STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative**
Paper topic	Amendments to IAS 7: Sweep issues

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Purpose

1. This paper discusses the following matters that have arisen during the review of the pre-ballot draft of final amendments of *Disclosure Initiative: amendments to IAS 7 Statement of Cash Flows* ('the pre-ballot draft'):
   (a) Additional/supplementary information (paragraphs 5-16)
   (b) The need to disclose a reconciliation (paragraphs 17-22);
   (c) Minimum content of the reconciliation (paragraphs 22-25); and
   (d) Other considerations (paragraphs 26-31).

2. In this paper we review the IASB's tentative decision to clarify (in the text of the IAS 7) that the reconciliation as proposed in the Exposure Draft *Disclosure Initiative: Proposed amendments to IAS 7* ('the ED') could be extended to include supplementary information. The other matters listed above are discussed for information only.

3. Appendix A of this paper includes the proposed revised text for the amendments to IAS 7, taking into consideration feedback on the pre-ballot draft and the recommendations outlined in this paper. The text is provided for information only.

Next steps

4. Subject to discussions with the IASB at the December meeting, we plan to distribute a ballot draft of the final amendments to *Disclosure Initiative: amendments to IAS 7* shortly after that meeting.

Additional/supplementary information

Background

5. At its meeting in September 2015 the IASB discussed the feedback to its ED.[1] The issues discussed included a concern from respondents to the ED that the proposals were too restrictive and would prevent entities from continuing to provide a debt reconciliation in the financial statements that also includes cash and cash equivalents.

6. In response to this concern, the IASB agreed with the staff recommendation to clarify (in the text of IAS 7) that the reconciliation could be extended to include additional information, including disclosure of:

   (a) items outside financing activities that the entity considers to be sources of finance; and/or

   (b) a net position by deducting cash and cash equivalents or other assets (such as treasury assets) from the total amount of liabilities that arise from financing activities.

7. In making this clarification the IASB decided that if an entity discloses items in addition to the required disclosures, it should be required to distinguish the additional information from the information required in the reconciliation proposed in the ED.

Feedback

8. The pre-ballot draft included the clarification as proposed above (the clarification was updated to reflect the IASB's tentative decision not to require a reconciliation

[1] IASB meeting, September 2015, Agenda Paper 11D, paragraphs 19 to 26.

but to provide a disclosure objective) within the draft text of the amendment to IAS 7. The pre-ballot draft stated that an entity may disclose supplementary information to help users understand sources of finance and how an entity has used these sources.

9. Comments on the pre-ballot draft included:

   (a) It is not clear how an entity should distinguish supplementary information from the information required to fulfil the disclosure objective if the required information is provided in a form other than a reconciliation.

   (b) It is not clear what information could be included and whether this extended to equity items.

   (c) Requiring the disclosure to be split into two parts could result in unnecessary clutter in the financial statements.

10. The reviewers acknowledged that comparability between entities is important and also acknowledged the IASB's rationale for distinguishing between required and supplementary information. However, they added that the pre-ballot draft already addresses comparability, because entities are required to reconcile amounts disclosed to the Statement of Financial Position.

Staff analysis and recommendations

11. In developing the proposals to be included in the ED, the staff consulted the Global Preparers Forum (GPF) and Capital Markets Advisory Committee (CMAC). The GPF and CMAC supported the proposals to be included in the ED but noted that the requirements for the disclosure should not prohibit an entity from providing a debt reconciliation that also includes cash and cash equivalents. This discussion was included in the Basis for Conclusions on the ED.

12. As noted in paragraph 5, respondents to the ED raised concerns that the proposals in the ED were too restrictive. The staff therefore concluded that the text included in the Basis for Conclusions to the ED was not sufficiently clear and did not explain that entities could continue to provide a debt reconciliation that also includes cash and cash equivalents. To address that concern, the staff recommended clarifying in

the text of IAS 7 that supplementary information could be provided and also recommended expanding the text included in the Basis for Conclusions of the ED.

13. The pre-ballot draft therefore included text in IAS 7 and in the Basis for Conclusions explaining that the IASB did not intend the proposals in the ED to prevent entities from providing supplementary information by extending the range of the items covered by the disclosure. It also explained that in the IASB's view, using the definition of financing activities in paragraph 6 of IAS 7 provides a framework for this disclosure, and this framework is intended to enhance comparability between entities.

14. The staff accept the concerns raised in paragraph 9 in response to the pre-ballot draft. We are also concerned that stating explicitly that an entity can provide supplementary information in IAS 7 may have unanticipated consequences. This is because in most cases, other IFRSs do not state explicitly that additional/supplementary information can be provided; inserting this clarification in IAS 7 may undermine the principle in other IFRSs that it is possible to provide additional/supplementary information.

15. On reflection, we believe that the clarification about the provision of supplementary information should remain in the Basis for Conclusions and should not be included in the text of IAS 7. We think that the text fits better in the Basis for Conclusions, because it identifies the IASB's rationale in developing the ED and responding to feedback to the ED when developing the final amendment to IAS 7.

16. The staff would therefore like to revise the previous recommendation to the IASB and propose not to add a paragraph to the text of IAS 7, but to retain the discussion in the Basis for Conclusions as outlined in paragraph 13 above.

Question for the IASB
Does the IASB agree with the staff recommendations to retain the discussion that supplementary information may be provided in the Basis for Conclusions?

The need to disclose a reconciliation

Background

17. The ED proposed that an entity should disclose a reconciliation of liabilities arising from financing activities.

18. At its meeting in September 2015 (Agenda Paper 11D, paragraph 51) the IASB agreed with the staff recommendations including:

> …
>
> clarifying in the Standard that an entity has flexibility to determine what information is needed, and to what extent, to meet the disclosure objective.

19. The intention of this clarification was to allow entities to determine how to fulfil the disclosure objective and the level of detail needed to meet that objective. It would also make it easier for financial institutions to consider other disclosures required by IFRS or by regulators in the financial statements, when determining how best to provide information that fulfils the disclosure objective.

20. The pre-ballot draft therefore included a disclosure objective and explained that to achieve the disclosure objective an entity ***may*** provide a reconciliation.

Feedback

21. We have received feedback from reviewers of the pre-ballot draft that the use of the word ***may*** is not clear as to whether a reconciliation has to be provided, especially because the pre-ballot draft specified the minimum content of a reconciliation.

Staff analysis and recommendations

22. The staff are proposing to redraft the wording in the pre-ballot draft to state that the reconciliation is one way by which an entity can fulfil the disclosure objective. We think this provides clarity that entities have flexibility to determine how to fulfil the disclosure objective and to determine the level of detail needed to meet that objective.

Minimum content of the reconciliation

Background

22. The pre-ballot draft specified that when an entity provides a reconciliation that the reconciliation shall include a list of specified items.

Feedback

23. Reviewers raised two points about introducing the word ***shall*** into the description of what is included in a reconciliation:

    (a) The use of the word 'shall' might result in unintended consequences; for example some reviewers considered the proposed list of disclosures was too restrictive and therefore some entities would not provide sufficient disclosures to fulfil the disclosure objective; and

    (b) the combined use of the words ***may*** and ***shall*** causes confusion as to whether the reconciliation is required or not.

Staff analysis and recommendations

24. The staff intention when drafting the ED was to include in the reconciliation the key items that investors have highlighted as essential for their analysis. This list was not intended to be an exhaustive list of cash and non-cash movements.

25. However, we acknowledge the points raised in paragraph 23 and note that if a reconciliation is not required, it is illogical to specify minimum requirements. To address the points raised, we propose to remove the list from the description of the reconciliation but to explain in the text of the amendment that:

    > Changes arising from cash flows and non-cash changes, include but are not limited to:
    >
    > I. changes from financing cash flows;
    >
    > II. changes arising from obtaining or losing control of subsidiaries or other businesses; and
    >
    > III. other non-cash changes (for example, the effect of changes in foreign exchange rates, and changes in fair values).

Other considerations

Effective date

26. When the IASB gave its approval to commence the balloting process, it was envisaged that the amendment to IAS 7 would be issued in December 2015. Because of the matters raised in the balloting process, it is now envisaged the amendment will be issued in January 2016.

27. The staff would like to reiterate that the amendment remains narrow in scope and is a disclosure-only amendment to IAS 7. The amendment will not affect recognition or measurement.

28. Furthermore, the IASB tentatively decided at its October 2015 meeting to exempt entities from providing comparative information when they first apply the amendment. Thus entities will not need to reassess the judgements about presentation and disclosure that had been made in periods prior to the application of these amendments. This further reduces need to provide additional implementation lead time or any additional transition provisions.

29. Although issuance of the amendment will now be delayed to January 2016, the staff consider that the effective date for the final amendments should not be deferred from 1 January 2017.

Due process and re-exposure

30. The staff believe that the additional clarifications that the staff propose at this meeting are not fundamental changes. The changes confirm and clarify the proposals in response to the feedback received to the ED and pre-ballot draft.

31. Consequently, we believe that there are no substantive changes being made on which respondents have not had the opportunity to comment and we retain the view both that the amendments have been subject to sufficient due process and that there is no need to re-expose the proposals.

Appendix A: proposed revised text for the amendments to IAS 7

Amendments to IAS 7
Statement of Cash Flows

Components of financing activities

44A **An entity shall provide disclosures that help users of financial statements evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.**

44B Changes arising from cash flows and non-cash changes, include but are not limited to:

(i) changes from financing cash flows;

(ii) changes arising from obtaining or losing control of subsidiaries or other businesses; and

(iii) other non-cash changes (for example, the effect of changes in foreign exchange rates, and changes in fair values).

44C The amount of detail required to fulfill the disclosure requirements in paragraph 44A will depend on the relative importance of cash flows and non-cash changes from financing activities in relation to an entity's financial structure. One way by which an entity can fulfil the disclosure requirements of paragraph 44A is by providing a reconciliation between the amounts in the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

44D Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified as cash flows from financing activities in the statement of cash flows. In addition, if cash flows arising from financial assets (for example, assets that hedge liabilities arising from financing activities) are, or will be, included in cash flows from financing activities, the disclosure requirement in paragraph 44A also applies to changes in those financial assets.

44E In disclosing amounts to fulfil the disclosure requirement in paragraph 44A, an entity shall provide sufficient information to enable users of financial statements to reconcile those amounts to the amounts presented in the statement of financial position.