



Project	Financial Statement Presentation
Topic	Net debt information

Purpose of the meeting

1. At the September 2009 meeting, the IASB tentatively agreed to require information about net debt to be presented in the financial statements and expressed a preference for presenting an analysis of net debt in the notes to financial statements. The FASB did not support requiring disclosure of net debt information.
2. The purpose of this meeting is to discuss the concerns expressed by some IASB board members at the September 2009 meeting and reconsider the requirement to present net debt information.

Summary of staff recommendation

3. In this paper, the staff recommend that the exposure draft:
 - (a) not require net debt information to be separately disclosed; instead, require specific line items (all line items in the debt category, any short-term investments, and finance leases) to be included in the analysis of the changes in balances of all significant asset and liability line items.

Background

4. At the September 2009 board meeting, the IASB tentatively agreed to the following definition of net debt:

FASB/IASB Staff paper

Net debt are the financial liabilities that an entity classifies in the financing section together with the resources available to service those financial liabilities.

5. At that meeting, IASB members expressed some concerns with the proposed definition of net debt. Mainly that it would be subjective to determine which resources are available to service financial liabilities.
6. In principle, net debt would include the items included in the *debt category* agreed to at the October 2009 joint meeting and the assets available to service those debt items. The working definition of the debt category is:

Liabilities where the nature of those liabilities is a borrowing arrangement entered into for the purpose of raising capital. That borrowing arrangement is usually transacted on an arm's-length basis on market terms.

A reporting entity may enter into a borrowing arrangement with its own suppliers or customers as a mutually beneficial arrangement. If such a borrowing arrangement is entered into primarily to facilitate a supplier arrangement for the provision of a specific good used in production or the provision of a specific service, that borrowing arrangement shall be classified in the operating category.

Items related directly to liabilities classified in the debt category, such as interest payable and fees, shall also be classified in that section. A derivative held as part of an entity's debt financing, regardless of whether it is an asset or a liability at the reporting date, shall also be presented in the debt category.

Should net debt information be required in the notes?

Staff analysis

7. The staff agree with those board members who state that any attempt to define net debt would be arbitrary and subjective. Given the boards' tentative decision at the October 2009 joint meeting (agenda paper 7B/70B) to replace the proposed reconciliation schedule with an analysis of the changes in balances of all significant asset and liability line items, the staff do not think a separate analysis of net debt information should be required in the notes to financial statements.
8. The staff analysed 10 UK companies that currently provide information on net debt and identified the following 'most common' components of net debt:

- (a) long-term financial liabilities (eg capital raised in capital markets, loans from banks)
 - (b) short-term financial liabilities and other borrowings (eg commercial bonds)
 - (c) cash and cash equivalents (current asset investments, current interest-bearing deposits)
 - (d) finance leases.
9. The staff suggest one of the following alternatives for presenting information about net debt:
- Alternative A:** an entity would provide an analysis of changes in the balances of significant SFP line items (consistent with October 2009 tentative decision) but would not provide additional information specific to net debt.
- Alternative B:** an entity always would be required to analyse the changes in the balances of line items that normally constitute net debt (all line items in the debt category, any short-term investments, and finance leases). That information would not need to be presented together in the notes (see illustration in the appendix).
- Alternative C:** Similar to Alternative B, an entity always would be required to analyse the changes in the balances of line items that normally constitute net debt (all line items in the debt category, any short-term investments, and finance leases). However, that information would be presented **in a single note** (see illustration in the appendix).
10. The staff do not support Alternative A because an entity may not analyse changes in balances of asset and liability line items that a user of financial statements views as constituting net debt.
11. Alternative C provides information about the possible components of an entity's net debt in one single place. However, this information could be misleading because, as the boards discussed, it is not possible to have a common definition of net debt. Presenting all the information together may be interpreted by some users of financial statements as the calculation of a net debt number.

12. As discussed in September, the Board's objective is to not explicitly define net debt but to make information about net debt available for users in the financial statements, the staff think that Alternative B best achieves that objective.

Staff recommendation

13. The staff recommend Alternative B, that is, an entity would be required to always analyse the following line items in its analysis of the changes in balances of all significant asset and liability line items:
- (a) **debt category** line items
 - (b) **short-term investments**
 - (c) **finance leases.**

Question for the IASB

The staff recommend that the exposure draft not require a separate disclosure of net debt information. Rather, the staff recommend that the exposure draft require the line items in the debt category, short-term investments, and finance leases to be included in the analysis of the changes in balances of all significant asset and liability line items that is provided in the notes to financial statements. **Does the Board agree with this recommendation? Does the Board think any other line item should be required to be analysed? If so, which?**

Appendix

Alternative B—specific line items required*

(in the analysis of changes in balances of significant asset and liability line items)

Note X - Debt

	<u>Long-Term</u>	<u>Short-Term</u>	<u>Interest</u>
Beginning balance 1 January 2010	\$ (2,050,000)	\$ (400,000)	\$ (112,563)
<i>Changes Due to Cash</i>			
Cash received from issuance of debt	\$ -	\$ (162,000)	\$ -
Cash paid for interest	-	-	83,515
Total Changes Due to Cash	-	(162,000)	83,515
<i>Changes Due to Non-cash</i>			
Loans acquired with subsidiary undertakings	(100,000)		
Accrual - interest	\$ -	-	\$ (10,000)
Remeasurement - foreign exchange	\$ (1,353)	-	\$ -
Total Changes Due to Non-cash	(101,353)	-	(10,000)
Ending balance 31 December 2010	<u>\$ (2,151,353)</u>	<u>\$ (562,000)</u>	<u>\$ (39,048)</u>

Note Y - Investments	<u>AFS Securities</u>	<u>Interest-bearing deposits maturing before three months</u>
Beginning balance 1 January 2010	\$ 485,000	\$ 240,000
<i>Changes Due to Cash</i>		
Cash received from term deposits		\$ 23,760
Sale of securities	\$ (56,100)	\$ -
Total Changes Due to Cash	(56,100)	23,760
<i>Changes Due to Non-cash</i>		
Accrual - gain on sale of securities	\$ 18,250	-
Remeasurement - foreign exchange	-	\$ (2,160)
Remeasurement - fair value	\$ 26,450	-
Total Changes Due to Non-cash	44,700	(2,160)
Ending balance 31 December 2010	<u>\$ 473,600</u>	<u>\$ 261,600</u>

* This entity did not report any finance leases.

Narrative information will accompany these disclosures

Alternative C—specific line items in one single note**
 (as part of the analysis of changes in balances of all significant asset and liability line items)

Note X - Analysis of net debt	Balance at 1 Jan 2010	Net cash flow	Other non- cash changes	Foreign exchange	Other remeasurements	Balance at 31 Dec 2010
Long-Term Debt	(2,050,000)	-	(100,000)	(1,353)	-	(2,151,353)
Short-Term Debt	(400,000)	(162,000)			-	(562,000)
Interest payable	(112,563)	83,515	(10,000)			(39,048)
Total	<u>(2,562,563)</u>	<u>(78,485)</u>	<u>(110,000)</u>	<u>(1,353)</u>	<u>-</u>	<u>(2,752,401)</u>
Cash*	861,941	308,951		3,209		1,174,101
AFS Securities	485,000	(56,100)	18,250		26,450	473,600
Interest bearing deposits	240,000	23,760		(2,160)		261,600
Total	<u>1,586,941</u>	<u>276,611</u>	<u>18,250</u>	<u>1,049</u>	<u>26,450</u>	<u>1,909,301</u>
Net debt	<u><u>(975,622)</u></u>	<u><u>198,126</u></u>	<u><u>(91,750)</u></u>	<u><u>(304)</u></u>	<u><u>26,450</u></u>	<u><u>(843,100)</u></u>

* Information obtained from the statement of cash flows

** This entity did not report any finance leases.

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