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Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Berlin, 26 March 2015

Dear Hans,

IASB Exposure Draft ED/2014/6 Disclosure Initiative - Proposed amendments to IAS 7

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's Exposure Draft ED/2014/6 (herein referred to as the 'ED'). We welcome the opportunity to comment on the ED and provide our answers to the specific questions raised in the ED in the Appendix to this letter.

Considering the objectives of the proposed amendments, we appreciate the IASB's Disclosure Initiative and the efforts to improve the disclosure guidance by addressing financial information shortfalls identified by users of IFRS financial statements. Nonetheless, we think the proposals do not respond adequately to the original request from users of financial statements regarding a net debt disclosure and the corresponding reconciliation of net debt.

Furthermore, we believe that the IASB had not thought through the proposed amendments in their entirety. Especially the interaction with other already existing disclosure requirements and the degree of consistency of the new proposed disclosure requirements are subject of our main concerns. In our view, the proposed amendments reemphasise the need of a more systematic approach about the content of the notes and a corresponding strategy for adding or revising IFRS note disclosures. Therefore, we sympathise with the alternative view expressed by Mr Takatsugu Ochi and do not agree with the proposed amendments.

Lastly, we suggest some clarifications on the proposed wording in the Appendix to this letter.

If you would like to discuss any aspect of our comments further, please do not hesitate to contact Holger Obst or me.

Yours sincerely,

Andreas Barckow
President

Appendix – Additional responses to the questions of the Exposure Draft

Question 1 — Disclosure Initiative amendments
This Exposure Draft of proposed amendments to IAS 7 forms part of the Disclosure Initiative. Its objectives are to improve: a) information provided to users of financial statements about an entity's financing activities, excluding equity items; and b) disclosures that help users of financial statements to understand the liquidity of an entity. Do you agree with the proposed amendments (see paragraphs 44A and 50A)? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?

We do not agree with the proposed amendments in paragraphs 44A and 50A and note the following concerns:

Proposed paragraph 44A – Roll-forward disclosure

Disclosure objective and user expectations

We are concerned that the proposed disclosure requirements do not address the main request from users, being a net debt disclosure and the roll-forward of net debt. Whilst we understand why the IASB landed where they are, we do not believe that the proposed amendments are helpful in meeting users' needs. Furthermore, we believe that to meet the objective of improving information about the entity's financing activities, a holistic approach is required that includes a comprehensive review of, and the interplay with, existing disclosure requirements in this area (IFRS 7, in particular).

Cross-cutting issues

The proposed roll-forward requirement would duplicate with the reconciliation for lease liabilities as proposed in the IASB's ED/2013/6 *Leases*. We noticed the IASB's tentative decision as part of the redeliberations in the *Leases* project to remove the roll-forward requirement for lease liabilities. In the lead-up to the tentative decision, the IASB staff highlighted[1], based on feedback received, that the roll-forward disclosure for lease liabilities was identified as costly and complex and would not meet the cost-benefit assessment. This appears to be inconsistent with the cost-benefit assessment of the proposed roll-forward of

[1] http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/AP03B-Leases.pdf

the ED. At least it seems to suggest that the IASB needs to develop a clear strategy and objectives on roll-forward disclosures within a broader context. We recall such efforts in the previous *Financial Statement Presentation* project to develop more general roll-forward guidance based on a form of management approach to determine when such information should be disclosed.

Clarification about 'net basis'

We are unsure as what paragraph BC8 of the ED is trying to convey and suggest it being clarified. Specifically, we do not understand the line of argument that "... a gross reconciliation could be perceived as reducing information and limit management's ability to explain its financial and risk management strategies". It is not clear to us how the net basis approach would fit to the investors needs as described in paragraph BC4 of the ED. We believe further clarification would be helpful to assess the implications of the 'net basis' wording. It also requires a better understanding about the users' needs.

'Each item'

We deem a clarification necessary as to what the term 'each item' in paragraph 44A does imply. It is not clear to us whether it relates to individual line items or whether it represents a more specific level different from a line item, eg an individual class of assets or a portion of an asset, such as capitalised borrowing costs. If the item is considered to be different from line items in the statement of financial position, guidance should be added to reconcile the roll-forward open and closing amounts with the amounts presented in the statement of financial position.

Classification of financing

Over the past few years it was being acknowledged that the existing definition of cash flows arising from financing activities in IAS 7 has weaknesses and might need a more comprehensive review. Apart from the efforts in the disbanded *Financial Statement Presentation* project to rethink the classification by activities more fundamentally, the IFRS Interpretations Committee made efforts to address the weakness through clarifications but refrained from proposed amendments to IAS 7 in 2013. More recent efforts as part of the IASB's Disclosure Initiative indicate ideas to rethink again the classification of operating, financing and investing activities for the statement of cash flows. We are concerned that by proposing amendments to IAS 7 the IASB makes the second step before the first, ie clarifying the definition of cash flows arising from financing activities.

Format of disclosure

We think it would be appropriate to highlight that in some scenarios, instead of a disclosure in a quantitative and tabular format, it could be sufficient to disclose the relevant information in a more narrative format, eg in circumstances of very limited movements during the reporting period. Disclosure guidance in other Standards contain a wording such as "provide the information in a tabular format unless another format is more useful." We think that a similar wording should be considered in this project, too.

Proposed paragraph 50A – Disclosure about restrictions that affect the decisions of the entity to use cash and cash equivalents

Disclosure objective

We are concerned about the new type of disclosure that might result in a very wide range of disclosure about matters that affect the decisions of an entity to use certain assets. It is our understanding that the proposed disclosure would, for instance, require the entity to disclose the amount of minimum cash balance or cash reserve for running its business because this amount might not be available for dividend payments. Apart from the fact that it might be difficult to enforce such a disclosure because it needs clear evidence that certain matters truly affect the decision of the entity how to use certain assets, we emphasise that IFRS disclosures should still focus on information that could affect the decisions of capital providers.

We also consider the proposed disclosure as inconsistent. It is not clear to us why such a disclosure requirement would be limited to cash and cash equivalent balances. We think that other items also need to be considered by capital providers to understand the entity's liquidity. In the light of information that is relevant to an understanding of the liquidity of the entity, it would be necessary to disclose matters that affect the decisions of an entity to settle liabilities, to reissue treasury shares, to use trade receivables etc. If it is the intention of the IASB to improve disclosures about the entity's liquidity position, we recommend a holistic approach across all IFRSs with clear disclosure objectives and consistent requirements derived from such objectives.

Cross-cutting issue

Similar to the roll-forward proposals in paragraph 44A of the ED, we perceive the proposed guidance in paragraph 50A to duplicate already existing IFRS disclosures, eg disclosure guidance regarding significant restrictions on the entity's ability to access or use the assets and settle the liabilities of the group in accordance with IFRS 12 *Disclosure of Interests in Other Entities* and disclosures about the management of capital in IAS 1 *Presentation of Financial Statements*. We believe that the disclosure objectives, and the specific requirements derived from them, should neither overlap nor be spread across different Standards, and it should be made clear how specific disclosure requirements relate to the general principles. In this context, we believe the IASB needs to develop a strategy of (re)aligning disclosure requirements across IFRSs.

Lastly, the relationship between the disclosure guidance in paragraphs 48 and 50 of IAS 7 is not clear to us. For example, disclosure of additional relevant information in accordance with paragraph 50 is encouraged. The additional information proposed in paragraph 50A of the ED is not encouraged but shall be disclosed by the entity. This raises questions why there is a different binding character for either requirements and whether both, paragraphs 50 and 50A, are derived from the same broader requirement in paragraph 48 of IAS 7.

Question 2 — Transition provisions
Do you agree with the proposed transition provisions for the amendments to IAS 7 as described in this Exposure Draft (see paragraph 59)? If not, why and what alternative do you propose?

Whilst we do not agree with the proposed amendments to IAS 7, we would agree with the proposed transition provisions for the amendments, if the IASB were to finalise the amendment.

Question 3 — IFRS Taxonomy
Do the proposed IFRS Taxonomy changes appropriately reflect the disclosures that are set out in the proposed amendments to IAS 7 and the accompanying illustrative example? In particular: a) are the amendments reflected at a sufficient level of detail? b) should any line items or members be added or removed? c) do the proposed labels of elements faithfully represent their meaning? d) do you agree that the proposed list of elements to be added to the IFRS Taxonomy should be limited to information required by the proposed amendments to IAS 7 or presented in the illustrative examples in IAS 7?

Question 4 — IFRS Taxonomy due process
As referenced in paragraph BC20, the IASB is holding a trial of a proposal to change the IFRS Taxonomy due process. Although not constituting a formal public consultation of the IFRS Taxonomy due process, views are sought on the following: a) do you agree with the publication of the proposed IFRS Taxonomy Update at the same time that an Exposure Draft is issued? b) do you find the form and content of the proposed IFRS Taxonomy Update useful? If not, why and what alternative or changes do you propose?

We do not respond to Questions 3 and 4 because we have not developed criteria to evaluate whether the proposed IFRS Taxonomy changes are appropriate. Furthermore, we believe consultation about IFRS Taxonomy updates should be published separately from due process documents about new or revised Standards as they require a different process and expertise.