

AP 5



Disclosure Initiative Exposure Draft

Proposals to improve debt
disclosures

CMAC meeting
27 February 2015

The views expressed in this presentation are those of the presenter,
not necessarily those of the IASB or IFRS Foundation.

Disclosure Initiative

Completed projects

Ongoing activities

Implementation

Research

Amendments to IAS 1

Digital reporting
New Exposure Drafts

Proposed amendments to IAS 7 'debt reconciliation'

Materiality

Principles of Disclosure

Review of existing Standards

Developing the Exposure Draft

- Stakeholders have called for improved disclosure requirements about debt— some requested ‘net debt reconciliation’.
 - *Agenda Consultation* (2011)
 - Discussion Forum and Feedback Statement (2013)
- We have sought further input/advice from various stakeholders, including:
 - CMAC 2013 => advice on whether a ‘net debt reconciliation’ provides important information for investors
 - Investor survey 2014 => to better understand the information investors need and if this is a pervasive issue
 - CMAC/GPF 2014 => views on draft proposals by reviewing illustrative examples
- *Exposure Draft Disclosure Initiative-Proposed Amendments to IAS 7 published December 2014*

Objectives of the Exposure Draft

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To better understand movements during the reporting period, including non-cash changes, in an entity's financing activities; and

To better understand the liquidity of an entity.

Changes in debt

- Problem:
 - lack of information disclosed about an **entity's debt**, including cash and non-cash changes in debt during the reporting period.
- Approach:
 - Require a reconciliation of changes in items during the reporting period that form part of an entity's 'financing activities'.
 - the IASB identified that it could use the **definition of 'financing activities'** in paragraph 6 of IAS 7, which would capture items included in an entity's debt.
 - such an approach would allow **short-term action**, because defining 'debt' could be controversial.
 - requiring a reconciliation of those items during the reporting period would **enable investors to calculate a net debt position**.

Components of 'debt'

- Our proposal:
 - a reconciliation of **balance sheet items** for which cash flows are classified as financing activities (excluding equity items) in accordance with IAS 7.

Illustrative example:

	20X1	Cash flow	Non-cash changes		20X2
			Acquisition	New leases	
Long-term borrowings	1,040	250	200	–	1,490
Lease liabilities	–	(90)	–	900	810
Long-term debt	<u>1,040</u>	<u>160</u>	<u>200</u>	<u>900</u>	<u>2,300</u>

Questions 1 and 2 for CMAC

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1 - In June 2014, CMAC members agreed that the proposed reconciliation would **provide investors with sufficient information** to perform their analysis of an entity's debt. Do you still agree?

2 - Do you have any additional comments or suggestions for these proposed amendments?

Cash and cash equivalents

- Problem:
 - investors need better information about the availability of cash and cash equivalents; for example, whether cash and debt are in different jurisdictions and whether using the cash to settle debt could trigger a tax payment.
- Our proposal:
 - an entity shall disclose information about cash and cash equivalents, such as **restrictions that affect the decisions of an entity to use** cash and cash equivalent balances, that are relevant to an understanding of the liquidity of the entity.

Questions 3, 4 and 5 for CMAC

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3 - Do you think that the proposed disclosure about restrictions that would affect an entity's decision to use cash/equivalents will **help investors better understand the liquidity of an entity?** Why or why not?

4 - Do you think the proposed requirement will encourage entities to disclose supplementary information about how they manage debt?

5 - What are investors' key concerns about cash and cash equivalents and their definition in IFRS?

- The Exposure Draft was published on 18 December 2014.
- Comment letter period ends **17 April 2015**.
- We need investor feedback on whether these proposals are useful and provide the information that is needed.
- Redeliberations start Q2 2015.

IFRS Taxonomy for the Exposure Draft

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IFRS Taxonomy due process changes

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- From January 2014, amendments to the IFRS Taxonomy are exposed through a new document *The Proposed IFRS Taxonomy Update*
 - includes the proposed data mark-up ie the taxonomy elements and model used to code and structure disclosures within a digital IFRS financial report
 - does not require IT knowledge to understand
 - see slide 15 for an example
- For the first time and on a trial basis, the *Proposed IFRS Taxonomy Update* is included in the Exposure Draft as accompanying material

Benefits to investors

- We have heard that some investors and data aggregators find the IFRS Taxonomy **helps their understanding of new disclosure requirements**
- To help investors comment on whether they think the proposed data mark-up **meets their needs for structured electronic data** - for example
 - should any elements be added, removed or combined?
 - do the proposed labels of the elements clearly represent their meaning?

IFRS Taxonomy content : key issue

- Proposed taxonomy additions **limited** to the disclosures specifically required by the Standard or provided in the Illustrative Examples. For example:
 - The taxonomy includes elements for the disclosures relating to Long-term borrowings and Lease liabilities, but not for Short-term borrowings as the latter was not provided as an example within the Exposure Draft
- Additional taxonomy elements may be added at a later stage after **reporting practice has emerged**

Proposed IFRS Taxonomy Update

Example

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Items for which cash flows are classified as financing activities, excluding equity items (A)			
Line items for disclosure of reconciliation of items for which cash flows are classified as financing activities, excluding equity items	Long-term borrowings (M)	Lease liabilities (M)	Items for which cash flows are classified as financing activities, excluding equity items (DM)
Items for which cash flows are classified as financing activities, excluding equity items [at beginning of period]	1,040	-	1,040
Increase (decrease) through financing cash flows, items for which cash flows are classified as financing activities, excluding equity items	250	(90)	160

- The element '*Long-term borrowings*' in conjunction with the element '*Increase (decrease) through*' is used to code the value of 250
- The element '*Long-term borrowings*' belongs to the reporting category '*Items for which cash flows are classified as financing activities, excluding equity items*'

Questions 6 and 7 for CMAC

6 - Do you agree that including the IFRS Taxonomy as accompanying material to an Exposure Draft or Standard is a good step towards involving investors more with the IFRS Taxonomy? Are there any other actions you suggest we should take to increase investor involvement?

7 - Do you agree that the proposed taxonomy additions are limited to the disclosures required by the Standard or provided in the Illustrative Examples?

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