STAFF PAPER

September 2015

IASB Meeting

Project	**Disclosure Initiative**		
Paper topic	Amendments to IAS 7— Reconciliation of liabilities arising from financing activities		

CONTACT(S)	Eduardo Baldoino	ebaldoino@ifrs.org	+44 (0)20 7246 6462
	Arjuna Dangalla	adangalla@ifrs.org	+44 (0)20 7246 6473
	Michelle Sansom	msansom@ifrs.org	+44 (0)20 7246 6963
	Kathryn Donkersley	kdonkersley@ifrs.org	+44 (0)20 7246 6970
	Richard Fraser	rfraser@ifrs.org	+44 (0)20 7246 6958

Introduction

1. In December 2014 the IASB published an Exposure Draft of proposed amendments to IAS 7 *Statement of Cash Flows* ('the ED'). The objectives of the proposed amendments were to improve:

   (a) information provided to users of financial statements about an entity's financing activities, excluding equity items ('the reconciliation'); and

   (b) disclosures that help users of financial statements to understand the liquidity of an entity ('cash restrictions').

2. The IASB also included proposed changes to the IFRS Taxonomy. This was the first time that such proposals had been included for comment with an Exposure Draft.

Purpose of this paper

3. A feedback summary of the responses to the ED was presented in Agenda Paper 11A at the June 2015 IASB meeting.

4. The IASB started to consider the staff analysis of the feedback but raised several questions. The purpose of this paper is for the IASB to complete its consideration of the staff's analysis of the feedback on the proposals about the reconciliation (see paragraph 1(a)) and to consider the staff's recommendations for this part of the project.

5. This paper addresses the proposed paragraph 44A (the proposed amendment) of the ED; Agenda Paper 11E of this meeting addresses the proposed paragraph 50A (cash restrictions).

Staff recommendations

6. The staff recommend finalising the proposed amendment to improve information about an entity's financing activities by requiring the reconciliation as proposed in the ED, with the following amendments:
   (a) adding an objective to the disclosure requirement;
   (b) clarifying in the Standard that an entity has flexibility to determine what information is needed, and to what extent, to meet the disclosure objective; and
   (c) inserting a less simplistic illustrative example into the Standard.

7. Regarding the IFRS Taxonomy, the staff recommend:
   (a) not including anticipated common practice elements in the IFRS Taxonomy for the amendment to IAS 7 related to the reconciliation; and
   (b) continuing to perform research and outreach on the potential inclusion of anticipated common practice elements in the IFRS Taxonomy.

Staff analysis

8. The feedback to the ED (Agenda Paper 11A at the June 2015 IASB meeting) identified a number of areas requiring further consideration. Each of these are as discussed below:

   (a) timing of the proposed amendment (paragraphs 9–13);

   (b) objective of the proposed amendment (paragraphs 14–18);

   (c) flexibility in the requirement/definition of debt (paragraphs 19–26);

   (d) application of the proposed amendment to financial institutions (paragraphs 27–52);

   (e) possible interaction with the Leases project (paragraphs 53–56);

   (f) cost-benefit assessment of requiring the information (paragraphs 57–67);

   (g) illustrative example (paragraphs 68–70); and

   (h) IFRS taxonomy—Anticipated common practice (paragraphs 71–79).

Timing of the proposed amendment

9. Many constituents expressed the view that the proposed amendment should be part of the Principles of Disclosure project, which is also part of the Disclosure Initiative (see paragraph 23 in Agenda Paper 11A at June 2015 IASB meeting). The main reasons expressed were:

   (a) that there is a risk that preparers may incur duplicated costs, for example—if the proposals in the ED are implemented and subsequently changed following the outcome of the Principles of Disclosure project or another project; and

   (b) deferral of this project would give the IASB time to define 'debt'.

10. The staff do not agree with the views expressed paragraphs in 9(a) and 9(b) because the Principles of Disclosure project is developing general principles for presentation and disclosures (a possible replacement of IAS 1 *Presentation of Financial Statements*) and therefore will not go into the same level of detail as the proposed amendment.

11. In addition, there are no proposals for the Principles of Disclosure project to consider the definition of debt. Neither is it certain that the Primary Financial Statements project will address the definition of debt or 'net debt', because the scope of this project is still being determined.

12. We think it is important to note that the proposed amendment responds to investors' request for improvements in disclosures about debt. These requests have been made over a number of years.[1] Investors have told us they would like a timely response to this ED.

13. Based on the views expressed in paragraph 9–12 above, the staff retain the view that a narrow-scope amendment is the most appropriate way to respond to investors' request in a timely fashion.

Objective of the proposed amendment

14. A few constituents suggested that the objective developed for the proposed amendment was not sufficiently clear for entities to determine whether a disclosure is needed, and if so, the level of detail needed to meet that objective (see paragraph 35(b)(i) of Agenda Paper 11A of the June 2015 IASB meeting).

15. In April 2015 the IASB discussed how to draft disclosure requirements that specify an objective (Agenda Paper 11I at April 2015) and will also discuss the matter again at this meeting (Agenda Paper 11A and 11B of this meeting). In the staff's view, an objective that is closely aligned to users' needs assists entities in determining whether the information provided by the disclosure is material and therefore whether it should be disclosed. If an entity determines that the information is material, the entity can then determine how to present that information.

16. The staff agree with constituents that an objective for the proposed amendment should be further developed and clearly mentioned within the Standard. In relation to drafting the objective, the ED already included the following objective:

[1] In June 2008, CRUF made a presentation to the IASB calling for the inclusion of a 'net debt reconciliation'. It was also discussed within the 'five quick wins' document published by CRUF global in 2011.

> To improve information provided to users about an entity's financing activities, excluding equity items.

The staff think that this objective can be further developed.

17. The Basis for Conclusions [BC4] to the ED identifies why users were calling for improved information about an entity's financing activities as follows:

> To understand investors' concerns, in early 2014 the IASB undertook a survey with investors. The first part of the survey sought to obtain information about why investors seek to understand the period-on-period movements in debt. The second part of the survey sought input on disclosures about cash and cash equivalents. The results of the survey helped the IASB to understand how investors use information about debt and why some investors were asking for a net debt reconciliation. On the basis of the survey, the IASB identified that a net debt reconciliation:
>
> (a) can be used to verify an investor's understanding of the entity's cash flows, because it provides a reconciliation between the statement of financial position and the statement of cash flows;
>
> (b) improves investors' confidence in forecasting an entity's future cash flows when it is used to verify an investor's understanding of an entity's cash flows;
>
> (c) provides information about an entity's sources of finance and how those sources have been deployed over time; and
>
> (d) enables investors to better understand an entity's exposure to risks associated with financing.

18. We think that the discussion in paragraph BC4 of the ED can form the basis of a disclosure objective for the proposed amendment. The following is the draft wording of a disclosure objective for the proposed reconciliation:

> An entity shall disclose information that helps users of its financial statements to understand changes in liabilities arising from its financing activities. That information is useful in understanding past cash flows and for assessing the prospects for future cash flows from an entity's financing activities.

Flexibility in the requirement/definition of debt

19. Some respondents suggested that management should be allowed to define debt and use that as the basis for the reconciliation instead of using the components of financing activities.[2]

20. In their view, requiring management to define debt prevents pitfalls that may arise when IAS 7 provides flexibility on how certain cash flows are classified; for example, classifying the interest component of a repayment of amounts borrowed as either an operating or a financing activity. They also think that this approach would give investors relevant information about what an entity views as, and hence manages as liabilities arising from financing activities.

21. Respondents also stated that the reconciliation proposals in the ED were too restrictive, because liabilities outside financing activities that the entity considers to be sources of finance (for example, pension liabilities) would not be captured.

22. Concerns were raised that as a result of the proposed amendment, entities who had already provided a debt reconciliation that also includes cash and cash equivalents (ie a net debt reconciliation) would be prevented from doing so in future, even if investors had found it useful.

23. The staff think that the proposed disclosure, which uses financing activities as defined in IAS 7 as its basis, acts as a framework for the reconciliation. We think this framework will enhance the comparability of the disclosure between entities.

24. That said, we do not think that the proposals in the ED would (or were intended to) prevent entities from providing additional information by extending the reconciliation. We think extensions would permit an entity to include additional information that could include the disclosure of both:

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

[2] We refer to 'components of financing activities' as being the items on the statement of financial position for which cash flows are classified within the IAS 7 definition of financing activities (paragraph 6 of IAS 7).

(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.

25. We think that when an entity includes additional items, which it considers are sources of finance, it should be required to distinguish the additional items from the information that is required in the proposed reconciliation.

26. Consequently, the staff recommend adding a paragraph to the Standard that clarifies that the reconciliation can be extended in the ways described in paragraph 24.[3]

Question 1 for the IASB
1.Does the IASB agree with the staff recommendation to add a paragraph to IAS 7 that clarifies that the reconciliation can be extended? (See paragraphs 24)

Application of the proposed amendment to financial institutions

27. Almost all of the respondents representing financial institutions were of the view that the proposed amendment would provide little or no relevant information to their investors. Some of these respondents thought that financial institutions should be exempt from the proposed disclosure requirement in the ED. The main reasons identified were:

(a) the cash flow profile of a financial institution does not provide useful information;

(b) only some of the sources of finance for a financial institution are classified as 'financing activities'; hence, the reconciliation may provide an incomplete picture of the financing structure of a financial institution; and

(c) comprehensive disclosure requirements already result in the disclosure of sufficient information about an entity's financing structure.

[3] More detailed wording to be dealt with in the balloting process.

The cash flow profile of a financial institution does not provide useful information

28. The staff acknowledge that there is an ongoing debate as to the relevance of the Statement of Cash Flows for financial institutions.[4] Some preparers argue that, although financial institutions need cash for the same reasons as non-financial entities (for example: investing, paying their obligations and providing returns to investors), cash flows of financial institutions are also more interrelated and can be seen as products in the same way as finished goods for manufacturing industries. The interrelationship stems from the fact that a financial institution's business mainly revolves around raising and disseminating funds, which are largely indistinguishable as separate streams of operating, investing, and financing cash flows.

29. We therefore understand that information about cash flows serves different purposes for investors in a financial institution and investors in a non-financial entity. Hence, the disclosure objective described in paragraph 18 is arguably less likely to be relevant for the investors of financial institutions.

30. From the comment letters received from preparers and outreach with investors, we understand that investors in financial institutions are more focused on information about overall management of a financial institutions capital. Both preparers and investors agreed that disclosure about capital provides information about the strength and capacity of the financing structure of a financial institution.

31. Preparers also added that because financial institutions, and specifically banks, manage assets and liabilities in a coordinated way, looking at changes in individual classes of assets and liabilities may not provide a comprehensive picture of the financing activities of such an entity. The specific details with regard to the feedback received are presented in Appendix B of this paper.

32. Taking all these points into consideration, staff believe that it is a valid concern that the proposed amendment may only add a new requirement to the existing disclosure requirements without adding significantly to the informational value about the financing profile of a financial institution.

[4] For example, EFRAG 's Discussion Paper on the Statement of Cash Flows issues for financial institutions.

Components of 'financing activities' may not provide a complete picture of the financing structure of a financial institution

33. One reason provided by financial institutions who did not support the proposed amendment was that they considered it to be too narrow and that it might present an ‘incomplete picture’ that does not fairly present a financial institution’s actual sources of financing. For example the following sources of financing may not form a part of the proposed reconciliation:

    (a) core deposits, money market borrowings, commercial paper and other similar debt with relatively short tenors, which may be classified as operating activities in the Statement of Cash Flows; and

    (b) some long-term instruments designed to comply with capital requirements (such as Basel III).

34. As discussed in paragraph 21, the issue of whether the proposed reconciliation excludes liabilities outside financing activities that the entity considers to be sources of finance is not solely applicable to financial institutions. In addition, we think that the proposals in paragraph 24 would address this concern.

35. With reference to the concern mentioned in paragraph 33(b), the staff note that long-term instruments designed to comply with capital requirements will either be disclosed in the Statement of Changes in Equity (paragraphs 106–109 in IAS 1 *Presentation of Financial Statements*) or through the proposed reconciliation. A financial institution may provide a more comprehensive disclosure of its financing structure by illustrating or explaining the linkage between the Statement of Changes in Equity and the proposed reconciliation.

Other disclosure requirements may already be in place that better illustrate a financial institution’s liquidity and funding profile

36. Some preparers of financial institutions cited comprehensive disclosure requirements that are already in place to enhance the transparency of a financial institution’s liquidity and funding profile including disclosures:

    (a) within the financial statements (for example, IFRS 7 *Financial Instruments: Disclosures* disclosures); and

(b) outside the financial statements (for example, Basel Pillar 3 and Enhanced Disclosure Task Force disclosures).

These preparers are of the view that the proposed disclosure does not provide any additional information that would benefit users, but it would incur additional costs to prepare.

37. The existing disclosures in IFRS 7 focus on the carrying value of each category of financial assets and financial liabilities and the significance of financial instruments, as well as on how risks related to these items are managed. Within this context, it is important to note that these disclosure requirements focus on the nature and extent of risks arising from financial instruments at a particular point in time, instead of the detailed movement within those individual classes of financial instruments from period to period. In addition, Basel Pillar III requires the disclosure of a bank’s management of its capital (Tier I ,Tier II capital and Tier III) and its capital buffers at a particular point in time, based on the reported financial position.

38. In contrast, the proposed amendment provides backward-looking information. The disclosure assists users in understanding the sources of finance and how those sources have been deployed. The information is intended to help users to improve their predictions of future cash flows.

Possible approaches to address the concerns raised

39. If the IASB agrees that information resulting from the proposed amendment is less relevant for financial institutions, the staff considered the possible actions the IASB could take, namely:

(a) exempt financial institutions from the proposed amendment;

(b) provide more guidance on the application of materiality to the proposed amendment; and

(c) enable entities to meet the objective of the proposed amendment by using information that is already disclosed.

Exemption for financial institutions

40. Some preparers suggested that the IASB should provide an exemption for financial institutions from the proposed amendment. One respondent also highlighted that FRS 1 *Cash Flow Statements* under the previous UK GAAP exempted banks from providing a 'net debt' reconciliation.[5]

41. The staff considered the suggestion to exempt financial institutions, but are conscious of additional issues that might arise if financial institutions were excluded from the scope of the proposed disclosure. The most significant issue is the complexity of defining what constitutes a financial institution, which remains unresolved, although the term 'financial institutions' is used within paragraph 24 of IAS 7 and paragraph 63 of IAS 1.[6]

42. The IASB had a similar discussion when it was replacing IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* with IFRS 7. At that time the IASB did not limit the scope of IFRS 7 to financial institutions. Paragraphs BC6 and BC7 of IFRS 7 state:

> BC6 The Board observed that the reduction in regulatory barriers in many countries and increasing competition between banks, non-bank financial services firms, and financial conglomerates have resulted in many entities providing financial services that were traditionally provided only by entities regulated and supervised as banks. The Board concluded that this development would make it inappropriate to limit this project to banks and similar financial institutions.
>
> BC7 The Board considered whether entities that undertake specified activities commonly undertaken by banks and other financial institutions, namely deposit-taking, lending and securities activities, face unique risks that would require a standard specific to them. However, the Board decided that the scope of this project should include disclosures about risks arising from financial instruments in all entities …

---

[5] See paragraph 34 FRS 1 *Cash Flow Statements*.

[6] Please refer to the scoping paragraphs of IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*.

43. Any exemption for financial institutions could only be achieved by defining what constitutes a financial institution. The staff doubt how robust or efficient such an exercise would be in practice; for example, differentiating between entities with securities activities and entities that hold portfolios of financial assets for investment and liquidity management purposes. Critically, the staff also doubt that it would be achievable within the narrow scope of this project.

44. Consequently, the staff do not recommend a scope exclusion from this proposed disclosure for any specific industry.

Provide more guidance on the application of materiality to the proposed amendment

45. The staff note that entities are not required to provide the proposed reconciliation if it does not, in their view, provide material information. Paragraph 31 of IAS 1 provides clarification within this context.

> An entity need not provide a specific disclosure required by an IFRS in the financial statements, including in the notes, if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether information about matters addressed by an IFRS needs to be presented or disclosed to meet the needs of users of financial statements, even if that information is not included in the specific disclosure requirements of the IFRS..

46. One of the respondents to the ED noted this point.

> Credit institutions already publish information on liquidity and funding which users are likely to find more useful than the cash flow statement and a reconciliation of net debt. Therefore, we suggest that it should be made clear that reconciliation of net debt is a disclosure, rather than a primary statement, and need not be provided in accordance with the concept of materiality being developed as part of the disclosure initiative. (Source: *European Banking Federation (EBF))*

47. The staff acknowledge that because of the significance of the amounts that would be captured by the proposed amendment, and considering that quantitative thresholds are regularly used to form the basis for the preliminary materiality assessments, it might

be difficult for a financial institution to conclude that the proposed amendment is immaterial for their investors.

48. However the staff think that a discussion about matters that an entity should consider before making a judgment about materiality in the context of this proposed amendment could be useful if its included within the Basis for Conclusions of a final Standard.

Enable entities to meet the objective of the proposed amendment by using information that is already disclosed

49. As discussed in paragraphs 36–38, the staff acknowledge that existing disclosure requirements, some of which are specifically designed for financial institutions, may provide more useful information than the proposed reconciliation. The staff think that in such circumstances the entity should assess whether it has fulfilled the disclosure objective through existing disclosures within the financial statements or outside the financial statements.

Summary of the recommendations for financial institutions

50. The staff recommend that if the IASB decides to finalise the proposed amendment, then the final Standard should include an objective for the proposed disclosure (see paragraphs 14–18). The staff believe that the disclosure objective would help financial institutions to determine whether and how to provide the proposed disclosures.

51. The staff also propose that the wording of the Standard should not stipulate any specific format that the reconciliation should follow. This would allow financial institutions to consider both IFRS disclosures and regulatory disclosures when determining whether they provide information that satisfies the disclosure objective.

52. The staff also acknowledge the importance of clarifying in the Basis for Conclusions of the Standard that an entity needs to consider whether to provide the proposed disclosure and how to fulfil the disclosure objective. When an entity is considering whether it has fulfilled the disclosure objective, it will take into consideration:

(a) whether information about changes in liabilities arising from its financing activities of an entity provides useful information (paragraphs 28–35); and

(b) whether the entity has already met the disclosure objective through other disclosures within the financial statements, including those disclosures incorporated via cross referencing (paragraphs 36–38).

Questions 2 and 3 for the IASB
2. Taking into consideration the IASB's previous decisions not to develop Standards with a specific industry in mind, does the IASB agree with the staff's recommendation not to provide an exemption for financial institutions? 3. Does the IASB agree with the staff's recommendation as set out in paragraphs 50–52?

Possible interaction with the Leases project

53. A few respondents to the ED thought that the IASB had appeared to assess the costs and benefits of the proposed amendment differently from its assessment of a lease liability reconciliation in the Leases project. The staff think that this view arises because those stakeholders perceive that there is an inconsistency between the IASB's decisions that:

(a) the costs for lessees to disclose a reconciliation of lease liabilities outweigh the benefits; and

(b) the costs for entities to disclose a reconciliation of all financial liabilities (including lease liabilities) *do not* outweigh the benefits.

54. However, the staff do not think that the two decisions made by the IASB are inconsistent. During the discussion on leases at the January 2015 IASB meeting, the IASB specifically noted the possibility of a future decision to require a reconciliation of all financial liabilities when redeliberating the 2014 ED (see Appendix A of this paper for background information). The staff think that a decision to ultimately require a reconciliation of all financial liabilities would be consistent with the discussion held during that meeting. In particular, during the January 2015 meeting the IASB noted that:

(a) the decisions made with respect to lessee disclosures were made within the context of the disclosure requirements for all financial liabilities that were in effect *at that time* and that those requirements did not include a reconciliation of all financial liabilities.

(b) if a requirement for a reconciliation of all financial liabilities were to be subsequently introduced in IAS 7, the IASB would expect this requirement to capture lease liabilities.

(c) it was important to align, where possible, the disclosure requirements for lease liabilities with those for other financial liabilities. Consequently, the IASB decided to align maturity analysis disclosures for leases with those for all other financial liabilities. However, the disclosure requirements for all other financial liabilities that were in place *at that time* would not provide users of financial statements with all of the information that they considered to be most important with respect to lease liabilities. Consequently, the IASB decided to require additional disclosure requirements for leases. The staff note that in many cases, an entity would provide some of these additional disclosures for leases by complying with a requirement in IAS 7 to disclose a reconciliation of all liabilities arising from financing activities. The new *Leases* Standard will explicitly not require a lessee to duplicate information that is already presented elsewhere in the financial statements (even if any such information would need to be incorporated by cross-reference to the lease disclosures).

55. Furthermore, the staff think that the benefits provided by the disclosure of a reconciliation of lease liabilities would increase if it were to be considered within the context of such a reconciliation being required for all liabilities from financing activities (instead of only for leases). This is because having a comprehensive picture of all liabilities from financing activities gives users of financial statements a more complete perspective, enabling an understanding of the entity's financing activities. In contrast, such a complete perspective would not be possible if only one liability (leases) were reconciled. In addition, the incremental cost associated with preparing a reconciliation for lease liabilities would be reduced if systems were in place to produce such a reconciliation for all liabilities from financing activities.

56. Consequently, we think that the IAS 7 proposals with respect to a reconciliation of all liabilities from financing activities are consistent with the discussion on leases that was held during the January 2015 IASB meeting and also with the basis of the decisions made during that meeting.

Cost-benefit assessment of requiring the information

57. The staff have attempted to analyse all the comments regarding cost concerns, while bearing in mind that some users have consistently highlighted that this information is useful for their decision-making and have been asking for these disclosure improvements to be included within IFRS for a substantial period of time.[7] The staff also note that no feedback was received to suggest that this requirement is impracticable for preparers. However, most of the respondents who did not agree with the proposed disclosure said that the cost of providing this reconciliation would be high in comparison to the perceived benefit to users.

58. The staff have tried to outline the evaluation of the likely effects, according to the IASB cost-benefit assessment criteria in relation to general purpose financial reporting (as per paragraph 3.75 of the *Due Process Handbook*), including how:

    (a) comparability of financial information would be improved both between different reporting periods for the same entity and between different entities in a particular reporting period (see paragraph 59);

    (b) the ability of users of financial statements to assess the future cash flows of an entity would be improved, and economic decision-making would also be improved as a result of improved financial reporting (see paragraphs 60 and 61);

    (c) the costs of analysis for users of financial statements would probably be affected (see paragraph 62); and

    (d) the compliance costs for preparers would probably be affected (see paragraphs 63-67)

[7] To name only a couple of instances out of many: in June 2008 CRUF made a presentation to the IASB calling for the inclusion of 'net debt reconciliation' in its presentation on Cash Flows and also within its Five Quick wins (2011) document.

Comparability of financial information

59. Comparability relates to understanding both the similarities and differences between two or more items. These items can relate to different periods or different entities. During the research outreach activities, the investors we spoke to confirmed that the proposed amendment would provide a better understanding of the sources and deployment of cash flows related to financing activities and the risks relating to an entity's financing structure. Investors consider that the proposed amendment provides a framework for a reconciliation of liabilities arising from financing activities that would help them understand the different movements in those financing activities that will assist their analysis between entities.

Assessing the future cash flows and better economic decision-making

60. We believe that the proposed disclosure will provide supplementary information that will enable investors to enhance future cash flow predictions and will be useful for checking the accuracy of past predictions of future cash flows. These outcomes are in line with the benefits of cash flow information as discussed in paragraphs 4 and 5 of IAS 7 and also noted in paragraph BC4 of the ED (see paragraph 16 of this paper).

61. In the absence of a requirement to provide a reconciliation of liabilities arising from financing activities, we understand that some investors prepare their own reconciliation by piecing together information scattered throughout the financial statements. Sometimes investors have to make adjustments/estimates for non-cash movements, with the risk of these assessments being incomplete or inaccurate, resulting in uninformed investment decisions. The staff believe that the proposed reconciliation would help resolve these issues.

Costs of analysis for users

62. The proposed reconciliation is widely supported by users: in their view the disclosure provides information about liabilities arising from financing activities, which is needed to predict future cash flows. Users consider that this proposed disclosure collates information that is currently provided, but that is scattered throughout the

financial statements, and will provide new information about non-cash movements. We believe that this will reduce costs for analysis for investors.

Compliance costs for preparers

63. In the staff's view there will be initial costs for preparers to update their IT systems to enable changes to balances that comprise the components of financing activities to be tracked and to collate similar classes/categories of such changes within the existing accounting information system. The staff also acknowledge that disclosing additional information could result in costs relating to extending the existing internal controls and audit processes of the entity.

64. However, the staff do not consider these costs to be significant, because much of the information is already (or should be) available to preparers (see Appendix A of Agenda Paper 11B(b) of the September 2014 IASB meeting). This was echoed at the joint meeting of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF) meeting in London on 30 June 2014.[8] It is important to note that the proposed amendment does not change the accounting for the liabilities that flow through financing activities, but merely traces their evolution.

65. Other than possible system changes at inception, the staff do not foresee any significant ongoing cost related to providing this information, nor do we believe that costs would outweigh the benefits in the long term.

66. The staff also consider the exercise of reconciliation to be an integral part of bookkeeping and to assess the effectiveness of the design and the operation of the accounting and internal control systems. We believe that every entity would already be using some form of reconciliation on most of the liabilities captured by this reconciliation, as a specific internal control procedure having the objectives of ensuring the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

[8] Meeting notes are available at http://www.ifrs.org/About-us/IASB/Advisory-bodies/GPF/Documents/CMAC-GPF-minutes-June-2014.pdf

67. In conclusion, the staff think that the likely costs of meeting the proposed disclosure requirement (see paragraph 63) do not outweigh the benefits of providing useful information to the investors (see paragraphs 59-62).

Question 4 for the IASB
4. Does the IASB agree that the staff's conclusion that the potential benefits from the disclosure outweigh the costs of preparing the disclosure?

Illustrative example

68. Some constituents have stated that the example proposed in the amendments is too simplistic and may not help preparers in the application of the requirement, because in practice the reconciliation would be more detailed.

69. The example proposed in the ED updates the existing example in IAS 7, so its simplicity is carried over from that example.

70. To address the feedback, we recommend that a further example should be inserted into the illustrative examples of IAS 7. We propose that the example would show a suggested table, such as the one used in the outreach conducted with the CMAC and GPF.[9] We do not plan to insert a complete new statement of cash flows in the illustrative example.

Question 5 for the IASB
5. Does the IASB agree with the staff recommendation that an additional example should be included in the illustrative examples of IAS 7?

[9] See Appendix A of Agenda Paper 3A at the CMAC and GPF June 2014 joint meeting.

IFRS taxonomy—Anticipated common practice

Exposure Draft

71. Paragraph 44A of the ED requires an entity to provide a reconciliation of the amounts in 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. This paragraph goes on to suggest what this reconciliation should include.

72. An example of this reconciliation is also included in the ED to illustrate how the reconciliation required by paragraph 44A may be disclosed.

Feedback received

73. Many of the respondents to Question 3(d) of the ED expressed the view that the proposed list of elements to be added to the IFRS Taxonomy should be limited to the information required by the proposed amendment as well as to the information presented in the illustrative examples to IAS 7. They were of the view that including additional information might be viewed as an interpretation of the amendments (and other future changes to Standards) and might drive reporting practice in an unintended way.

74. Some other respondents, however, did not support this view. They suggested that the proposed list of elements added to the IFRS Taxonomy should be supplemented with anticipated common practice elements. They indicated that including these elements would lessen the need for regulators and preparers to extend the IFRS Taxonomy with their own elements, thereby increasing the IFRS Taxonomy's practical usefulness.

Staff analysis

75. Anticipated common practice elements are currently not included in the IFRS Taxonomy.

76. The staff have in the past received feedback from a few members of the IFRS Taxonomy Consultative Group (ITCG), with the suggestion to incorporate anticipated common practice elements into the IFRS Taxonomy. The reasons for this suggestion were similar to those mentioned by respondents to the ED.

77. The feedback received on the proposed amendments to IAS 7 was divided, with slightly more respondents agreeing with the proposal not to include anticipated common practice elements. In the light of this feedback, the staff propose not to include these elements for the final amendments to IAS 7.

78. In addition, the staff concur with the views expressed by some respondents (see paragraph 73) that incorporating anticipated common practice at the time that a Standard or Exposure Draft is published could be perceived as unintended guidance or an Interpretation issued by the IASB.

79. Consequently, considering the diverse views of the respondents and the potential risk of interpreting a Standard, the staff suggest continuing with its research and outreach on this topic, with the aim of potentially developing a framework to regulate the inclusion (or exclusion) of anticipated common practice elements.

Question 6 for the IASB
6. Does the IASB agree to not include additional, anticipated common practice elements in the IFRS Taxonomy for the amendments to IAS 7?

Appendix A

Background information - Possible interaction with the Leases project

Presentation of the Statement of Cash Flows

A1. At the June 2014 IASB meeting, the IASB discussed the presentation of lease cash outflows in a lessee's statement of cash flows. The IASB decided to require a lessee to present:

(a) cash payments for the principal portion of the lease liability within financing activities; and

(b) cash payments for the interest portion of the lease liability in accordance with the requirements relating to interest paid in IAS 7 *Statement of Cash Flows*.

A2. At that time the IASB noted that this approach is consistent with treating the lease liability as a financial liability under the right-of-use model. The new *Leases* Standard will depict all leases as transactions that provide financing to the lessee in the income statement, in the balance sheet and in the statement of cash flows. This coherency and consistency between the primary statements is something that the IASB considered important throughout its redeliberations on the Leases project.

Lessee disclosure

A3. At the January 2015 IASB meeting, the IASB discussed lessee disclosure requirements. The decisions made about the disclosure requirements included the following:

(a) a lessee is not required to disclose a reconciliation of the opening and closing balance of lease liabilities ('reconciliation of lease liabilities') as had been proposed in the 2013 Exposure Draft *Leases*. The IASB made this decision for the following reasons:

(i) *disclosure requirements for lease liabilities relative to those for all other financial liabilities:* many stakeholders questioned why the disclosure requirements for lease liabilities should be more onerous than those for other financial liabilities. These stakeholders noted that an entity is not required to present a reconciliation of the opening and closing balances of other financial liabilities. Because the new *Leases* Standard will require a lessee to recognise lease liabilities on the balance sheet and measure them similarly to other similar financial liabilities, stakeholders could see no reason to have more extensive disclosures for lease liabilities than for other financial liabilities.

(ii) *cost:* many stakeholders thought that this disclosure would be onerous and costly to prepare. Some of these stakeholders noted that new system capabilities would be required to meet this disclosure requirement.

(iii) *usefulness of disclosures (ie benefits):* feedback from investors indicated that there are particular line items from the reconciliation of the opening and closing balance of lease liabilities that are particularly useful. The IASB therefore concluded that requiring a lessee to disclose only those particularly useful items (and not the whole reconciliation) would be a pragmatic solution.

(b) a lessee is required to disclose a number of specific quantitative items about leases. These include items that provide information about those elements of a reconciliation of lease liabilities that were identified by users of financial statements as being *most* useful. The requirements include the disclosure of:

(i) interest on lease liabilities (identical to the interest expense that would appear in a reconciliation of lease liabilities).

(ii) total cash flow for leases (the cash amount that would appear in a reconciliation of lease liabilities, plus cash flows for variable lease payments, and short-term and low-value asset lease payments).

(iii) additions to ROU assets (similar to the amount that would appear as additions to lease liabilities in a reconciliation of lease liabilities. The only difference would be prepaid leases, which the staff expect to be relatively rare in practice).

Appendix B

Feedback from the outreach with users of financial statements

B1. The aim of these meetings was to establish whether the IASB proposals:

(a) provide useful information about the movement in 'liabilities arising from financing activities' for financial institutions and if so, in what specific way the information is used; and

(b) overlap with similar disclosures already provided by financial institutions, in terms of nature, extent and the level of detail.

In addition, the staff asked whether investors had any suggestions that would improve the relevance for banks and other financial institutions.

B2. Feedback indicated that users found this information to be supplementary in nature instead of providing an integral missing piece of information. Some users echoed the point raised by respondents that the disclosure addresses only a part of the banks' financing structure, thereby providing only part of the picture. They also agreed that as a consequence of the banking industry being highly regulated, the existing reporting framework, including both mandatory (Basel provisions) and voluntary (EDTF disclosures), already provide much of the information needs of investors related to financing activities.

B3. However, during the staff's general outreach with investors (many of whom had interests in a wide spectrum of industries, including banks and other financial institutions), it was confirmed that the proposed reconciliation would be of vital importance to their analysis, regardless of the industry in which a particular entity may operate.