both aspects of funding (debt and equity), in order to better understand the gearing, liquidity and funding as a whole, of an entity. For example, in some jurisdictions, the ability for the entity to issue equity without further shareholders approvals may be an important component in the entity being able to settle its debt obligations. *South African Institute of Chartered Accountants (SAICA)*

42. Some preparers stated that it would be burdensome and costly to comply with the proposed disclosure on a consolidated group basis because:

(a) it may necessitate disclosure or consideration of a range of possible outcomes that are subject to complex tax planning events (for example, various intercompany transactions, restructurings, cash pooling etc.);

(b) it is based on hypothetical future events that are neither relevant nor practicable to take into consideration until such time that management has identified an actual need to access the 'restricted' funds; and

(c) it could be substantially costly for auditors to comprehensively examine the matters required to be disclosed.

43. Most of the standard-setters and accountancy bodies agreed with the proposed amendment. However, some of the respondents within these groups expressed similar concerns to the matters highlighted by the preparers, which are listed above in paragraphs 39 to 42.

44. A few respondents stated that the proposed amendment is geared towards presenting cash restrictions for cash and cash equivalent balances held at the end of the reporting period and are therefore not relevant to investors within a forward-looking context. In these respondents' view, the current discussion on cash restrictions is better placed as an extension to the disclosure requirements in IFRS 7 for financial liabilities or liquidity risk management.

45. A few respondents suggested that the proposed amendment could be avoided or could result in a boilerplate disclosure if an entity admits to an existing legal restriction whereby tax liabilities would arise on repatriation , but claims:

    (a) that it intends to retain cash and cash equivalent balances in an overseas entity to:

        (i) maximise its returns on those balances; or

        (ii) finance further investments within that particular jurisdiction.

    (b) that, even though the individual company may be subject to restrictions, this does not affect the practice of the group as whole, because the group treasury management function ensures that all the individual companies can have access to the liquidity at all times.

46. A few respondents requested additional clarifications regarding the meaning of 'matters relevant to an understanding of the liquidity of the entity' and whether such 'matters' should be disclosed qualitatively or quantitatively. Those respondents cited that although the proposed paragraph 50A could be read as requiring only qualitative disclosures, the proposed change to the IFRS Taxonomy suggests that such disclosures would be quantitative (see paragraph 65).

47. A few respondents also made the following suggestions regarding the proposed paragraph 50A, namely that the amendment:

(a) should not include examples of restrictions, which could lead the requirement to be interpreted too narrowly and to be read within the sole context of requiring tax liabilities that would be incurred upon repatriation;

(b) should provide a few more examples (for example, cash and cash equivalent balances held in escrow accounts) to enhance the understanding of the objective of the proposed amendment;

(c) should include a disclosure (preferably a table) that would show the dispersion of a group's cash and cash equivalent balances, as well as debt among the relevant geographical locations along with the currency denominations of those balances;

(a) would be better placed for discussion under the operating and financial review within the management commentary; or

(b) be incorporated by cross-referencing to existing disclosure requirements (prudential and accounting) that are already provided outside of the financial statements (for example, Basel Pillar 3 disclosure requirements).

Question 2: Responses to transition provisions and effective date

Introduction

48. The proposals in the ED are intended to be disclosure-only amendments of information to which preparers already have access. This would not result in the reassessment of the judgements about presentation and disclosure that had been made in periods prior to the application of these amendments. Hence, additional transition provisions were not considered beneficial. However, the ED proposed to permit early adoption of the amendments. If an entity applied these amendments for an earlier period, it would be required to disclose that fact.

49. In addition, no changes are proposed to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. When we developed these disclosure requirements, we considered whether it will be necessary to amend IAS 34 or IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Feedback

50. Nearly all respondents supported the transition provisions.

Question 3: Responses to the IFRS Taxonomy Update

51. As previously mentioned, we received 111 comments letters on this ED, of which 18 provided substantive comments to question 3. To give this context, a typical annual IFRS Taxonomy update has in the past attracted between zero and five comment letters. In the last two years it has averaged between two and three letters. Hence, the response rate is significantly higher than we have experienced before.

52. Question 3 sought feedback on the proposed changes to the IFRS Taxonomy resulting from the proposed amendments to IAS 7; that is, whether the proposed changes to the IFRS Taxonomy appropriately and adequately reflected the disclosures set out in the proposals in ED including the accompanying illustrative example.

53. Question 3 was divided into four parts, the purpose of which was to solicit views from respondents on specific aspects of the proposals to amend the IFRS Taxonomy.

54. Considering the average number of comments we receive on the publication of the annual IFRS Taxonomy which is around 5, the 18 responses we received for this question was significant. The comments received provided useful feedback on the proposed IFRS Taxonomy content.

55. This section of the paper follows the format of the question, namely:

    (a) level of detail of amendments included in the IFRS Taxonomy (paragraphs 56–58);

    (b) addition/removal of line items to/from the proposed IFRS Taxonomy (paragraphs 59–62);

    (c) use of labels to faithfully represent their meaning (paragraphs 63–65); and

    (d) the composition of the proposed list of elements (paragraphs 66–70).

Question 3(a): Level of detail of amendments included in the IFRS Taxonomy

Introduction

56. The ED asked respondents whether the proposed changes to the IFRS Taxonomy reflect, to a sufficient level of detail, the proposed amendments to IAS7.

Feedback

57. Many respondents to this question expressed a view that the level of detail used in the IFRS Taxonomy to reflect the proposed amendments to IAS 7 was sufficient and appropriate to reflect the potential disclosures in financial statements.

58. However, some respondents were of the view that the amendments to the IFRS Taxonomy were not sufficiently detailed to reflect the proposals in the ED. In particular, reference was made to the example used for components of financing activities, with some seeking further clarification as to why this example included only long-term borrowings and leases and not other components such as short-term borrowings. Most of the respondents seeking further clarification suggested that at least short-term borrowings should be included in the example.

Question 3(b): Addition/removal of line items to/from the proposed IFRS Taxonomy

Introduction

59. The ED asked respondents to identify if:

    (a) any line items or members should be added to the IFRS Taxonomy, in addition to those already proposed; or

    (b) any of the proposed line items or members should be removed.

60. There was some overlap in the responses to this question and those of Question 3(a).

Feedback

61. Many of the respondents to this question were of the view that more line items and members should be included in the proposed IFRS Taxonomy. Some of their suggestions include short-term borrowings (previously discussed in response to

Question 3(a), see paragraphs 57–58), and other anticipated common practice, (see the response to Question 3(d) discussed in paragraphs 66–70 below).

62. Some respondents were of the view that no additional line items or members should be added, nor that any existing or proposed line items or members should be removed. In their view the suggested amendments to the IFRS Taxonomy appeared appropriate, reflecting the intended effect of the proposed changes on disclosures in the financial statements.

Question 3(c): Use of labels to faithfully represent their meaning

Introduction

63. The ED asked respondents whether the proposed labels for elements faithfully represent their meaning.

Feedback

64. Most respondents agreed that the proposed labels of elements did faithfully represent their meaning.

65. Those who did not agree all came from a standard-setter background. The specific proposals with which they did not agree included:

(a) the proposed line item 'Tax liabilities that would arise on repatriation of foreign cash equivalent balances' was proposed as a monetary element in the IFRS Taxonomy. In their view, the element should in fact be labelled as a text element because the wording of paragraph 50A of the ED did not specify whether the information to be disclosed was quantitative or qualitative. Some of those respondents who raised this point highlighted this as an example of how the proposed changes to the IFRS Taxonomy may unintentionally interpret the Standards.

(b) paragraph 44A of the ED requires a reconciliation for changes '*for each item for which cash flows have been, or would be, classified as financing activities ...*'. However, the proposed amendment to the IFRS Taxonomy introduces a new group of columns '*Items for which cash flows are classified as financing activities ...*' as described in paragraph 5(b) of the Proposed IFRS Taxonomy Updated that accompanied the

ED. There is a concern that the IFRS Taxonomy description of the item is narrower than the ED, because it presumes cash flows have occurred.

Question 3(d): The composition of the proposed list of elements

Introduction

66. The ED asked for respondents' views on the composition of the proposed list of elements added to the IFRS Taxonomy; that is, whether it should be limited to information required by the proposed amendments to IAS 7 and the accompanying illustrative example.

Feedback

67. Many respondents asserted that the proposed list of elements to be added to the IFRS Taxonomy should be limited to the information required by the proposed amendments to IAS 7.

68. However, some respondents stated that they would like to see the proposed IFRS Taxonomy include elements in addition to those required by the proposed amendments to IAS 7 and the accompanying illustrative example.

69. Of those who called for additional elements, auditors suggested that it would be useful to consider anticipated common practice elements because these would provide additional guidance for preparers using the IFRS Taxonomy. No suggestions were given for which potential anticipated common practice items to include.

70. One data aggregator suggested that the IASB should not consider anticipated common practice, but should instead wait and see what happens in practice in order to identify common practice elements, if and when they arise.

Question 4: Responses to the IFRS Taxonomy due process

71. Another aim of this ED was to conduct a trial of the IFRS Taxonomy due process, the aim of which was to evaluate:

(a) a proposal to publish the *Proposed IFRS Taxonomy Update* document at the same time and in the form of accompanying material to an Exposure Draft (paragraphs 73–86); and

(b) the form and content of the *Proposed IFRS Taxonomy Update* document (paragraphs 87–90).

72. It needs to be noted that this trial is not a formal consultation of the IFRS Taxonomy due process, but instead was intended to help evaluate the possible options. A public consultation of the IFRS Taxonomy due process is expected to take place during the latter part of 2015.

Question 4(a): Publication of the proposed IFRS Taxonomy Update at the same time as the Exposure Draft

Introduction

73. All of the 69 respondents to the questions on the IFRS Taxonomy responded to this question. This comprised 8 of the respondents who had commented on question 3 plus 61 others.

Feedback

74. A few respondents explained why they provided little or no comment on the IFRS Taxonomy due process, namely that because:

(a) they did not support the proposed amendments to IAS 7, they chose not to make any comments on the proposed changes to the IFRS Taxonomy or its due process.

(b) they do not use the IFRS Taxonomy and have little or no technical expertise in its use, they saw no need to comment and/or were not in a position to comment. This view was expressed mainly by preparers.

75. Of those who responded to this question, some supported the simultaneous publication of the proposed IFRS Taxonomy Update and the ED. This support was highest among data aggregators, standard-setters and security regulators. Reasons for this support included that the publication of a proposed IFRS Taxonomy Update with an Exposure Draft:

(a) tests the feasibility of the proposals in the ED to be appropriately reflected in the IFRS Taxonomy; and

(b) is beneficial for stakeholders who could gain rapid visibility on the way the ED would be reflected in electronic reporting.

76. Seven of the 8 respondents who replied to questions 3 and 4 supported the simultaneous publication of the proposed IFRS Taxonomy Update and the ED. There were mixed views from the other respondent. This respondent highlighted that such a publication is necessary due to the growing importance of digital reporting. However they were concerned that such a publication might cause delays in standard-setting.

77. A few respondents said that they could see both the benefits and the risks of issuing the proposed IFRS Taxonomy Update at the same time as the ED. They suggested that it would be beneficial to address IFRS Taxonomy issues early. (It can be seen why this could be beneficial, in light of the requirement of paragraph 50A which might be interpreted as requiring either quantitative or qualitative information). However they thought that this approach could also potentially divert attention from the amendments to the Standard, leading to less effective responses on the proposed accounting amendments that the ED seeks to address.

78. The remaining 61 respondents had not commented on the Taxonomy update for IAS 7. Most of these respondents did not support the simultaneous publication of the an IFRS Taxonomy Update as part of an ED. This view was highest among preparers.

79. Of these, many were of the view that the proposed IFRS Taxonomy Update should be based on the final amendments to the Standard and not on the ED. The view was expressed that it would be premature to consider the proposed IFRS Taxonomy at the ED stage, because the proposed amendments to the Standard would still be subject to change based on the responses received from the ED. Some further added that if this were the case, a lot of time and effort would have been expended in order to review the IFRS Taxonomy that is still subject to change, resulting in a waste of time and resources and the incurring of additional costs.

80. There was also a concern expressed by some respondents that the publication of the proposed IFRS Taxonomy Update with the ED may undermine or constrain the development of principle-based accounting Standards by the IASB. There was a suggestion that the development of the IFRS Taxonomy should not influence standard-setting.

81. Some respondents mentioned that some readers of the ED do not currently use the IFRS Taxonomy; and thus will not be interested in it, nor be able to understand the technicalities of it. Consequently, the IFRS Taxonomy would have limited or no relevance to such readers.

82. Some respondents who did not support simultaneous publication, suggested that instead of having the ED and the IFRS Taxonomy integrated into one document, they should be published as two separate documents. The principal reason for this was to avoid any potential misinterpretation between the Standard and the IFRS Taxonomy.

83. Some respondents pointed to various drawbacks that could arise from publishing the proposed IFRS Taxonomy with the ED. These points were merely stated and not necessarily elaborated on. These include:

    (a) adds complexity to the review and analysis of the ED and diverts resources;

    (b) IFRS requirements may be "unintentionally" influenced by the particulars of the IFRS Taxonomy; and

    (c) may lead to prescriptive outcomes for IFRS requirements.

84. Some of the respondents suggested that if the IASB decides to publish proposed IFRS Taxonomy Updates at the same time as an ED, such publications should be done only for narrow-scope amendments and not for more complex amendments. They are concerned that more complex amendments could lead to delays in standard setting.

85. A few respondents further cautioned that the IASB should not consider integrating the IFRS Taxonomy into the standard-setting process. They expressed the view that the ED should be focussed on the development of conceptually sound

accounting standards and not diverted by needs to address issues relating to the Taxonomy.

86. As a general comment, a few respondents highlighted that when Standards are amended, it creates challenges for software producers in terms of keeping their products up to date and assisting their customers to implement these changes. Consequently, they suggested that amendments to the IFRS Taxonomy should be done on a regular cycle based on a group of final Standards or amendments to Standards, instead of on the basis of individual IASB publications.

Question 4(b): Form and content of the proposed IFRS Taxonomy Update

Introduction

87. As previously mentioned, the ED asked for respondents' views on the form and content of the proposed IFRS Taxonomy Update.

Feedback

88. Only some respondents commented on this question.

89. Of the respondents who commented on this question, many supported the form and content of the proposed IFRS Taxonomy Update and found it to be useful. Some of these respondents suggested that it would be helpful if more explanation could be given on the relationship between the illustrative example in the proposed ED and sample IFRS Taxonomy view.

90. Some respondents to this question did not support the form and content of the proposed IFRS Taxonomy Update. They expressed the view that the Update can be difficult to understand if readers do not possess the necessary technical knowledge. Consequently, it was suggested that the IFRS Taxonomy should be treated as a separate project from the ED.

Next steps for the Taxonomy

91. When it is reviewed by the DPOC, the staff will be considering and reconciling the following:

(a) The consultation attracted over seven times as many letters than the typical annual Taxonomy release.

(b) Some respondents correctly tension between the Taxonomy proposals and the IAS 7 disclosure requirements

(c) Whether the language and presentation of the taxonomy information was, still, too technical (in a computer sense) for an IFRS ED.

(d) Whether there are other ways to consult simultaneously, such as by publishing separate booklets.

Appendix A—Comment letter demographic information (illustrative only)

A1. The following is a summary of the 111 comment letters received by 22 May 2015.