STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative**
Paper topic	Amendments to IAS 7—final amendments to changes in 'debt'

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Introduction

1. In December 2014 the IASB published an Exposure Draft of proposed amendments to IAS 7 *Statement of Cash Flows* ('the ED'). The objectives of the proposed amendments were to improve:
   - (a) information provided to users of financial statements about an entity's financing activities, excluding equity items (the reconciliation); and
   - (b) disclosures that help users of financial statements to understand the liquidity of an entity (cash restrictions).
2. The IASB also included proposed changes to the IFRS Taxonomy. This was the first time that such proposals were included for comment with the Exposure Draft.
3. A feedback summary of the responses to the ED is presented in Agenda Paper 11A at this meeting.

Purpose of this paper

4. The purpose of this paper is for the IASB to consider the staff's analysis of the feedback on the proposals about the reconciliation (see paragraph 1(a)) and to recommend the next steps in this part of the project.

5. Thus, the paper addresses proposed paragraph 44A (the reconciliation) of the ED. Another paper will deal with proposed paragraph 50A (cash restrictions) at a future IASB meeting.

Staff recommendations

6. The staff recommend finalising the amendments to improve disclosures about debt in IAS 7 by requiring the reconciliation as proposed in the ED with the following clarifications:
   (a) adding an objective to the disclosure requirement;
   (b) clarifying in the Standard that flexibility is permitted in the reconciliation; and
   (c) adding a less simplistic illustrative example to the Standard.
7. Regarding the IFRS Taxonomy, the staff recommend:
   (a) not including anticipated common practice elements in the IFRS Taxonomy for the amendment to IAS 7 related to the reconciliation; and
   (b) continuing research and outreach on the potential inclusion of anticipated common practice elements in the IFRS Taxonomy.

Staff analysis

8. From the feedback on the ED (Agenda Paper 11A) we identified the following areas for further consideration in regards to the reconciliation:
   (a) timing of the amendment, in view of the broader projects in the Disclosure Initiative (paragraphs 9-14);
   (b) objective of the disclosure (paragraphs 15-18);
   (c) flexibility in the requirement /management definition of debt (paragraphs 19-23);
   (d) cost-benefit analysis of the information (paragraphs 24-29);
   (e) additional illustrative example (paragraphs 30-32); and

(f) additional elements for the IFRS Taxonomy (anticipated common practice) (paragraphs 33-4140).

Timing of this amendment, in view of the broader projects in the Disclosure Initiative

9. Many constituents expressed the view that the reconciliation should be part of the Principles of Disclosure project, which is also part of the Disclosure Initiative (see paragraph 23 in Agenda Paper 11A). The main reasons expressed were:

   (a) there is a risk of preparers incurring duplicated costs—if the proposals in the ED were implemented and then subsequently changed following the outcome of the Principles of Disclosure project; and

   (b) deferral of this project would allow the IASB time to define debt.

10. The staff do not agree with these reasons, because the Principles of Disclosure project is developing principles for general disclosures (a possible replacement of IAS 1 *Presentation of Financial Statements*). We therefore do not think that this project will address the detail of the proposed reconciliation as set out in the ED.

11. Similarly, we do not consider that the Principles of Disclosure project will consider the definition of debt, which is again a more specific issue than this project will address. It is possible that the definition of debt will be addressed in the Performance Reporting project. However, the Performance Reporting project is still in a scoping phase and its unlikely that a DP would be issued in the near future.

12. As a consequence, in our view we consider that when constituents expressed the view that the reconciliation should be part of the Principles for Disclosure project they; (i) thought it was important to first work out the basic principles of disclosure before adding additional disclosure; and (ii) did not fully appreciate the timing and scope of the Principles of Disclosure and Performance Reporting projects.

13. It is also important to recognise the investors' support for these proposals. The ED was proposed in response to investors' requests for improved information about debt and movements in debt during the reporting period. Investors are supportive of the Disclosure Initiative but would like a timely response to this ED.

14. On balance, and taking the two views into consideration, the staff retain the view that a narrow-scope amendment is the most appropriate way to deliver to users the information they requested.

Objective of the disclosure

15. A few constituents suggested that an objective for the proposed disclosure requirement should be included in the Standard. In their view this would permit entities to determine the most appropriate way to provide the required information (see paragraph 35(b)(i) of Agenda Paper 11A). This view is consistent with the preliminary findings in the materiality research project—that disclosure requirements that set an objective enable preparers to better relate the disclosure with the objective.[1]

16. Recent Standards such as IFRS 15 *Revenue from Contracts with Customers* (paragraph 110) also include disclosure objectives. In addition, how to draft disclosure requirements that are clearer about their specific objective was discussed in Agenda Paper 11I at the April 2015 IASB meeting. In the staff's view, being clearer about how information resulting from a required disclosure meets users' needs (ie its objective), assists entities in determining what information is material. The IASB have considered such a principle-based approach would be useful to guide decisions in selecting the information that an entity should consider when making disclosures.

17. The staff agree with constituents that the proposed disclosure requirement, as drafted in the Standard, could be clearer about its objective. In the staff's view the objective of the reconciliation is to assist users in understanding movements in financing liabilities (and assets).

18. The staff recommend clarifying the disclosure requirement in the Standard so its objective is clear.

[1] Slide 30 of Agenda Paper 11A(b) of the September IASB meeting.

Flexibility in the requirement/management definition of debt

19. Some constituents were in favour of allowing management to define debt, instead of using the components of financing activities as the basis for the reconciliation. [2] These constituents considered allowing management to define debt, thereby providing greater flexibility on what items could be included in the reconciliation.

20. In response to the ED some constituents have noted that using the components of financing activities is restrictive (see paragraph 26 of Agenda Paper 11A) and prevents entities from providing useful information for the following reasons:

    (a) items outside financing activities that the entity considers to be debt (eg pension liabilities) would not be captured; and

    (b) entities that already provide a debt reconciliation with cash and cash equivalents (ie a net debt reconciliation) would be prevented from doing so.

21. We think the proposed reconciliation using the financing components as defined in IAS 7 acts as a framework for the reconciliation. We do not think the objective of the proposals in the ED was to prevent entities from providing additional information by extending the reconciliation. An extension could include both the disclosure of items outside financing activities that the entity considers to be part of its debt or the disclosure of a net position by deducting cash and cash equivalents or other assets the entity holds as part of financing activities (such as treasury assets), as long as the components of what meets the requirement are clear.

22. The staff recommend inserting a paragraph in IAS 7 that clarifies that the reconciliation can be extended if such extension would enable an entity to better meet the objective of the disclosure (see paragraphs 15-18).[3]

23. We think this will address the concern that the financing activities approach is restrictive and prevents entities from providing useful information.

[2] We refer to 'components of financing activities' as the items on the statement of financial position for which cash flows are classified within the IAS 7 definition of financing activities (paragraph 6 of IAS 7).

[3] More detailed wording to be dealt with in the balloting process.

Cost-benefit analysis of the information

24. As noted in paragraphs 19-20 of Agenda Paper 11A, the proposed reconciliation is widely supported by users but preparers are concerned the costs outweigh the benefits.

25. In the due process paper in which the IASB agreed that it had completed the necessary due process steps to proceed with the ED, the staff considered the costs and benefits. It was noted that in the staff's view there will be initial costs to recode existing data and altering collation systems but that there would be no significant additional costs to preparers of financial statements (see Appendix A of Agenda Paper 11B(b) of the September 2014 IASB meeting).

26. We consider that much of the information is already (or should be) available to preparers. Furthermore, given the extensive support by users for the disclosure, we do not think that the costs outweigh the benefits in the long term. As noted in the Basis for Conclusion of the ED users highlighted that understanding cash flows of an entity is critical to their analysis and that there is a need for improved disclosures about an entity's debt, including changes in debt during the period.[4]

27. A few constituents have stated that the IASB interpreted the cost-benefit of the resulting information in the ED differently from its interpretation in the Leases project. Constituents stated that the IASB has decided not to require a reconciliation of lease liabilities in that project because of the cost to produce the reconciliation.[5]

28. One of the main arguments from the leases staff for not recommending the reconciliation of leases liabilities was not the cost-benefit assessment but the fact that there was no similar requirement in IFRS for other liabilities.

29. We think the usefulness of the resulting information is quite different between the two projects, because having a comprehensive picture of (financial) liabilities gives users a more complete perspective, enabling an understanding of the entity's financing activities—something would not be possible if only one liability (leases) was reconciled.

[4] Paragraph BC 2 of the ED.

[5] Paragraphs 35-41 of Agenda Paper 3B at the January 2015 IASB meeting.

Additional illustrative example

30. Some constituents have stated that the example proposed in the amendments is over-simplistic and may not help preparers in the application of the requirement because in practice the reconciliation would be more detailed.

31. The example proposed in the ED updates the existing example in IAS 7, so its simplicity is a function of that example.

32. To address the feedback we recommend that a further example should be inserted in the illustrative examples of IAS 7. It is proposed that the example would show a suggested table, such as was used in the outreach conducted with the GPF and CMAC.[6] We do not plan to insert a complete new statement of cash flows in the illustrative example.

Question 1, 2 and 3 for the IASB
1. Does the IASB agree with the staff's recommendation that the revised amendment to IAS 7 include an objective? (See paragraph 18)
2. Does the IASB agree with the staff recommendation to insert a paragraph in IAS 7 that clarifies that the reconciliation can be extended if such extension would enable an entity to better meet the objective of the disclosure? (See paragraph 22)
3. Does the IASB agree with the staff recommendation that an additional example should be included in the illustrative examples of IAS 7? (See paragraph 32)

IFRS taxonomy—Anticipated common practice

Exposure Draft

33. Paragraph 44A of the ED requires an entity to provide 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. This paragraph goes on to suggest what this reconciliation should include.

[6] See Appendix A of Agenda Paper 3A at the CMAC and GPF June 2014 joint meeting.

34. An example of this reconciliation is also included in the ED to illustrate how the reconciliation required by paragraph 44A might be disclosed.

Feedback received

35. Many of the respondents to Question 3(d) of the ED expressed the view 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 as well as to the information presented in the illustrative examples to IAS 7. They were of the view that including additional information might be viewed as an interpretation of the amendments (and other future changes to IFRSs) and drive reporting practice in an unintended way.

36. Some other respondents however, did not support this view. They suggested that the proposed list of elements added to the IFRS Taxonomy should be supplemented with anticipated common practice elements. They indicated that including these elements will lessen the need for regulators and preparers to extend the IFRS Taxonomy with their own elements, thereby increasing the Taxonomy's practical usefulness.

Staff analysis

37. Anticipated common practice elements are currently not included in the IFRS Taxonomy.

38. IASB staff has in the past received feedback from a few members of the IFRS Taxonomy Consultative Group (ITCG), with the suggestion to incorporate anticipated common practice elements in the IFRS Taxonomy. The reasons for this suggestion were similar to those mentioned by respondents to the ED.

39. The feedback received on the proposed Amendments to IAS 7 was divided, with slightly more respondents agreeing with the decision not to include anticipated common practice elements. In the light of this feedback, the staff propose not to include these elements for the final Amendments to IAS 7.

40. Additionally, the staff concurs with the views expressed by some respondents (see paragraph 35) that incorporating anticipated common practice at the time a standard or exposure draft is published could be perceived as unintended guidance or interpretation issued by the IASB.

41. Consequently, considering the diverse views of the respondents and the potential risk of interpreting a standard, the staff suggest continuing with its research and outreach on this topic, with the aim of potentially developing a framework to regulate the inclusion (or exclusion) of anticipated common practice elements.

Question 4 for the IASB
4. Does the IASB agree to not include additional, anticipated common practice elements in the IFRS Taxonomy for the Amendments to IAS 7?