STAFF PAPER

July 2014

IASB Meeting

Project	**Disclosure Initiative**
Paper topic	Amendments to IAS 7—Summary of Due Process

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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 that it is satisfied that it has complied with the due process requirements to date.

Background

2. The proposed amendment to IAS 7 is part of the Disclosure Initiative project. At its meeting in March 2014 the IASB tentatively decided to:

   (a) explore short-term amendments to IAS 7 by requiring a reconciliation of the opening and closing liabilities that relate to cash flows from financing activities. The IASB asked the staff to undertake further outreach, with users and preparers, to understand whether the proposed amendment would meet the objective of providing information that improves users understanding of changes in an entity's liabilities that relate to cash flows from financing activities.

   (b) consider short term amendments to IAS 7 to improve disclosures about restrictions on cash.

3. The IASB also noted that the Disclosure Initiative research project: Principles of Disclosure may include a more fundamental review of IAS 7.

4. At this meeting the IASB has received a summary of the feedback received on the outreach performed in relation to the reconciliation of liabilities relating to financing activities (Agenda Paper 11B) and considered a proposal to amend IAS 7 to require disclosures regarding the costs that would be incurred if the cash or cash equivalents were remitted as earnings (including a distributions of profits) to a parent entity (Agenda Paper 11C).

5. On the assumption that the IASB supports the proposals set out in Agenda Papers 11B and 11C, our plan is to issue an Exposure Draft with the proposed amendments for these two matters.

Objective of the proposed amendments

6. The objective of the proposed amendment is to:

   (a) provide information that improves users' understanding of changes in an entity's liabilities that relate to cash flows from financing activities; and

   (b) enhance disclosures regarding restrictions on cash and cash equivalents, to include costs that would be incurred if the cash or cash equivalents were remitted as earnings (including a distributions of profits) to a parent entity.

Effects Analysis

7. 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 the requirements for improved disclosures regarding 'net debt' with the Capital Markets Advisory Committee (CMAC), World Standard Setters and the Accounting Standards Advisory Forum, in October 2013. 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 significant restriction 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 sub-committee. 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

8. 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

9. The balloting process of Disclosure Initiative: Amendments to IAS 7 will commence in September 2014 with the publication of the Exposure Draft in October 2014.

Transition

10. It is proposed that the amendments are applied retrospectively, because they are disclosure-only amendments and preparers currently already have access to the information.

Comment period

11. The *Due Process Handbook* proposes a minimum period of 120 days for comments on an Exposure Draft. The staff is 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

12. 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
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? Do any of the IASB members intend to dissent from the publication of the proposed amendments? Do the IASB members agree with the proposed timetable and give permission to ballot for publication? Do the IASB members agree with the proposed transition requirements? 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:

The draft proposal requires additional information about changes in financing activities (excluding contributed equity) and the costs that would be incurred if the cash or cash were remitted as earnings (including a distributions of profits) to a parent entity.

No change is proposed to how activities are reported currently 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:

The draft proposals require those liabilities for which the cash flows relate to financing activities to be reconciled with the opening and closing statement of financial position.

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.

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.

In addition disclosures will be proposed to assist users in understanding costs associated with the remittance of earnings to a parent entity. These disclosures will improve users' understanding of an entity's liquidity risk.

(c) How the improvements to financial reporting will result in better economic decision-making:

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 users in verifying their understanding of an entity's cash flows and hence improve economic decision-making.

The proposed disclosures regarding cash are intend to improve an investors understand of the liquidity of an entity.

(d) The likely effect on compliance costs for preparers, both on initial application and on an ongoing basis:

The proposed disclosures supplement information that is already provided in the financial statements, so we do not consider there would 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 significant additional costs to preparers of financial statements.

(e) How the likely costs of analysis for users are affected:

The draft proposal responds to requests from investors (users) of financial statements who have identified the need for improved disclosures regarding debt and cash and cash equivalents. 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.

Step	Required/ Optional	Metrics or evidence	Actions
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 and July 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 sub-committee. The IASB noted that it would consider amending IAS 1 *Presentation of Financial Statements* in its Feedback Statement: Discussion Forum—Financial Reporting Disclosure[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 Effect 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 July 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 July 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 with the Exposure Draft.

[1] Feedback Statement: Discussion Forum Financial Reporting Disclosure

Step	*Required/ Optional*	*Metrics or evidence*	*Actions*
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. A copy of this paper will be distributed to the DPOC as part of July routine reporting.
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.