STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative**
Paper topic	Changes in debt

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Introduction

1. This paper follows on from the IASB's discussion at its October 2013 meeting about net debt and whether any amendments regarding disclosures of net debt should be included as part of the proposed short-term Amendments to IAS 1 *Presentation of Financial Statements* project under the Disclosure Initiative.

2. At its October 2013 meeting the IASB tentatively decided not to include amendments regarding net debt disclosures as part of the short-term Amendments to IAS 1. However, because of the importance of this topic to many investors the IASB asked the staff to assess the possibility of a short-term project addressing disclosures about net debt.

Staff recommendation

3. The staff recommends that the IASB should undertake a narrow-scope project of amendments to IAS 7 *Statement of Cash Flows* to address the concerns of many investors. It recommends that such a narrow-scope project should address:

   (a) disclosures that reconcile the movement in components of financing activities (excluding movements in equity) as defined in IAS 7 with amounts included in the opening and closing statement of financial position; and

(b) should also address the areas identified for potential disclosures improvements relating to the debt and restrictions on cash as part of the Disclosure Initiative project.

Background

4. The Financial Reporting Disclosure Discussion Forum Feedback Statement[1] notes:

> 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 disclosure.

5. Following on from the Feedback Statement, at its October 2013 meeting the IASB noted the feedback it had received from some users that disclosures about 'net debt' are very important to their analysis of the entity, including whether net debt should be defined, whether a reconciliation is required of the movements in net debt and whether information about restrictions on cash are needed. It was, however, also noted that net debt disclosures tend to vary according to jurisdiction. Feedback from the World Standard Setters (WSS) meeting and the Accounting Standards Advisory Forum (ASAF) meeting highlighted differing views as to whether the information about net debt should be required (ie whether it is useful and therefore necessary) and whether requiring disclosure about net debt at this stage in the short-term Amendments to IAS 1 project would cause delays to the publication of the Amendments.

[1] Feedback Statement.

(http://www.ifrs.org/Alerts/PressRelease/Documents/2013/Feedback-Statement-Discussion-Forum-Financial-Reporting-Disclosure-May-2013.pdf)

6. In its discussion in October 2013 the IASB noted:

   (a) The Discussion Forum Feedback Statement stated that it would consider proposing a disclosure requirement that entities should disclose and explain their net debt reconciliation.

   (b) There are potential issues associated with defining the term 'net debt'. Various alternatives regarding a potential definition were discussed, including whether pensions should form part of 'debt'.

   (c) The information that users glean from the 'net debt reconciliation' and how that information is used needs to be better understood.

   (d) Concerns about the usefulness of the information provided by the 'net debt reconciliation': simply netting cash from the debt may not provide useful information if the cash is not actually available to offset or repay the debt.

7. Consequently, the IASB decided not to include the 'net debt' disclosure as part of the proposed Amendment to IAS 1. The IASB, however, asked the staff suggest the possible scope of an alternative project that would consider disclosures about 'net debt', identifying why investors find the information useful and how they use this information, for consideration by the IASB.

Understanding the request from users

What is a net debt reconciliation?

8. To define the scope of a project it is important we understand what additional information is being requested by some investors. One of the principal user groups calling for a requirement to disclose a 'net debt reconciliation' is the Corporate Reporting Users' Forum[2] (CRUF). In June 2008 CRUF made a presentation to the IASB calling for the inclusion of a 'net debt reconciliation' noting that:

[2] The CRUF was formed in 2005 as a discussion forum to help professional investors and analysts in the debate on current and future corporate reporting.

> Reconciliation of the cash flow to movement in net debt is critical to understanding the cash flow profile of a business. By reconciling to net debt users can be certain that they have captured all cash flow movements in their analysis.

9. The request from CRUF outlined that the UK Financial Reporting Standard 1 (revised 1996) (FRS 1) included a requirement to reconcile the movement of cash in the period with the movement in net debt. FRS 1 notes that information given by a cash flow statement is best appreciated within the context of the information given by the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income. Cash flow information is provided to assist in the assessment of liquidity, solvency and financial adaptability. Consequently, the standard requires reconciliations between:

   (a) operating profit and the net cash flow from operating activities; and

   (b) movement in cash in the period and the movement in net debt.

   The following is an example of a net debt reconciliation:

	20X1	**20X2**
	CU[3]	**CU**
Cash and cash equivalents		
Cash	1,900	1,300
Bank overdrafts	(50)	(60)
Net cash & cash equivalents	1,850	1,240
Net debt		
Non-current borrowings (long-term debt)	(5,800)	(5,700)
Current borrowings (short-term debt)	(1,400)	(1,300)
Derivative instruments	40	38
Total debt	(7,160)	(6,962)
Net cash & cash equivalents	1,850	1,240
Net debt	(5,310)	(5,722)

[3] In this paper, currency amounts are denominated in 'currency units' (CU).

Reconciliation of net debt

Net debt at beginning of the period	(4.700)	(5,310)
Cash Flows of the entity	140	(610)
Acquisition	(800)	(142)
Other non-cash changes	-	200
Exchange movements	50	140
Net debt at the end of the period	(5,310)	(5,722)

Why do users find this information useful?

10. In preparation for the October 2013 IASB meeting we discussed with the Capital Markets Advisory Committee (CMAC) whether to include disclosures about net debt in the short-term project of Amendments to IAS 1. The discussion at CMAC noted that:

    (a) Disclosures about net debt remain important and users remain keen for the IASB to address the disclosure.

    (b) There is a need to improve information about cash. The CMAC noted that understanding the cash that is immediately available to settle debt is important because some cash may be restricted (ie held for regulatory purposes), or there may be exchange controls that would lead to costs being incurred if the cash was required immediately.

    (c) There is an interaction between items that appear in operating cash flows and those that appear in financing cash flows. For example, a large payment on account at the period end for a construction industry entity would be included in cash and be used to offset debt as part of a net debt reconciliation, but the cash would not be used to repay debt because it would, in future, be used (at least in part) to purchase supplies for the contract.

11. The IASB considered the views of CMAC at its October 2013 meeting and, as noted above, asked the staff to undertake further work.

IASB previous deliberations

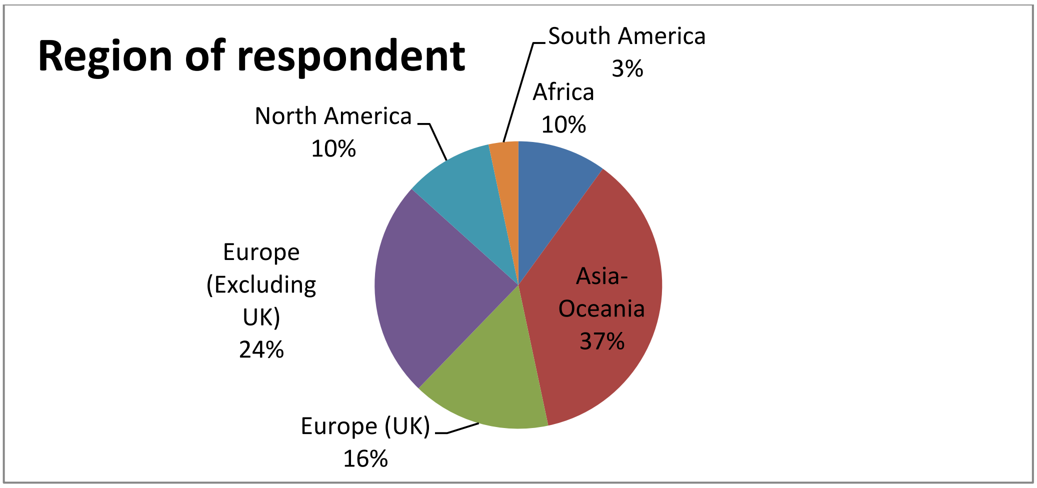
12. As part of the IASB's request to understand why users find information about net debt useful, we reviewed some of the IASB's previous deliberations. The IASB

previously considered the usefulness of information about net debt at its September 2009 meeting when considering the feedback to the *Preliminary Views on Financial Statements Presentation* (FSP) Discussion Paper. An extract from that paper is included in Appendix A of this paper, which summarises the reasons identified by respondents to the Discussion Paper for requesting a net debt reconciliation.

Survey with investors

13. In January 2014 we launched a survey with for users of financial statements. The survey was designed to obtain information to help the IASB understand what information users require when reviewing cash flow information and how they use the information.

14. The survey was launched at the end of January 2014 and was open for a month. In that period 103 completed questionnaires were submitted, with 90 being from investors or analysts. We have only included the responses from users of financial statements in the summary below, because the primary objective of the survey was to provide the IASB with evidence of the information needs of investors and analysts. In undertaking the survey, we sought to obtain a representative geographical sample; because of the feedback noted in October 2013 that a net debt reconciliation was popular in certain jurisdictions, principally in the UK.



This analysis is derived from Question 15 of the survey.

15. The survey was divided into two sections: the first asked about disclosures about debt and the second –asked about on disclosures about cash.

16. In the section on debt disclosures our aim was to understand whether users try to understand the period-on-period movement in debt; and if so how detailed the information was that they considered, including whether they considered non-cash movements (such as foreign exchange). There were 80 responses to the question as to whether respondents try to understand the period-on-period movement in debt, 93 per cent of respondent said they did look at the period-on-period movement in debt. There were 74 responses to the question of when looking at period-on-period movements in debt where non-cash changes were important. Of these responses, 81 per cent considered that non-cash movements were important.

17. The reason for asking about non-cash movement is because some users calling for the inclusion of a net debt reconciliation have noted that they cannot currently prepare the reconciliation from information in the financial statements, because non-cash movements are not always disclosed. Some of the reasons noted by respondents to the survey as to why they consider non-cash movements include:

    (a) to assess the managerial decisions and their effect on the debt changes and distinguish them from external factors that affect debt movements;

    (b) to understand the sensitivity of non-cash flow factors on the cash flows and liquidity requirement/position of the entity; and

    (c) to factor possible risks arising from the information into forecasts.

18. In question 5 of the survey we asked whether the information provided about debt at present is adequate for users. There were 74 responses to this question. 60 per cent of these respondents did not consider that the disclosures where adequate. The following were noted as areas in which disclosures could be improved:

    (a) debt maturity profile;

    (b) greater detail about debt to assess changes; and

    (c) to improve their understanding of management strategies for managing debt.

19. As noted above, the aim of the survey was to help the IASB decide whether to undertake a narrow-scope project addressing disclosures about debt. A net debt reconciliation, as requested by investors/analyst, would provide greater information about changes in debt and allow them to verify the changes, but it

would not address the matter raised about the debt maturity and the more qualitative comments raised by users.

20. At the October 2013 IASB meeting it was noted that defining debt would potentially delay this project, because it may well be difficult to find a commonly accepted definition of debt. We followed this matter up as part of the survey and asked users whether, if the IASB did not define debt, but required additional disclosures about what management defines as debt, if this would be sufficient for their analysis. There were 80 responses to this question. 63 per cent of these respondents responded that this would be sufficient. Those that considered debt should be defined were concerned that without a definition there was a potential comparability/consistency problem. Some respondents did not envisage that there would be a problem in defining debt. It was suggested that if it was the responsibility of management to define debt there should be clear disclosures about what is included in the debt category.

21. Finally, we asked respondents to identify how they used information about debt. On the basis of earlier conversations with users, we provided some suggested reasons. There were 80 responses to this question. 90 per cent of these respondents noted that they used the information to assess the entity's liquidity, solvency, and/or financial flexibility. There were a number of other reasons provided, the most notable of which was that respondents used the information about debt to understand risk.

22. In the second section of the survey we asked questions about disclosures on cash. We first sought to identify whether users encounter situations in which there is a significant restriction on an entity's ability to access or move cash, or a significant cost in doing so resulting from such a restriction. There were 80 responses to this question with a 50:50 split as to whether the situation was encountered.

23. For the respondents that did encounter this situation, we asked if they could access the information they needed to assess the risk and/or cost related to any restriction on movement of cash. There were 40 responses to this question. 73 per cent of these respondents did not consider that they could access the information. The particular concern was in relation to the cost of repatriation of cash across

different tax jurisdictions. Although it was noted that current Standards do contain disclosure requirements in this area they are sufficiently detailed.

24. The group of respondents that had encountered situations in which there are cash restrictions were asked whether they needed to have information about restriction on cash for any incremental information about changes in debt to be useful or whether improved information about changes in debt would be useful in its own right. There were 40 responses to this question, with 58 per cent of these respondents stating that they needed to have information about restrictions on cash for any incremental information about changes in debt to be useful.

25. In addition to the survey we discussed the survey questions with the European Financial Reporting Advisory Group (EFRAG) user group. We discussed the findings from the survey with the IFRS Advisory Council and the CMAC. The feedback from these discussions was consistent with the results of the survey.

26. On the basis of the above we consider that the net debt reconciliation, is important to some investors because:

    (a) it supplements information in the cash flow statement and improves users' understanding of the cash flows of the entity;

    (b) it can be used to verify whether the investor's understanding of the entity's cash flows is correct, because it is reconciled with the statement of financial position and statement of profit or loss;

    (c) this verification improves their confidence in forecasting future cash flows;

    (d) it enables them to better understand an entity's exposure to risk associated with financing; and

    (e) movements identified in the reconciliation provide information about the sources of finance and on how those sources have been deployed over time.

27. In addition to the provision of net debt information, users have identified other areas regarding debt and cash in which they would like to see improved disclosures. The IASB has not previously considered whether to make changes in addition to the net debt reconciliation.

How cash flow information is used

28. To address the IASB's question regarding how the information provided by a net debt reconciliation is used, we might first reflect on why cash flow information is provided in financial statements. The objective of IAS 7 highlights:

> Information about the cash flows of an entity is useful in providing users of financial statement with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.

29. IAS 7[4] goes on to note that cash flow information enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also notes that it is useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

30. Similarly, the Conceptual Framework states:

> OB13 Information about the nature and amounts of a reporting entity's economic resources and claims can help users to identify the reporting entity's financial strengths and weaknesses. That information can help users to assess the reporting entity's liquidity and solvency, its needs for additional financing and how successful it is likely to be in obtaining that financing. Information about priorities and payment requirements of existing claims helps users to predict how future cash flows will be distributed among those with a claim against the reporting entity.
>
> OB15 Changes in a reporting entity's economic resources and claims result from that entity's financial performance and from other events or transactions such as issuing debt or equity instruments. To properly assess the prospects for future cash flows

[4] Paragraph 4 of IAS 7.

> from the reporting entity, users need to be able to distinguish between both of these changes.
>
> OB20 … Information about cash flows helps users understand a reporting entity's operations, evaluate its financing and investing activities assess its liquidity or solvency and interpret other information about financial performance.

31. Simply put, cash flow information aims to provide users of financial statements with information that enables them to assess:
    (a) the ability of the entity to generate cash;
    (b) how cash flows will be utilised (claims on the entity's resources); and
    (c) the financial strength of the entity.

32. We found that the 'how' related very much to the 'why', this is because:
    (a) Understanding changes in financing helps investors to understand better (and verify that understanding) how cash flows have been used and enables them to make predictions about how cash flows will be used in the future.
    (b) The net debt position provides information the helps users' evaluation of the entity's financing risks, such as the ability of the entity to raise finance and the amount of financial flexibility the entity has.

Staff analysis

33. Having undertaken the research requested by the IASB we have been considering possible courses of action. We think that there are two topics for consideration, the reconciliation of movement in items considered to be debt (including disclosures about debt) and disclosures about cash.

Reconciliation of movement in debt

34. At present paragraph 45 IAS 7 requires an entity to disclose the components of cash and cash equivalents and to present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position; however, a similar reconciliation and summary is not required

for financing activities. A 'net debt reconciliation' generally shows the period movement in the components of debt and then deducts the cash and cash equivalents. We think that the movement in the components of debt is, in essence, a summary and reconciliation of the movement in the components of financing activities as defined in IAS 7, excluding movements in equity.

35. The feedback from our outreach suggests that users require more information about the movements in the components of financing activities. We have identified the following options:

(a) Do nothing (paragraph 36).

(b) Await the detailed project under the Disclosure Initiative to review IAS 1, IAS 7 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, when debt can be considered in more detail (paragraph 37).

(c) Amend IAS 7 to include new disclosures that provide users with the ability to reconcile the movement in the components of financing activities as set out in IAS 7 (paragraphs 38 to 44).

(d) Amend IAS 7 to include a reconciliation of the movement in the components of financing activities (excluding changes in contributed equity) (paragraphs 45 to 50).

Option (a)—do nothing

36. We are not recommending that the IASB should take no action, because the findings from our outreach, as summarised above, indicate a consistent call for improved disclosures about debt and we have identified in paragraph 26 why users are calling for this information.

Option (b)—await IAS 1, IAS 7, IAS 8 Disclosure Initiative project

37. Similarly, staff do not support option (b) because we consider that any recommendations for further work from the medium-term Disclosure Initiative project will not occur until late in 2014 and we believe it is possible to respond to users' concerns in advance of the medium-term project.

Option (c)—require additional disclosure that would enable investors to reconcile financing activities

38. Having disregarded option (a) and (b) we sought an alternative that would permit a short-term disclosure improvement but avoid the need to define the term 'debt'—we agree that attempting to find a definition of debt would be difficult and probably not achievable in the short term.

39. As noted above, IAS 7 requires disclosure of the components of cash and cash equivalents and a reconciliation of the amounts in its statement of cash flows reconciled to the statement of financial position. A similar reconciliation is not required for financing activities; however, movements in equity are reconciled. We considered whether it would be possible to require the disclosure of items that provide users with the ability to reconcile the movements in the components of financing activities to the statement of financial position and statement of cash flows themselves. This option would seek to provide the disclosures that some users have described as 'missing'.

40. Users identified the following disclosures that are required to reconcile financing activities that not currently provided:

    (a) debt assumed or disposed of as part of a business combination;

    (b) inception of new leases; and

    (c) foreign exchange movement and other changes in market values applicable to components of financing activities.

41. In relation to the disclosures about debt that is assumed or disposed of as part of a business combination, IFRS 3 *Business Combinations* requires (paragraph B64(i)) disclosure of the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed; however, paragraph B65 of IFRS 3 provides that for individually immaterial business combinations that are material collectively, the disclosure can be given in aggregate. As a consequence the disclosure of debt assumed as part of a business combination may not be disclosed as a single disclosure in the notes to the financial statements. In addition, the debt assumed that is a component of financing activities could be aggregated within major classes of liabilities.

42. There is currently no requirement in IAS 17 *Leases* to reconcile the opening and closing statement of financial position amounts for leases. IAS 17 requires disclosure of information about future payments and when the payments fall due.

43. Similarly, there is no requirement to disclose foreign exchange movements or changes in market values specifically relating to financing activities. Although the disclosure of total foreign exchange movements might be disclosed, it is unlikely to be disaggregated to the level of items included in financing activities in the cash flow statement.

44. Option (c) would require limited amendments to be made either to IAS 7, or probably (and more appropriately) the individual applicable Standards. We would need to identify all the items that might be classified as financing within the IAS 7 definition of financing so that we could be sure we had identified the items required in any reconciliation. We considered that identifying all of the components that might be included within financing activities would be difficult, and perhaps similar to the difficulty in defining debt. As a consequence we decided to disregard this option as being cumbersome and probably not achievable in the short term.

Option (d)—require a reconciliation of the components of financing activities

45. Finally, we considered whether it is possible to propose that IAS 7 should be amended to require a reconciliation of the movement in the components of financing activities (excluding changes in contributed equity). The reconciliation could work as follows:

    (a) Paragraph 10 of IAS 7 requires that an entity reports cash flows during the period classified by operating, investing and financing activities.

    (b) Paragraph 6 of IAS 7 defines financing activities as:

    > … activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

(c) Paragraph 17 of IAS 7 notes:

> The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
>
> a) Cash proceeds from issuing shares of other equity instruments;
>
> b) Cash payments to owners to acquire or redeem the entity's shares;
>
> c) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrows;
>
> d) Cash repayments of amounts borrowed; and
>
> e) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

(d) IAS 7 paragraph 45 already requires:

> An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position.

46. We consider that we could insert new a paragraph into IAS 7, and propose an entity discloses a reconciliation of the opening and closing balances for items classified as financing activities in accordance with paragraph 10 of IAS 7 (excluding changes in the size and composition of the contributed equity) as reported in the statement of financial position. The reconciliation should include items that are useful in understanding the changes in the carrying amounts and include the amounts in the statement of cash flows for financing activities (excluding equity).

47. This option is similar to that suggested at the October IASB meeting, where it was proposed by one of the IASB members that we could require a roll-forward of financing liabilities. Under this option we would use the existing definition of

financing activities within IAS 7 (excluding the changes that relate to equity) to provide the roll-forward.

48. Option (d) is also similar to the proposals considered by the IASB as part of the *Financial Statements Presentation* project. The IASB Update for September 2009 reports:

> The Board tentatively decided:
>
> - to require information about net debt to be presented in the financial statements; and
> - to define net debt to be the financial liabilities that an entity classifies in the financing section together with the resources available to service those financial liabilities.

49. The advantage of this option is that it does not require a definition of debt, because it relies on the existing definition of financing activities in IAS 7, but excludes changes to equity. There is, however, a drawback in as much as financing activities in IAS 7 are 'loosely' defined and therefore there may not be consistency across all entities. For example, those that have a strong view that pension liabilities are part of financing could be disappointed, because some entities might agree and include the cash flows relating to pensions within financing, whereas other entities may disagree and include them within operating activities.

50. During 2012/2013 the IFRS Interpretations Committee (the Interpretations Committee) discussed the classification of cash flows in accordance with IAS 7. At its March 2013 meeting, the Interpretations Committee discussed how the definitions of operating, investing and financing cash flows in IAS 7 could be made clearer and thus could lead to more consistent application. The Interpretations Committee concluded, however, that clarifying the application is a matter that is too broad for the Interpretations Committee to address and did not therefore proceed with the matter. The IASB endorsed this decision at its April 2013 meeting.

Question 1—Disclosures about debt
Does the IASB agree that we should explore further the possibility of amending IAS 7 to require a reconciliation of financing activities, excluding the changes in contributed equity?

51. As noted earlier in this paper our outreach has identified a desire for not only the disclosure of a net debt reconciliation but also improvements to the disclosures about debt. Users have identified that they would like improvements to help them assess the risks associated with the financing structure of the entity, including a maturity analysis for debt obligations. IFRS 7 *Financial Instruments: Disclosure*[5] requires disclosures that enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. Specifically, paragraph 39 of IFRS 7 requires a maturity analysis of non-derivative financial liabilities.

52. The staff consider that the additional disclosures that have been suggested by users need to be carefully considered and understood. We considered that the suggestions need further research with investors and discussion with preparers before any proposals can be recommended to the IASB. Because the IASB is now considering its medium-term project to review presentation and disclosure principles as part of its *Disclosure Initiative* project, we recommend that this work should be undertaken as part of that project rather than in the narrow-scope short term project.

Question 2—Qualitative disclosures about debt
Does the IASB agree to consider the broader disclosure issues identified through investor outreach as part of its medium-term Disclosure Initiative project?

[5] Paragraph 31 of IFRS 7.

Disclosures about cash

53. The second area in which it has been identified disclosures could be improved relates to disclosures about cash. A net debt reconciliation deducts cash and cash equivalents from ‘debt’. At its meeting in October 2013 a Board member questioned the appropriateness of this deduction, noting that the cash might not actually be available to settle the debt.

54. The CMAC and other users noted that investors need to understand:

(a) what cash is immediately available for the payment of debt;

(b) the restrictions over cash and/or the costs associated with repatriation of cash where there are foreign exchange controls or tax implications; and

(c) what cash is held for regulatory purposes and thereby not immediately available to repay debt.

55. We have summarised the findings from the investor survey above. The findings are consistent with the comments made by CMAC members and that were discussed with the IASB in its October 2013 meeting.

56. At present IAS 7 requires disclosure of:

(a) the components of cash and cash equivalents; (paragraph 45); and

(b) the amount of significant cash and cash equivalents balances held by the entity that are not available for use by the group (paragraph 48).

57. In addition IFRS 7 *Financial Instruments: Disclosures* contains disclosures regarding liquidity. These disclosures address the maturity of financial liabilities and a description of how an entity manages risk associated with financial liabilities. We think that some items that are within financing activities, such as leases, would not be included.

58. Furthermore, IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose information that enables users of its consolidated financial statements to evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group. This includes restrictions on the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group.

59. Although the disclosures above are not unrelated to the concerns that have been expressed, they do not specifically address concerns raised. The disclosure focus is on cash that is not available (restricted), rather than on where there is a potential cost associated with the repatriation of cash that makes it economically disadvantageous to use cash immediately to repay debt.

60. Consistently with our view of the additional disclosures about debt that are outlined in paragraph 51 above, we think that there needs to be greater research to understand users' needs regarding the disclosures about cash and we consider that this should be undertaken as part of the medium-term Disclosure Initiative project. We do not consider that this work could be undertaken as a short-term project because we have heard a variety of requests for different information that need to be carefully assessed.

Question 3—Qualitative disclosures about cash
Does the IASB agree that we should explore users' requests regarding disclosures on the restrictions of cash as part of the Disclosure Initiative project?

Next steps—staff recommendations

61. The staff recommends that the IASB should undertake a narrow-scope project to amendments to IAS 7 to address the concerns of many investors. It recommends that such a narrow-scope project should address:

    (a) disclosures that reconcile the movements of financing activities (excluding movements in equity), as defined in IAS 7 with amounts included in the opening and closing statement of financial positions; and

    (b) to address the areas identified for potential disclosures improvements relating to the debt and restrictions on cash as part of the Disclosure Initiative project.

62. If the IASB agrees with the staff recommendations, we will prepare the amendments and return to the IASB with our suggested amendments to IAS 7.

Appendix A: Extract from IASB Meeting September 2009

Issue 1: Usefulness of information about net debt

5. A number of user and preparer groups in Europe (mainly the UK and France) have asked that an entity be required to present a net debt reconciliation in its financial statements. In addition, a number of respondents to the discussion paper asked that this project address presentation of net debt. Those who support this disclosure believe that:

   (a) It would provide a broader measure of a business's liquidity, solvency, and financial flexibility than that provided solely by the movement in cash balances in the statement of cash flows.

   (b) It would provide more complete information for assessing future cash flows, as cash flow information should be analysed along with profit or loss and statement of financial position accounts.

   (c) It would provide a clear picture of an entity's debt position, which would help a user of the financial statements determine the entity's credit risk profile.

6. In addition, constituents note that net debt disclosures are insightful because they show additional liabilities that an entity manages as part of its debt, derivatives that may relate to debt or other items, and cash and other liquid resources that management views as available to pay down debt.

7. The following excerpts highlight the importance of providing a reconciliation of cash flows to movements in net debt.

   (a) The Corporate Reporting Users' Forum (CRUF) pointed out in their October 6, 2008 letter to the Financial Times that:

   > Given the focus on cash flow, debt levels and loan facilities, helping investors understand what drives debt movements is more important than ever. We greatly appreciate those companies that do provide this voluntary disclosure and strongly encourage those who do not to follow suit.

   (b) The UBS Investment Research, Financial reporting for Investors (April 16, 2007) comments:

The net change in cash (or cash and cash equivalents) that is currently presented in cash flow statements has little analytical use. From an equity analysis perspective, it is preferable to reconcile the cash flow statement to the change in net debt, as reported in the statement of financial position.

(c) The Report Leadership 2006 report (with contributions by CIMA, PricewaterhouseCoopers LLP, Radley Yeldar and Tomkins plc) states that:

Companies do give information about how they are funded in their annual reports. But it tends to be scattered throughout the financial statements and is frequently presented without details of individual liabilities. In addition, some of the critical information relating to debt isn't provided in the annual report at all – investors get the information outside the regulatory model. The problem of determining a company's credit risk profile is even greater if it has a number of subsidiaries. In this case, investors need a clear debt profile of the group and its individual business units, as well as an understanding of any restrictions on the transfer of funds between business units. Investors' view of debt does not stop at financial instruments. They want to know about other debt-like liabilities.