IFRS Standards

AP1

Disclosure Initiative

Update: Final amendments to IAS 7 *Statement of Cash Flows*

CMAC meeting
25 February 2016

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Disclosure Initiative Activities

Disclosure Initiative

Completed projects		Ongoing activities	Implementation projects		Research projects	
Amendments to IAS 1	Amendments to IAS 7	Digital reporting	Distinction between a change in accounting policy and estimate	Materiality	Principles of Disclosure (POD)	Standards-level review of disclosures

Developing the proposals

- Investors called for improved disclosure about debt– some requested a 'net debt reconciliation'.
  - *Agenda Consultation* (2011)
  - CRUF 'Five Quick Wins' 2011*
  - Discussion Forum and Feedback Statement (2013)

- Feedback sought from investors, including:
  - CMAC 2013 → advice on why a 'net debt reconciliation' provides important information for investors
  - Investor survey 2014 → to understand how investors use information from a 'net debt reconciliation'
  - CMAC/GPF 2014 → views on draft proposals (illustrative examples)

- Exposure Draft *Disclosure Initiative-Proposed Amendments to IAS 7* published December 2014 ('the ED')

- Final amendments *Disclosure Initiative-Amendments to IAS 7* issued January 2016

*http://www.cruf.com/five-quick-wins-2011.pdf

The Exposure Draft – debt reconciliation

- The definition of ‘financing activities’ in IAS 7, used to provide a framework for the liabilities to be included in the disclosure.
- Approach enabled short-term action - defining ‘debt’ could be controversial.
- Reconciliation of changes in liabilities for which cash flows have been, or would be, classified as financing activities.
- Requiring a reconciliation of those items during the reporting period would enable investors to calculate a net debt position.

The Exposure Draft – debt reconciliation

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	1,040	160	200	900	2,300

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The Exposure Draft – Feedback on the debt reconciliation

Feedback	Action taken to address the Feedback
• Without a specific disclosure objective it is not clear how to provide the information.	• Include an objective in the requirement.
• Proposals in the ED too restrictive: • Could exclude some liabilities that an entity considers to be debt. • Prohibit a net debt reconciliation.	• Clarify in the final Amendments there is flexibility to provide: • Additional information. • A net debt reconciliation • But an entity must disclose changes in liabilities separately.
• Proposals not useful to investors of financial institutions.	• Allow entities to determine how to provide the disclosure. • Clarify that providing a reconciliation is one way to meet to the disclosure requirement.

The Exposure Draft – cash and cash equivalents

- Problem
  - to assess liquidity investors need better information about cash and cash equivalents; for example what cash is available to settle debt.

- Proposal
  - an entity shall consider matters such as restrictions that affect the decisions of an entity to use cash and cash equivalent balances…

    … If these, or similar matters are relevant to an understanding of the liquidity of the entity, those matters shall be disclosed.

The Exposure Draft – feedback on cash and cash equivalents

Feedback	Action taken to address the Feedback
• What does 'restriction' mean? • How do you determine what cash is available to settle debt given various options for settlement? • Can other assets held to settle debt be included in the disclosure? • The Board should undertake a comprehensive project to review liquidity disclosures.	Further work needs to be undertaken before the Board can proceed with this part of the disclosures.

Use of investors in outreach activities

The Board's aim was to respond to calls for improved disclosures about changes in debt.

- Outreach to investors provided evidence to the Board on the investors' information needs.
- Investor-written articles supported these requests.
- Continual support from investors assisted the development of the Amendments.

Do CMAC members have comments on the approach to developing investor-focussed amendments-for example, the way investors were involved?

Questions

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