

## STAFF PAPER

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Project	Disclosure Initiative		
Paper topic	Disclosures about restrictions on cash and cash equivalents		
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*This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in the IASB Update.*

**Background**

1. In December 2014, the Board published an Exposure Draft *Disclosure Initiative—Amendments to IAS 7* (the Exposure Draft) which included proposals for the disclosure of:
  - (a) a reconciliation of liabilities whose cash flows were, or future cash flows would be, classified as financing activities in the statement of cash flows (the reconciliation); and
  - (b) restrictions that affect the decisions of an entity to use cash and cash equivalent balances (the cash restrictions proposals).
2. In October 2015, after considering comments received on the Exposure Draft, the Board decided to finalise the reconciliation as a stand-alone amendment to IAS 7 *Statement of Cash Flows*. The reason for that decision was because the cash restrictions proposals needed further testing to ensure the requirements were operational.<sup>1</sup> The reconciliation was issued in January 2016.
3. The cash restrictions proposals were developed in response to requests from investors for information that supplements the disclosures required by paragraph 48 of IAS 7 in relation to significant cash and cash equivalent balances that are not available for use

<sup>1</sup>See [Agenda Paper 11B discussed at the October 2015 Board meeting](#).

by the group.<sup>2</sup> In particular, investors were concerned that even when cash and cash equivalent balances were available to use, there might be some form of economic restriction that affects the decision of an entity to use those balances.<sup>3</sup>

4. At its meeting in April 2016, the Board discussed the feedback received from the 2015 Agenda Consultation.<sup>4</sup> The main message received from stakeholders (mainly investors) was that more information about liquidity and restrictions on the transfer of cash balances is needed.
5. In May 2016 the Board tentatively decided to develop, as part of a narrow-scope project, its proposals for the disclosure of restrictions that affect the decisions of an entity to use cash and cash equivalent balances. At this meeting the Board also tentatively decided not to proceed with a broader liquidity project.<sup>5</sup>

### **Purpose of this paper**

6. The purpose of this paper is to make a recommendation to the Board on how to proceed with the work on the cash restrictions proposals.

### **Summary of the staff's recommendation**

7. The staff do not recommend amending IAS 7 to require entities to disclose restrictions that would affect an entity's decision to transfer cash and cash equivalent balances within the group because:
  - (a) The current disclosure requirements in IFRS Standards capture many of the restrictions affecting an entity's ability to transfer, use or access cash and cash equivalent balances.
  - (b) The additional information that would result from the cash restrictions amendments to IAS 7 seems, for the most part, to be limited to the example of the tax implications on repatriation of cash balances.

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<sup>2</sup> See paragraph 48 of IAS 7 in paragraph 11 of this paper.

<sup>3</sup> See paragraphs BC10–BC16 of the [Exposure Draft](#).

<sup>4</sup> See [Agenda Paper 11B](#) discussed at the April 2016 Board meeting.

<sup>5</sup> See [Agenda Paper 11](#) discussed at the May 2016 Board meeting.

- (c) The provision of such additional information could be challenging as it depends on factors that might not become certain until an entity decides to transfer the cash balances.

### Structure of the paper

- 8. This paper is structured as follows:
  - (a) background (paragraphs 10–20);
  - (b) the revised drafting and the feedback received (paragraphs 21–35);
  - (c) staff analysis (paragraphs 36–50); and
  - (d) conclusion (paragraphs 51–53).
- 9. This paper includes the following Appendices:
  - (a) Appendix A—includes current disclosure requirements that deal with restrictions and management of both liquidity risk and capital;
  - (b) Appendix B—describes a review of disclosures relating to restrictions provided in the financial statements for a sample of entities; and
  - (c) Appendix C—describes the work carried out by the Financial Accounting Standards Board (FASB) in relation to cash restrictions.

### Background

- 10. The Exposure Draft proposed the following amendment to IAS 7:

50A Additional information may be relevant to an understanding of the liquidity of an entity. An entity shall consider matters such as restrictions that affect the decisions of an entity to use cash and cash equivalent balances, including tax liabilities that would arise on the repatriation of foreign 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.

11. The aim of these proposals was to require entities to provide a narrative description of restrictions on the use of cash and cash equivalent balances that would not have been captured by the requirements in paragraphs 48–49 of IAS 7. These paragraphs state:

**48 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.**

49 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

12. In May 2016 the Board tentatively decided to develop proposals for the disclosure of restrictions that affect the decisions of an entity to use cash and cash equivalent balances (see paragraph 5). As part of our work for developing those proposals, the staff have considered the concerns raised by respondents to the Exposure Draft (mostly preparers and most of the national standard-setters commenting on the Exposure Draft). The areas of concern are as follows:

- (a) the objective of the cash restrictions proposals (paragraphs 13–16);
- (b) disclosures could be based on hypothetical future events (paragraphs 17–18);  
and
- (c) the scope of the cash restrictions proposals (paragraphs 19–20).

***The objective of the cash restrictions proposals***

13. Many stakeholders (mostly preparers and most of the national standard-setters commenting on the Exposure Draft) commented that the objective of the cash restrictions proposals was not clear. In addition, some of these stakeholders also questioned the overall usefulness of such proposals in fulfilling investors’ needs.<sup>6</sup>

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<sup>6</sup> [Agenda Paper 11A](#) discussed at the June 2015 Board meeting summarises the comments received on the cash restrictions proposals in the Exposure Draft.

14. The staff think that the objective of paragraphs 48–49 of IAS 7 is to help users understand the circumstances (together with the amounts affected by those circumstances) in which cash and cash equivalent balances are not available for use by the group. The investors’ requests for supplementary information (see paragraph 3) and our review of current disclosures (see paragraphs 43–45 and Appendix B), suggest that entities have typically interpreted paragraphs 48–49 of IAS 7 to refer to statutory, regulatory or contractual restrictions.
15. In contrast, the cash restrictions proposals in the Exposure Draft are intended to cover restrictions that would affect an entity’s decision to use cash and cash equivalent balances even when those balances were available for use by the group.<sup>7</sup>
16. In this context, many stakeholders (mainly preparers) stated that using the term ‘restrictions’ to refer to the factors that may affect an entity’s decision to use cash and cash equivalent balances is confusing. According to these stakeholders, entities (especially large multinationals) have many ways to move or access cash and cash equivalent balances without the potential restrictions materialising. Consequently, they find it difficult to understand the term ‘restriction’ in the context of cash and cash equivalent balances that are *available for use* by the group.

***Disclosures could be based on hypothetical future events***

17. Some stakeholders (mainly preparers and accounting firms) have stated that complying with the cash restrictions proposals would be burdensome and costly because the disclosures are based on hypothetical future events. For example, decisions about transferring cash balances might rely on assumptions about future cash usage and on assumptions about associated restrictions or costs, such as tax costs, of those transfers. In addition, according to these stakeholders, changes in an entity’s tax strategies, the tax or legal environments that would affect those decisions are difficult to foresee.
18. Furthermore, these stakeholders (mainly preparers) stated that until management has identified a need to access the ‘restricted’ funds, information about the restrictions is not relevant or practical to obtain in most situations.

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<sup>7</sup> See paragraph BC16 of the Exposure Draft.

### ***The scope of the cash restrictions proposals***

19. Many stakeholders (mainly preparers and accounting firms) commenting to the Exposure Draft identified the focus on cash and cash equivalent balances as one of the main weaknesses of the cash restrictions proposals. They stated that entities often hold a significant amount of their funds as liquid assets (for example, marketable securities) and use these liquid assets to settle their liabilities, rather than accumulating large cash and cash equivalent balances.
  
20. These respondents added that the restrictions are rarely exclusive to cash and cash equivalent balances and could be applicable to other liquid financial assets, which would be excluded from the disclosures proposed in the Exposure Draft. Accordingly, in their opinion, this could lead to an incomplete picture of an entity's liquidity management or funding profile and could reduce comparability between entities.

### **The revised drafting and the feedback received**

21. In response to the concerns described in paragraphs 12–20, the staff developed a revised drafting for the proposals (see paragraph 23). The following paragraphs describe how the revised drafting attempts to address those concerns:
  - (a) to address the concern that the objective of the proposals was unclear, the revised drafting includes an objective. The objective is described as: to enable users to understand situations when cash and cash equivalent balances may not be freely available for use. To achieve this objective the revised drafting requires an entity to provide disclosures about:
    - (i) *statutory, contractual or regulatory restrictions*—these would include circumstances that prevent cash and cash equivalent balances from being available for use by a group.
    - (ii) *other restrictions*—these would be restrictions affecting cash and cash equivalent balances that are generally available for use. The revised drafting describes them as restrictions that could be reasonably expected to affect the decisions of an entity regarding the transfer of cash and cash equivalent balances (ie these would include

circumstances in which it is possible to transfer cash and cash equivalent balances but deterrents to that transfer exist).

- (b) to address the concern that disclosures could be based on hypothetical future events, the revised drafting qualifies the term ‘other restrictions’ by stating that disclosures would only be triggered when those restrictions could reasonably be expected to affect an entity’s decision to transfer cash and cash equivalent balances. In other words, the disclosure requirement would not be triggered when an entity had no intention of transferring cash and cash equivalent balances within the group because those balances would be used, for example, to settle debt or make investments by the entity holding the cash and cash equivalent balances.
- (c) the revised drafting does not address the concerns highlighted by stakeholders (mainly preparers and most of the national standard-setters commenting on the Exposure Draft) about the narrow scope of the cash restrictions proposals. Throughout the development of the cash restrictions proposals, the Board has been aware that restricting the scope of the disclosures to cash and cash equivalent balances would result in an incomplete picture of an entity’s liquidity. The narrow scope of the cash restrictions proposals is due to the fact that they were developed to complement the reconciliation in IAS 7.<sup>8</sup> This means that any disclosure of balances subject to restrictions would be limited to balances that would satisfy the definition of cash and cash equivalent balances in IAS 7. Although this inevitably leads to the exclusion of other liquid assets from the cash restrictions proposals, the Board was of the opinion that the cash restrictions proposals would nevertheless result in an enhancement to the information currently provided that is worth pursuing. Widening the scope to include other liquid assets would require the Board to define or describe liquid assets. The staff think that these considerations might be more appropriately considered as part of a broader liquidity project. A broader liquidity project was, however, rejected by the Board at its meeting in May 2016.

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<sup>8</sup> This was to address concerns expressed by users that in their net debt analysis they could be offsetting against debt balances cash and cash equivalent balances that are not available to settle debt, because of some form of economic restriction.

22. The revised drafting also:
- (a) makes clear that the disclosure requirements include restrictions affecting the ability of any group member to transfer cash and cash equivalent balances to (or from) other group members.
  - (b) requires information about the geographical location of the cash and cash equivalent balances affected by the restrictions. This requirement was included to provide users with information that they could use to help them assess any potential tax consequences that might arise on the transfer of cash and cash equivalent balances.

23. The revised drafting developed and tested by the staff is as follows:

**Paragraph 48 of IAS 7 is amended and paragraph 49 is deleted.**

48 To enable users to understand situations when cash and cash equivalent balances may not be freely available for use within the group, An entity shall disclose, together with a commentary by management,:

(a) the nature of restrictions on its ability to access, use or transfer the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group, such as:

(i) statutory, contractual and regulatory restrictions on the ability of a parent, subsidiaries, branches or joint operations to transfer cash or cash equivalent balances to (or from) other subsidiaries, branches or joint operations within the group. Examples include exchange controls or legal restrictions that mean cash and cash equivalent balances held by a subsidiary are not available for general use by the parent or other members of the group.

(ii) other restrictions that could be reasonably expected to affect the decisions of a parent, subsidiaries, branches or joint operations to access, use or transfer cash and cash equivalent balances held in other subsidiaries, branches or joint operations within the group. For example, tax liabilities that would arise on the transfer of cash and cash equivalent balances held by a foreign subsidiary might affect the decision to transfer those balances to other members of the group.

(b) the cash and cash equivalent balances in the consolidated financial statements to which those restrictions apply and the geographical location of those balances.

~~49 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other restrictions apply when the balances are not available for general use by the parent or other subsidiaries.~~

24. The staff shared the revised drafting with a group of investors and preparers. The following section discusses the feedback received.



***The feedback received on the revised drafting***

25. The staff requested feedback on the revised drafting in paragraph 23 from members of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF). The feedback received from the CMAC members (investors) and GPF members (preparers) is summarised below.

*Feedback from investors*

26. We received feedback from five investors. All but one thought the revised drafting enhanced the current disclosure requirements in IAS 7. One investor, however, expressed scepticism as to whether the benefits of the amendments would outweigh their costs (for example, costs for preparers and auditors). This investor stated that these amendments risked being ‘just another disclosure requirement’.
27. Investors stated that information about whether an entity is able to transfer its cash and cash equivalent balances freely within the group is useful for:
- (a) forecasting an entity’s future cash flows and assessing its risk profile;
  - (b) assessing an entity’s liquidity, its future performance and the profile of its future returns to its shareholders; and
  - (c) providing clarity on what it is that entities consider a ‘restriction’ and, ultimately, improving comparability.
28. Investors stated that tax liabilities are, in their view, the most frequent circumstance that could be reasonably expected to affect the decisions of an entity to transfer cash and cash equivalent balances within a group. However, investors stated that they would, in addition, welcome information about:
- (a) covenants that would be breached if, for instance, the entity transferred cash and cash equivalent balances within the group (for example, a covenant that required an entity to hold a specific debt/equity ratio level);
  - (b) restrictions on dividend pay-outs or requirements to hold minimum cash and cash equivalent balances;

- (c) the existence of non-controlling interest holders, who may have veto rights and, consequently, may prevent an entity from accessing cash and cash equivalent balances held in other subsidiaries of the group;
- (d) cash advances from a customer classified as cash and cash equivalent balances that are restricted from being used for any other purpose than for fulfilling the delivery of the goods or services to that customer; and
- (e) any restrictions on conversion of funds held by a foreign subsidiary into the functional currency of the group at a 'reasonable rate'.

29. It is worth noting that investors did not make any substantial comments about paragraph 48 (b) of the revised drafting, which deals with the disclosure of the amounts and geographical location of the balances subject to restrictions.

*Feedback from preparers*

30. We received feedback from eight preparers. Most preparers disagreed with the revised drafting because, in their view, the perceived benefits of the amendments would be insubstantial, mainly because of their narrow scope. The comments received on the narrow scope of the revised drafting were very similar to those received on the cash restrictions proposals in the Exposure Draft (see paragraphs 19–20).
31. Most of the comments received from preparers were in relation to paragraph 48 (a) (ii) of the revised drafting (ie 'other restrictions'). The main comments were as follows:
- (a) the inclusion of the example dealing with tax liabilities has led some preparers to conclude that the purpose of the revised drafting is for entities to disclose information about potential tax liabilities associated with repatriating profits from foreign subsidiaries. Those preparers suggested it would be more appropriate for the Board to consider this issue in the context of disclosures in IAS 12 *Income Taxes*. One preparer suggested that 'the tax implications of moving cash should be largely understood given that unprovided deferred tax on overseas reserves has to be disclosed' (see paragraph 40).

- (b) some preparers have interpreted paragraph 48 (a) (ii) as referring to management’s internally imposed restrictions on the use or access of cash and cash equivalent balances such as a parent requiring its subsidiaries to hold minimum cash balances in accordance with the group financial policies. This was not, however, the intention of the disclosures.
32. The proposed requirement to provide the geographical location of the cash and cash equivalent balances subject to restrictions (paragraph 48 (b) of the revised drafting) attracted mixed reactions from preparers. Some preparers stated that providing the location of these amounts was less of an operational burden than assessing restrictions that could be reasonably expected to affect the decisions of an entity to transfer cash and cash equivalent balances. These preparers stated that this disclosure could potentially provide useful information, while others were sceptical about the usefulness of such information.
33. A preparer acknowledged that the information that would result from the revised drafting could help investors understand to some degree the liquidity of an entity. Another preparer also commented that this information may provide input to rating agencies when assessing the amount of cash and cash equivalent balances held by an entity that are available to repay debt. This preparer noted that in the absence of detailed information, rating agencies apply a standard discount that might be as high as 25 per cent on the cash and cash equivalent balances held by a group.
34. Some preparers stated that the identification and tracking of the restrictions to fulfil the requirements in paragraph 48 (a) (ii) of the revised drafting would lead to significant preparation costs.
35. Some preparers made suggestions to enhance the revised drafting. The main suggestions were as follows:
- (a) consider whether it would be more appropriate to amend other Standards instead (for example, IAS 12) – see paragraph 31; and
  - (b) tightening the drafting of the proposed requirements for ‘other restrictions’ so they are not perceived as being too broad. In addition, the illustration of those requirements should not be limited to the example dealing with tax liabilities.

## **Staff analysis**

36. In developing our recommendations, we have considered the feedback received on the revised drafting in the light of:
- (a) current disclosure requirements (see paragraphs 37–42 and Appendix A);
  - (b) evidence gathered from a review of financial statements from a sample of entities (see paragraphs 43–45 and Appendix B); and
  - (c) benefits and costs associated with publishing the amendments on cash restrictions (see paragraphs 46–50).

### ***Current disclosure requirements***

37. As stated in paragraph 26, most investors welcomed the revised drafting because it would provide them with information that is useful in their analysis of an entity’s net debt position. However, investors stated they would also welcome more information on restrictions arising from (see paragraph 28):
- (a) covenants that would be breached if, for instance, the entity transferred cash and cash equivalent balances within the group;
  - (b) dividend pay-outs or requirements to hold minimum cash and cash equivalent balances;
  - (c) the existence of non-controlling interest holders;
  - (d) cash advances received from customers; and
  - (e) currency exchange rate controls.
38. These items relate to restrictions that are largely contractual, statutory or regulatory in nature. On the basis of the feedback received during outreach done at different stages of the project, the staff think that contractual, statutory or regulatory restrictions represent a large number of the restrictions that may affect an entity’s cash and cash equivalent balances.
39. The staff have reviewed current disclosure requirements in IFRS Standards and have identified disclosure requirements that deal with (see Appendix A):

- (a) restrictions on cash and cash equivalent balances as well as other assets (ie IAS 7 and IFRS 12); and
  - (b) liquidity and capital management (ie IFRS 7 and IAS 1).
40. The staff also analysed the disclosure requirements in paragraph 87 of IAS 12 to assess whether the resulting information from those requirements could, to some extent, cover the needs of investors when assessing the tax effects of transferring cash and cash equivalent balances (see comment from a preparer in paragraph 31(a)).<sup>9</sup> The aggregate amount of the temporary differences arising between the carrying amount of the investments within a group and the tax bases of these investments (the ‘outside basis difference’) will probably not equal the cash and cash equivalent balances that are subject to restrictions. Consequently, the staff does not think that this particular disclosure requirement in IAS 12 would necessarily cover investors’ needs for information about the tax consequences of transferring cash and cash equivalent balances within the group.
41. However, the staff are of the opinion that the current disclosure requirements in IAS 7, IFRS 12, IFRS 7 and IAS 1 should provide investors with the information they need to understand many of the restrictions that affect entities’ cash and cash equivalent balances (ie statutory, contractual and regulatory restrictions). These disclosure requirements should also help investors assess entities’ net debt positions.
42. Appendix C of this paper describes the proposals that the FASB has developed on restricted cash. The staff think that the FASB’s work on cash restrictions would result in requirements similar to those in paragraphs 48–49 of IAS 7.

***Evidence gathered from a review of financial statements***

43. The fact that investors have stated that they would welcome information largely covered by current disclosure requirements has made us question the extent to which the current disclosure requirements are applied in practice.

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<sup>9</sup> Paragraph 87 of IAS 12 states: ‘It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in subsidiaries, branches and associates and interests in joint arrangements (see paragraph 39). Therefore, this Standard requires an entity to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, entities are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.’

44. To gather evidence on what is currently being disclosed, the staff reviewed the financial statements of a sample of entities reporting under IFRS Standards. Our review was aimed at assessing the level of detail provided. Accordingly, we classified disclosures in four different levels. Appendix B to this paper describes the methodology followed.
45. The staff observed that:
- (a) the level of detail included in the disclosures about restrictions on cash and cash equivalent balances was classified at the lowest level for approximately 20 per cent of the entities sampled. The entities whose disclosures were classified at the highest level of detail represented approximately 11 per cent of the entities sampled.
  - (b) the majority of entities sampled provided a general description of the nature of restrictions but did not include the disclosure of the amounts subject to those restrictions.

***Benefits and costs associated with publishing the amendments on cash restrictions***

46. Feedback from preparers suggests they do not consider that the revised drafting provides any substantial additional benefits (see paragraph 30). Their main concern is the narrow scope of the revised drafting, capturing only the restrictions relating to cash and cash equivalent balances. In their view, this approach is disconnected from the reality of entities managing their funding needs through other liquid assets in addition to cash and cash equivalent balances. The staff are aware that investors have also stated that more information about liquidity is needed (see paragraph 4). The staff think that a more comprehensive review of the disclosure requirements around liquidity could provide useful information to investors. However, the narrow scope of the amendments would be unlikely to result in a significant improvement to the information required in that area.
47. The feedback received from preparers also implies that they struggle to understand the range of circumstances that would trigger the disclosures about ‘other restrictions’ (see paragraph 31). In addition, preparers have raised concerns that the disclosures were based on hypothetical future events (see paragraphs 17–18). The staff

understand that the tax consequences that would arise on the transfer of cash and cash equivalent balances can, in some circumstances, be difficult to assess. This is because they are dependent on different tax strategies available to an entity that may not become certain until the entity decides the transfer of the cash balances.

Consequently, in many instances, entities will not be able to provide meaningful disclosures until they recognise the tax liability relating to a transfer (ie when it becomes probable). This means that providing the disclosure proposed in paragraph 48 (a) (ii) of the revised drafting could be challenging.

48. The staff think that one of the main benefits that investors would obtain from the information resulting from the proposed disclosures about ‘other restrictions’ would be a more refined assessment of an entity’s net debt position. The staff reviewed the factors that rating agencies consider when determining the discount to be applied to an entity’s cash and cash equivalent balances when assessing its net debt position. The staff observed that those factors are largely related to contractual, statutory or regulatory restrictions and, therefore, are largely covered by the current disclosure requirements.<sup>10</sup>
49. In addition, investors that we spoke to, could not identify examples of ‘other restrictions’ apart from the tax consequences on the repatriation of cash and cash equivalent balances.
50. The staff are of the opinion that the lack of additional examples highlights the narrow circumstances that the revised drafting aims to capture (ie mainly restrictions arising as a result of the tax consequences of transferring balances). Consequently, in our view, this calls into question whether the additional benefits arising from the cash restrictions amendments outweigh any related costs (ie mainly preparation costs and the risk that the disclosure requirements are not appropriately understood and applied).

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<sup>10</sup> See paragraph 235 of Corporate Methodology: Ratios And Adjustments, 19 November, 2013. The document can be found at: <http://www.maalot.co.il/publications/MT20131127143756a.pdf>

## Conclusion

51. On the basis of the analysis undertaken, the staff think that the disclosure requirements in our Standards capture many of the restrictions affecting an entity's cash and cash equivalent balances (ie restrictions that are statutory, contractual and regulatory). Consequently, this information, when provided, should enable investors to assess how much of an entity's cash and cash equivalent balances are immediately accessible to the group in meeting its financial commitments.
52. In addition to statutory, contractual or regulatory restrictions, the staff are aware that investors also consider restrictions categorised as 'other restrictions' in the revised drafting (ie restrictions of an economic nature). However, when gathering feedback from investors about examples of restrictions of an economic nature, the feedback was limited to the example of the tax implications on repatriation of cash balances. This shows that the additional information that would result from any amendments to IAS 7 would be limited only to the example of the tax implications on repatriation of cash balances. In addition, for those specific circumstances, the staff note that, in many instances, entities will not be able to provide meaningful disclosures until they recognise the tax liability relating to a transfer. This makes the provision of the disclosure proposed in paragraph 48 (a) (ii) of the revised drafting challenging.
53. On the basis of the analysis carried out, the staff recommend that the Board consider reinforcing the existing disclosure requirements in IFRS Standards rather than amending the disclosure requirements in IAS 7. For example, the Board could consider:
  - (a) developing an example illustrating disclosures on cash restrictions; or
  - (b) reviewing the disclosure requirements in IFRS 12 as part of its post-implementation review.



**Questions for the Board**

1. Does the Board agree with the staff recommendation not to amend IAS 7 to require entities to disclose restrictions that would affect an entity's decision to transfer cash and cash equivalent balances within the group?
2. If the Board disagrees with the staff recommendation, what are the Board's views on next steps?

## APPENDIX A—Current disclosure requirements in IFRS Standards

### Disclosure requirements dealing with restrictions

#### *IAS 7 Statement of Cash Flows*

**48**      An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

49      There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

#### *IFRS 12 Disclosure of Interests in Other Entities*

##### **Interests in subsidiaries**

- 13      An entity shall disclose:
- (a)      significant restrictions (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as:
    - (i)      those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group.
    - (ii)     guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.
  - (b)      the nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary).
  - (c)      the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

##### **Interests in joint arrangements and associates**

- 22      An entity shall also disclose:
- (a)      the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity.
  - (b)      when the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:

- (i) the date of the end of the reporting period of the financial statements of that joint venture or associate; and
- (ii) the reason for using a different date or period.
- (c) the unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

**Disclosure requirements dealing with classification of cash and cash equivalent balances as non-current**

***IAS 1 Presentation of Financial Statements***

- 66 An entity shall classify an asset as current when:**
- (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;**
  - (b) it holds the asset primarily for the purpose of trading;**
  - (c) it expects to realise the asset within twelve months after the reporting period; or**
  - (d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.**

**An entity shall classify all other assets as non-current.**

**Disclosure requirements dealing with liquidity management**

***IFRS 7 Financial Instruments: Disclosures***

- 39 An entity shall disclose:**
- (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.**
  - (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).**
  - (c) a description of how it manages the liquidity risk inherent in (a) and (b).**

**B11E Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.**

**Disclosure requirements dealing with capital management**

***IAS 1 Presentation of Financial Statements***

**134 An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.**

135 To comply with paragraph 134, the entity discloses the following:

- (a) qualitative information about its objectives, policies and processes for managing capital, including:
  - (i) a description of what it manages as capital;
  - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
  - (iii) how it is meeting its objectives for managing capital.
- (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).
- (c) any changes in (a) and (b) from the previous period.
- (d) whether during the period it complied with any externally imposed capital requirements to which it is subject.
- (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

## **APPENDIX B—Review of disclosures**

- B1. This Appendix describes the methodology followed when reviewing the disclosures relating to restrictions on cash and cash equivalent balances provided by a sample of entities in their financial statements (the review).
- B2. The purpose of the review was to gain a better understanding of the level of detail (and/or the differences in the level of detail) of the disclosures that entities provide in their notes to the financial statements relating to restrictions on cash and cash equivalent balances when applying current disclosure requirements in IAS 1, IAS 7 and IFRS 12 (see Appendix A).
- B3. The staff acknowledge the limited nature of the review (only focused on a small sample of entities). However, the staff think that this exercise provides some evidence on current practice.

### ***The search undertaken and resulting sample of entities***

- B4. The review was carried out on the basis of the population of entities included in the S&P Capital IQ database (‘the database’) with annual reports filed within the last couple of years (ie 512 entities). Subsequently, this population was filtered to 316 as we isolated entities that report under IFRS Standards. The determination of the sample involved performing queries on the database for key words such as ‘impediments’, ‘restrictions’ and ‘disincentive’ combined with other terms such as ‘transfer’, ‘move’ and ‘repatriate’ in order to identify entities that provided disclosures relating to restrictions on cash and cash equivalent balances.
- B5. Out of the 316 entities reporting under IFRS Standards, 46 entities provided disclosures relating to restrictions on cash and cash equivalent balances (ie 14.5 per cent).
- B6. The sample set of entities included entities located in Africa and Middle East, Asia and the Pacific, Europe, Latin America and the Caribbean and North America and represented the following industries: Consumer Discretionary, Consumer Staples, Energy, Financials, Healthcare, Industrials, Information Technology, Materials, Real Estate, Telecommunication, Services and Utilities.

B7. When analysing the disclosures provided about restrictions, the staff categorised the level of detail provided by the individual entities as follows:

<b>Level 1</b>	Disclosure provided a detailed description of the nature of restrictions and the amounts subject to those restrictions as well as additional information.
<b>Level 2</b>	Disclosure provided a detailed description of the nature of restrictions but did not include the disclosure of the amounts.
<b>Level 3</b>	Disclosure stated that the entity holds cash and cash equivalent balances subject to restrictions and expects those restrictions to affect its ability to use those balances for general purposes. Some of the disclosures included a brief description of the nature of the restriction. The amounts subject to restrictions were not disclosed.
<b>Level 4</b>	Disclosure stated that the entity holds cash and cash equivalent balances that may be subject to restrictions but it did not expect them to affect the use of those balances for general purposes. The amounts subject to restrictions were not disclosed.

B8. Out of the 46 entities that provided disclosures about restrictions on cash and cash equivalent balances, the staff classified 15 entities as Level 2 and 17 entities as Level 3 (ie the disclosures of almost 70 per cent of the entities were classified as either Level 2 or Level 3)—see Table 1 below.

B9. Only five out of the 46 entities (ie 11 per cent) provided disclosures that were classified as Level 1, however, nine out of the 46 (ie 20 per cent) provided disclosures that were classified as Level 4 (ie disclosures that added minimal or no value in terms of providing relevant information).

TABLE 1 Level of detail	Region					TOTAL	TOTAL (%)
	Africa/Middle East	Asia/Pacific	Europe	Latin America and Caribbean	North America		
Level 1	0	1	3	0	1	5	10.9%
Level 2	3	1	7	0	4	15	32.6%
Level 3	2	0	7	1	7	17	37.0%
Level 4	1	2	4	0	2	9	19.6%
<b>TOTAL</b>	<b>6</b>	<b>4</b>	<b>21</b>	<b>1</b>	<b>14</b>	<b>46</b>	<b>100.0%</b>
<b>TOTAL (%)</b>	<b>13.0%</b>	<b>8.7%</b>	<b>45.7%</b>	<b>2.2%</b>	<b>30.4%</b>	<b>100.0%</b>	

**APPENDIX C—Work carried out by the Financial Accounting Standards Board (FASB)**

C1. This Appendix summarises work being carried out by the FASB that is related to our work on cash restrictions.

*FASB proposals on liquidity risk disclosures*

C2. In 2012, the FASB issued a Proposed Accounting Standards Update on Financial Instruments (Topic 825): *Disclosures about Liquidity Risk and Interest Rate Risks*. As a result of those proposals, entities would have been required to provide details about their available liquid funds in a tabular form. In addition to these details, the proposals included a requirement that an entity should disclose the following narrative information about the transferability of funds between entities:

In disclosing its available liquid funds, an entity shall include a narrative discussion about the effect of regulatory, tax, legal, repatriation, and other conditions that **could limit the transferability of funds among entities**. This disclosure shall include quantitative amounts related to funds subject to those conditions, if applicable. [emphasis added]

C3. We understand that the FASB has no plans to finalise this Proposed Accounting Standards Update at this time. We also note that Accounting Standards Update No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities requires not-for-profit entities to disclose both qualitative and quantitative information that is intended to be useful in assessing their liquidity. In particular:

- (a) Qualitative information that communicates how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
- (b) Quantitative information that communicates the availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of financial assets may be affected by:
  - (i) their nature;

(ii) external limits imposed by donors, grantors, laws and contracts with others; and

(iii) internal limits imposed by governing board decisions.

*FASB proposals on restricted cash*

C4. In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statements of Cash Flows (Topic 230), Restricted Cash. In this *Update*, the following disclosure requirement was proposed:

Restrictions on Cash and Cash Equivalents

230-10-50-7 An entity shall disclose information about the nature of restrictions on its cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents....<sup>11</sup>

C5. Taking into consideration the outcomes of the work stream described above, the staff think that the FASB’s work on cash restrictions would result in the requirements for dealing with cash and cash equivalent balances being similar to the requirements in paragraphs 48 and 49 of IAS 7. In particular, paragraph BC22 of the *Update* states:

BC22. IAS 7 provides guidance that requires an entity to disclose, together with a commentary from management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group. IFRS 12, *Disclosure of Interests in Other Entities*, also provides guidance that requires an entity to disclose significant restrictions (for example, statutory, contractual, and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group, guarantees that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group, and the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply. The amendments in this *Update* that require an entity to disclose the nature of the restrictions on

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<sup>11</sup> The *Update* does not include a definition for ‘restricted cash or restricted cash equivalents’.



its cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents may provide information that is similar to information that results from the disclosures required by IFRS.