STAFF PAPER

CMAC meeting

Project	Disclosure Initiative
Paper topic	Net debt

CONTACT(S)	Amy Bannister	abannister@ifrs.org	+44 (0)20 7246 6947
	Kristy Robinson	krobinson@ifrs.org	+44 (0)20 7246 6933

This paper has been prepared by staff of the IFRS Foundation. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

1.   In the Discussion Forum: Financial Reporting Disclosure Feedback Statement the following was said:

> Over the last five years investors have consistently asked the IASB to introduce a requirement that entities must disclose and explain their net debt reconciliation. This is an example where users think that adding a requirement might reduce clutter by specifying about how debt information should be disclosed.

> Currently, the debt-related disclosure requirements are perceived as being scattered through the financial statements and not connected. The IASB will consider proposing to add such a requirement to IAS 1.

2.   We have been considering the topic of a disclosure of 'net debt' as part of the amendments to IAS 1 *Presentation of Financial Statements* project under the Disclosure Initiative.

3.   IASB staff is taking a paper to the IASB in October discussing 'net debt' disclosures as part of the amendments to IAS 1 project. The scope of the IAS 1 project is to propose clarifying amendments addressing what we consider to be overly literal interpretations of the some of the guidance in that Standard. These amendments are seen as "quick wins" and the expectation is that the IASB will publish an Exposure Draft in Q1 2014.

4. The IASB staff's recommendation will be not to proceed with an amendment to IAS 1 regarding 'net debt' disclosures at this time. This is because we consider those amendments to be more than clarifying and therefore beyond the scope of that project. In addition, given the importance placed on these disclosures by some users, we think the projected timeline for the amendments to IAS 1 project will be insufficient to undertake the level of research needed on the topic.

5. We think that 'net debt' should be part of a broader, more in-depth discussion. Therefore consideration of net debt disclosures in IFRS would be better had as part of the medium-term project under the Disclosure Initiative for research into IAS 1, IAS 7 *Statement of Cash Flows*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and the Financial Statement Presentation project.

6. In light of the IASB staff's approach to net debt in the Disclosure Initiative, we want to discuss with the CMAC the IASB staff's proposed approach to 'net debt' disclosures as part of the Disclosure Initiative. We plan to convey your views to the IASB in October. Our questions are set out below.

Question 1

Do you agree that net debt disclosure is an important issue that should be considered as part of the medium-term project to replace IAS 1, IAS 7 and IAS 8 and incorporate some parts of the Financial Statement Presentation project?

Why or why not?

Question 2

We have heard from some users that the information they get when management defines its 'net debt', particularly when it is used internally for management purposes, is valuable. However, IFRS defining 'net debt' could lead to greater comparability between entities.

Do you think that 'net debt' should be defined in IFRS or should entities be able to define their own 'net debt'?

Question 3

Do you think that IFRS should **require** entities to disclose information about their 'net debt'?

If yes, we think that there are many different ways that an entity could disclose 'net debt', for example, a disaggregation of 'net debt' at the period end, a roll-forward disclosure from opening 'net debt' to closing 'net debt' and/ or a reconciliation of net cash flows to 'net debt'.

If you think that an entity should disclose 'net debt', how do you think that information should be disclosed?