STAFF PAPER

October 2015

IASB Meeting

Project	**Disclosure Initiative**		
Paper topic	Amendments to IAS 7: Due process steps and balloting		
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Objective

1. The paper sets out the due process steps taken in the implementation project *Disclosure Initiative: Proposed amendments to IAS 7*. The staff are requesting the IASB's permission to start the balloting process for the final amendments to IAS 7 *Statement of Cash Flows* ('the final amendments').

2. At this meeting the IASB will discuss Agenda Paper 11B, which proposes that the IASB should decouple the proposed amendments for the cash disincentives (see Agenda Paper 11B) from the proposed amendment for the reconciliation of liabilities. If the IASB does decide to do so, the final amendments include disclosure of the reconciliation of liabilities from financing only. The staff are, however, conscious, in the light of their previous discussions with the IASB, that it might decide to also continue with disclosures regarding cash disincentives.

3. Accordingly, this paper includes two appendixes (A and B), each presenting different due process summaries based on the two potential outcomes from the IASB's decisions in response to Question 2 in Agenda Paper 11B of this meeting. In summary:

    (a) Appendix A summarises the due process steps in the circumstance in which the IASB agree with the staff's recommendation and decides not to include disclosures for disincentives on cash and cash equivalents.

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This decision would result in the disclosures for disincentives on cash and cash equivalents being decoupled from the reconciliation and the reconciliation being finalised as a stand-alone amendment to IAS 7; and

(b) Appendix B summarises additional due process steps in the circumstance in which the IASB decides to finalise the amendments including disclosures for disincentives on cash and cash equivalents.

The appendixes also discuss proposals for transition and for the effective date for the final amendments, staff recommendations and questions to the IASB.

4. Appendix C presents all the actions the IASB has taken to meet the due process requirements for final amendments to IAS 7.

5. The IASB may decide to delay the package of IAS 7 amendments (ie the proposed amendments on cash disincentives and the reconciliation), in which case this Agenda Paper is not necessary.

Appendix A: the IASB agree to decouple the final amendments and finalise only the amendments for the reconciliation of liabilities

A1. This Appendix considers the due process of the final amendments to IAS 7, if the IASB agrees to decouple the final amendments not including the proposals for the disclosure of disincentives on cash and cash equivalents balances. Hence this appendix will not discuss proposals regarding disclosure requirements on cash disincentives and refers only to the reconciliation of liabilities arising from financing activities.

A2. This appendix is structured as follows:

(a) Background (paragraphs A3–A4);

(b) Effects analysis (paragraphs A5–A9);

(c) Staff analysis and recommendations (paragraphs A10–A17); and

(d) Questions for the IASB.

Background

A3. As a part of the Disclosure Initiative project, the IASB published the Exposure Draft (Disclosure Initiative: Proposed amendments to IAS 7 Statement of Cash Flows) ('the ED') on 18 December 2014. It had a 120-day comment period, which ended on 17 April 2015. During the comment period, 111 comment letters were received and the staff also undertook outreach activities. Agenda Paper 11A of the June 2015 IASB meeting sets out a summary of the feedback received on the ED and of the outreach performed.

A4. The ED included proposals to require that an entity should disclose a reconciliation of the movement between the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items. The result of requiring this reconciliation is that investors will be provided with improved disclosures about an entity's debt and about movements in debt during the reporting period. Agenda Paper 11D of the September 2015 IASB meeting sets out the staff analysis of the feedback received on this proposal.

Effects analysis

A5. Almost all the investors who responded to the proposals supported them because, in their view, the proposed amendment helps them to better understand the period-to-period movements of the components of debt for a particular entity. On the basis of this feedback, the staff do not consider that there would be any significant additional costs for users of financial statements that would outweigh the benefits.

A6. In contrast, many preparers do not support these proposals. They are concerned that the proposed amendment would trigger operational costs, ranging from updating the accounting system to the operational difficulty of preparing such information on a consolidated basis, which would collectively outweigh the corresponding benefit of providing the information. In particular, financial institutions were of the view that the proposed amendment would provide little or no relevant information to their investors.

A7. The staff agree that there will be initial setup costs to preparers to update the accounting system to track and collate the movements of components of financing activities. Furthermore, providing the additional information required by the proposed amendment could result in costs relating to extending the existing internal controls and audit processes of the entity. However, the staff do not foresee any significant ongoing costs related to providing this information. Consequently, the staff do not think that these costs would outweigh the informational benefits to the users in the long term, especially given the strength of positive support from users.

A8. The staff are also conscious of the feedback from investors of financial institutions that the proposed amendment will not result in providing useful information.

A9. The staff would like to note that the effects of these proposals are discussed in detail within Agenda Paper 11D of the September 2015 IASB meeting, in which the IASB reviewed the costs/benefits and the concerns regarding the application of the proposals to financial institutions and tentatively decided to move forward with finalising these amendments.

Staff analysis and recommendation

Re-exposure

A10. The IASB tentatively decided at its September 2015 to proceed with the disclosure or reconciliation of liabilities arising from financing activities. The IASB decided on a number of clarifications; however, the staff believe that the clarifications proposed in Agenda Paper 11D of September 2015 are consistent with the broad amendments proposed in the ED and do not include fundamental changes. Instead, any change would confirm and clarify the proposals in response to the feedback received.

A11. Consequently, we believe that there are no substantive changes being made on which respondents have not had the opportunity to comment. Consequently it is unlikely that re-exposure would reveal any new concerns, so the staff recommend that the IASB should not re-expose the amendments.

Permission to ballot

A12. The staff believe that the IASB has undertaken all of the due process activities identified as being 'required' in the *Due Process Handbook* (see Appendix C) to finalise the amendments. If the IASB is satisfied that it has been provided with sufficient analysis, and has undertaken appropriate consultation, to support the issuance of the final amendments, the staff request permission to start the balloting process.

Intention to dissent

A13. One IASB member dissented from the publication of the ED. Any IASB member who intends to dissent from the issue of the final amendments is asked to make their intention known at this meeting.

Proposed timetable for balloting and publication

A14. The balloting process of Disclosure Initiative: Amendments to IAS 7 will commence in October 2015 with the issue of the final amendments planned for December 2015.

Transition and effective date

A15. The amendments are narrow in scope and are intended to be disclosure-only amendments to IAS 7. Hence, they do not affect recognition and measurement. It is not proposed that these amendments should result in the reassessment of the judgements about presentation and disclosure that had been made in periods prior to the application of these amendments. Nearly all respondents supported the transition provisions.

A16. The staff do not think there is a need to provide additional implementation lead time or any additional transition provisions. Consequently, the staff propose that the effective date for the final amendments should be as early as possible, namely 1 January 2017.

Confirmation of due process steps

A17. In Appendix C of this paper we have summarised the due process steps we have taken in developing the amendments to IAS 7. We note that the required due process steps for the issue of the final amendments have been completed.

Questions for the IASB

1. **Re-exposure:** does the IASB agree with the staff recommendation not to re-expose the amendment?

2. **Permission to ballot**: is the IASB satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments?

3. **Dissents:** does any member of the IASB plan to dissent from the issuance of the amendments?

4. **Effective date:** does the IASB agree that the effective date for the amendments should be 1 January 2017, with early adoption permitted?

5. **Transition provisions**: do the IASB members agree with the transition provisions?

6. **Proposed timetable:** do the IASB members agree with the proposed timetable and do they give permission to ballot for publication?

Appendix B: The IASB decides to include in the final amendments disclosures for disincentives on cash and cash equivalents

B1. This Appendix sets out additional due process steps to be considered in conjunction with Appendix A in the circumstance in which the IASB decides to finalise the IAS 7 amendments including disclosures for disincentives on cash and cash equivalents.

B2. This appendix shares the same content of Appendix A with the following additions to it:

(a) Background (paragraph B3);

(b) Effects analysis (paragraphs B4–B6); and

(c) Staff analysis and recommendations (paragraphs B7–B11).

Background

B3. The ED included proposals about disclosing matters that affect the decisions of an entity to use cash and cash equivalent balances. Cash and cash equivalents are not always freely available to settle debt, because there may be some form of economic restriction (disincentives) in place that limits or discourages access to the full amount of cash. The result of this requirement is that investors will be provided with improved disclosures about disincentives and the amounts of cash and cash equivalent balances subject to those disincentives that would normally not be captured by paragraph 48 of IAS 7 in its current form or by other IFRS requirements.[1] In addition, the requirement provides greater clarity about what cash and cash equivalent balances would not be available for use in a consolidated group. Agenda Paper 11B at this IASB meeting set out the staff analysis of the feedback received on this proposal.

[1] Refer to paragraph 28 of Agenda Paper 11B (a) of the September 2015 IASB meeting.

Effects analysis

B4. Almost all the investors who responded to the proposals supported them because, in their view, the proposed amendment provides them with a better understanding of the cash and cash equivalent balances of an entity. Improving investors' understanding of cash and cash equivalent balances allows them to forecast future cash flows more accurately. At present investors estimate the effects of such disincentives on cash and cash equivalent balances often with a crude percentage haircut. On the basis of this feedback, the staff do not consider that there would be any significant additional costs for users of financial statements that would outweigh the benefits.

B5. In contrast, preparers are concerned that the proposed amendment in the ED would be costly to prepare. Preparers expressed concern that to comply with the requirement it may be necessary to consider of a range of possible outcomes. To address the concerns of preparers, the IASB has decided to amend the proposal in the ED to be more specific about requiring the disclosure of the amount of cash and cash equivalents subject to disincentives together with a commentary by management. Consequently, there would be no need to disclose, for example, the range of possible outcomes subject to complex tax planning events but instead a preparer would disclose the nature of the disincentive together with the amounts of cash and cash equivalents.

B6. On that basis the staff think that preparers (and specifically treasury departments) are not going to be subject to significant costs that outweigh the benefits to users in order to provide this disclosure.

Staff analysis and recommendation

Re-exposure

B7. The staff note that following the feedback from preparers there has been a change from the proposal in the ED. Such change was made in response to concerns from preparers whilst still responding to users' needs for more transparency around a reporting entity's ability to use cash and cash equivalent balances.

B8. Agenda Paper 11B of this meeting proposes the disclosure of the *amount of cash and cash equivalent balances that are subject to disincentives* instead of *the matters that affect the decisions of an entity to use cash and cash equivalent balances*. In addition, Agenda Paper 11B also differentiates amounts that are subject to disincentives from those that an entity has determined that will not be distributed in the foreseeable future in accordance with paragraphs 39-40 of IAS 12 *Income Taxes* because it addresses feedback that those cash and cash equivalent balances are held for use by the subsidiary alone and also concerns from preparers regarding the need for consideration of possible outcomes subject to complex tax planning.

B9. Firstly, the ED acknowledges in paragraph BC10 that the proposed amendment is an improvement to paragraph 48 of IAS 7. We think that moving the proposed amendment to paragraph 48 is consistent with the feedback received from a number of constituents.[2] One respondent (comment letter 95) stated the following:

> …IAS 7 paragraphs 48 and 49 already mention that disclosure should be made if the cash and cash equivalents is not available for use by the group. A simple amendment to these paragraphs would be sufficient...

B10. Lastly, we do not think that focussing on the amount of cash and cash equivalents that are subject to disincentives is a fundamental change to the ED. Furthermore, by understanding that the proposed amendment is an improvement to paragraph 48 of IAS 7 (see paragraph B9) respondents are already aware that the proposed requirement relates to cash and cash equivalent amounts, because paragraph 48 currently requires that from entities (ie cash amounts).

B11. Consequently, the staff do not think that there have been fundamental changes from the ED on which respondents have not had the opportunity to comment. On that basis we recommend that the IASB should not re-expose the amendments. However, staff would like to undertake further testing of the amendments prior to balloting of the final standard.

[2] Many comment letters suggested that paragraph 48 of IAS 7 and the proposed amendment are interrelated and some asked the IASB to make that difference clear (comment letters that mention this are numbers 15, 16, 26, 36, 37, 45, 52, 56 and 58, for example).

Appendix C: Action taken to meet the due process requirements

C1. This appendix shows how the IASB has complied with the due process requirements for final amendments to Standards as set out in the *Due Process Handbook* published in February 2013.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Consideration of information gathered during consultation				
The IASB posts all of the comment letters that are received in relation to the ED on the project pages.	Required if request issued	Letters posted on the project pages.	The IASB has reported on progress as part of its quarterly report at Trustee meetings, including summary statistics about respondents.	Comment letters on the ED have been posted on the project page of the IFRS Foundation website. A feedback summary was presented to the IASB at its June 2015 meeting as Agenda Paper 11A and is available on the project page of the IFRS Foundation website.
Round-table meetings between external participants and members of the IASB.	Optional	Extent of meetings held.	The DPOC has received a report on outreach activities.	No formal round-table meetings were hosted by the IASB because this is a limited-scope project, which intends to make disclosure-only amendments. However, the IASB decided to proceed with this project following the feedback from the public Discussion Forum *Financial Reporting Disclosure* and a survey with users of financial statements in January 2014, which focussed on if and how they use information about movements in an entity’s debt.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion. Extent of meetings with consultative group held and confirmation that critical issues have been reviewed with them.	The IASB and the DPOC have discussed progress on major projects, in relation to the due process being conducted. The IASB and the DPOC have reviewed the due process over the project life cycle, and how any issues about the due process have been/are being addressed. The DPOC has met with the Advisory Council to understand stakeholders' perspectives. The DPOC has reviewed and responded to comments on due process as appropriate.	The IASB held public meetings in October 2013, March 2014, July 2014, September 2014, June 2015 and September 2015, at which the IASB discussed the proposed amendments to IAS 7 arising from the Disclosure Initiative. Project pages on the IFRS Foundation website have been in place for the disclosure initiative amendments over the course of the project. They contain a full description of the project, with meeting papers and decision summaries (all posted on a timely basis). The DPOC has been updated during its quarterly meetings on the status of the Disclosure Initiative amendments, including these proposed amendments to IAS 7.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	Publication of the Effects Analysis.	The IASB and the DPOC have reviewed the results of the Effects Analysis and how it has considered such findings in the proposed Standard. The IASB has provided a copy of the Effects Analysis to the DPOC at the point of the Standard's publication.	A brief analysis of the likely effects of requiring a reconciliation of liabilities arising from financing activities was included in Agenda Paper 11D of the September 2015 IASB meeting. A brief analysis of the likely effects of requiring the disclosure of disincentives is included in paragraphs B4-B6 of this paper.
Email alerts are issued to registered recipients.	Optional	Evidence that alerts have occurred.	The DPOC has received a report of outreach activities.	General IFRS e-alert subscribers have been notified when key documents, eg the Exposure Draft and *IASB Update* newsletters, are issued. There is also a separate subscriber list for the Disclosure Initiative, which periodically updates the subscribers about the developments in the Disclosure Initiative.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Extent of meetings held, including efforts aimed at investors.	The DPOC has received a report of outreach activities.	For the proposed amendment to IAS 7, the IASB staff undertook 22 outreach meetings during and after the comment period up to 31 August 2015. These included meetings with investors' representative groups. The staff have also performed outreach with the IASB's advisory bodies, the Capital Markets Advisory Committee (CMAC), Global Preparers Forum (GPF) Accounting Standards Advisory Forum (ASAF) and IFRS Advisory Council Investors Sub-Committee during the project. The quarterly Investor updates had included invitations to comment on the proposed amendments and the March 2015 *Investor Perspectives* publication included an article discussing the merits of the proposed amendment, which was authored by investors. No further outreach meetings were deemed necessary because of the narrow-focus nature of these amendments.
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Regional discussion forums were not considered necessary because of the narrow-focus nature of these amendments.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Finalisation				
Due process steps are reviewed by the IASB.	Required	Summary of all due process steps have been discussed by the IASB before a Standard is issued.	The DPOC has received a summary report of the due process steps that have been followed before the Standard is issued.	This agenda paper provides a summary of all due process steps and is to be discussed by the IASB at this meeting.
Need for re-exposure of a Standard is considered.	Required	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria.	The IASB has discussed its thinking on the issue of re-exposure with the DPOC.	Paragraphs A10–A11of this agenda paper provide a summary of why the staff recommend that the IASB should not re-expose the proposed amendments, if it decides to decouple the proposed requirement to disclose cash disincentives from the proposed reconciliation and the reconciliation to be duly finalised as a stand-alone amendment to IAS 7. Paragraphs B7–B11 of this agenda paper provide a summary of why the staff recommend that the IASB should not re-expose the proposed amendments, if it decides to finalise the proposed requirement to disclose cash disincentives with the proposal to require a reconciliation.

Step	***Required/ Optional***	***Metrics or evidence***	***Evidence provided to DPOC***	***Actions***
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.	Required	Effective date set, with full consideration of the implementation challenges	The IASB has discussed any proposed shortening of the period for effective application with the DPOC.	Paragraphs A15-A16 consider the effective date of the amendments. It is not proposed that these amendments should result in the reassessment of the judgements about presentation and disclosure that had been made in periods prior to the application of these amendments. Consequently the staff do not think there is a need to provide additional implementation lead time or any additional transition provisions. The staff propose that the effective date for the amendments should be as early as possible, namely 1 January 2017.