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Accounting Standards Committee of Germany
IFRS-Fachausschuss®

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Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
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Berlin, 27. Januar 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 appreciate the opportunity to comment on the ED and provide our answers to the specific questions in the ED in the Appendix to this letter.

We do not support the disclosure guidance as proposed in paragraphs 44A and 50A of the ED at this stage. We don't think that the IASB has yet developed systematic approach about the content of the notes and a corresponding strategy for adding or revising notes disclosure. We already expressed our general concerns about a piecemeal approach for amendments in the Disclosure Initiative in our response to the narrow-focus amendments to IAS 1 *Presentation of Financial Statements* last year.[1] We highlighted in our comment letter that the IASB needs to have a clearer vision of how to improve disclosures more fundamentally, specifically disclosure in the accompanying notes to the primary financial statements. We oppose to activities that targeting some doubtful 'quick wins' and taking the risk of stopping half way or even result in unintended consequence that do not meet cost-benefit assessments in the long run.

[1] http://www.drsc.de/docs/press_releases/2014/140626_CL_ASCG_IASB_ED201401.pdf

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Präsidium:
Dr. h.c. Liesel Knorr (Präsidentin), Peter Missler (Vizepräsident)

The proposed extensions of disclosure requirements for IFRS in the ED reinforce our expressed concerns and we strongly believe a systematic approach is crucial before revising or even adding new notes disclosure. We summaries our reasons of concern regarding the specific ED proposals below with further details to the specific questions of the ED in the appendix to this letter.

- ***Objective and similar disclosure requirements dispersed across different standards***

  We see no clear strategy or basis how the disclosure objectives as described in the ED were developed and fit into a holistic approach of developing IFRS disclosure. Furthermore, similar to the alternative view expressed by Mr Takatsugu Ochi, we believe the proposed disclosures do not respond adequately to the request from users of financial statements regarding a net debt disclosure and the corresponding reconciliation of net debt.

  Furthermore, we believe that to some extent similar disclosure requirements already exist in IFRS. The interaction, ie the relation of the proposals, with similar disclosure requirements dispersed across different Standards is anything but clear to us. The IASB should not expect that all preparers have sufficient resources to work through related disclosure requirements across different Standards to figure out how they may or may not interact, ie whether they are intended to be complementary or represent an unintended degree of redundancy. In our view it is not desirable of having overlapping disclosure objectives and derived requirements in many different standards, we believe such an unstructured approach of disclosure guidance in IFRS does not contribute to a set of high quality Standards and raises cross-cutting issues. Such an approach, to develop disclosure in complete isolation, should not be carried forward.

  In our view the IASB should in a <u>first</u> step make an inventory of disclosure requirements in IFRS that serve the same objectives and develop from there a clear strategy how to re-align and improve the disclosure guidance in light of the objective. We believe the IASB would benefit from such a systematic approach of developing disclosure requirements in IFRS. We observe in IASB's due process discussion difficulties to keep track of already existing disclosures requirements.

- ***Materiality guidance and cost-benefit assessment***

  We believe the ED does not include sufficient discussion in the Basis for Conclusions or implementation guidance about materiality judgements regarding the proposed disclosures and cost-benefit assessment, especially for the reconciliation from opening to closing balance of items in the statements of financial position (roll-forward disclosure).

There is no doubt that, in general, roll-forward disclosure can be useful for users by providing supplementary information that result in a better understanding of the entity's financial position and financial performance. Nonetheless, the approach of requiring roll-forward disclosures of line items in the statement of financial position is in our view very inconsistently implemented in IFRS. We recall that the IASB made efforts in the previous *Financial Statement Presentation* project to develop more general guidance based on a form of management approach to determine when such roll-forwards should be disclosed. We believe the IASB should reconsider those efforts and develop a common understanding and approach when and how roll-forward disclosures should be disclosed before developing additional roll-forward disclosure requirements.

In addition we doubt that there was a robust and comprehensive cost-benefit assessment regarding the proposals of the ED. At least the more recent discussion and tentative decisions by the IASB in the *Leases* project regarding the proposed roll-forward disclosure requirements of ROU assets and lease liabilities demonstrates that the IASB has not yet developed a clear view and understanding within this context. The outreach summary presented by the IASB staff in the *Leases* project in January 2015, highlighting the cost and complexity concerns by preparers,[2] stands in our view diametric to the cost-benefit conclusions of the proposed amendments to IAS 7. It raises the questions whether the IASB has oversimplified the illustrative examples for the cost-benefit assessment in light of achieving questionable quick wins that might turn out to be very burdensome in light of other project proposals.

We strongly encourage the IASB to realign the two different perspectives about cost-benefit assessment in the *Leases* project and the proposed amendments to IAS 7. We have the impression that the IASB has not yet developed a clear understanding about the nature of transaction or events that should be covered by the proposed roll-forward disclosure regarding financing activities. We do not favour the idea of making amendments to IAS 7 that would only serve as an interim solution.

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

- ***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 it might need a more comprehensive review of the definition. Besides the stopped joint IASB and FASB efforts in the *Financial Statement Presentation* project to rethink 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.[3] More recent efforts as part of the IASB Disclosure Initiative indicate ideas of rethinking again the classification of operating, financing and investing activities for the statement of cash flows. We are concerned that with the proposed amendments to IAS 7 the IASB makes the second step before the first, ie clarification regarding the definition of cash flows arising from financing activities.

Considering our concerns above, we are more supportive of the alternative view expressed by Mr Takatsugu Ochi that issuing a amendment without a clear vision of future overall improvements to IAS 7 shortly before the fundamental reconsideration could give rise to a duplication of the costs required to update systems and could potentially confuse users of financial statements.

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

Yours sincerely,

Liesel Knorr
President

[3] IASB Agenda Paper AP6B, November 2014

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. Beside our main concerns addressed in our comment letter above, we have the following comments:

Proposed paragraph 44A – roll-forward disclosure

Cross-cutting issue

In our view the proposed roll-forward duplicates for lease liabilities disclosure guidance as proposed in the IASB ED/2013/6 *Leases*. Furthermore, the IASB staff itself highlighted in the *Leases* project that, based on feedback received, the roll-forward disclosure for lease liabilities were clearly identified as costly and complex that would not meet the cost-benefit assessment. In consequence the IASB tentatively decided in January 2015 to eliminate roll-forward disclosures in the *Leases* project. It appears to us that the IASB did not consider and address the feedback on the *Leases* ED for the proposed amendments to IAS 7. In our view it demonstrates that disclosures are developed in isolation and a more holistic approach is still missing.

We believe the IASB needs to develop a clear strategy on roll-forward disclosures, including cost-benefit assessment, more generally before moving ahead with adding new roll-forward disclosure to IFRSs. If the IASB has the view that a general roll-forward requirement should exist for assets and liabilities for which cash flows have been, or would be, classified as financing activities, we question why the IASB has different requirements for assets and liabilities for which cash flows have been, or would be, classified as operating or investing activities.

Clarification about "net basis"

We think clarification is necessary regarding the implication of paragraph BC8 of the ED. It is not clear to us what this paragraph should or should not imply. We are puzzled with the merits of the argumentation that "a gross reconciliation could be perceived as reducing information and limit management's ability to explain it's financial and risk management strategies". We would also challenge 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.

'Each item'

We believe it would be necessary to clarify what the term "each item" in paragraph 44A should imply. It is not clear whether this relates to separate, ie individual, line items or represents a more granular level, eg individual class of assets, or even more granular a portion of an asset, eg capitalised borrowings cost. If the item would be considered to represent a more granular level than line items in the statement of financial position, wording should be added that the roll-forward should enable users to reconcile the open and closing amounts with amounts presented in the statement of financial position.

Format of disclosure

We think it is necessary 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 textual format, eg in circumstances of very limited movements between opening and closing amounts during the reporting period. Disclosure guidance in other Standards contain such wording and we think this guidance should also apply for this disclosure, ie to provide the information in a tabular format unless another format is more useful.

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

Cross-cutting issue

We perceive that the proposed guidance in paragraph 50A duplicates other guidance in IFRS, eg disclosure guidance regarding cash and other asset restrictions in IFRS 12 *Disclosure of Interests in Other Entities* and disclosure about management of capital in IAS 1 *Presentation of Financial Statements*. We believe that disclosure requirements should not overlap across different Standards and it should be clear whether or not specific disclosure requirements and more general principles should relate to each other. Within this context we believe the IASB needs to develop a strategy of aligning disclosure requirements across

IFRSs. Too many disclosure requirements appear to be developed in isolation by the IASB and a systematic approach for notes disclosure is missing.

Objective and forward-looking information

In our view the proposals in paragraph 50A reflect disclosure about liabilities that would only arise on future transactions or events, ie information about transactions or events that did not occur at the end of the reporting period. Even if it is argued that the information relates to existing cash and cash equivalent balances and not to non-existing liabilities, we believe this argumentation would also apply to many other 'what if' forward-looking scenarios for which disclosures are not yet required in IFRS. For example it seems inconsistent, in light of a better understanding of the entity's liquidity, to address disclosure about matters that affect the decisions of an entity to use cash and cash equivalent balances, but not addressing disclosure guidance about other matters that affect the decisions of an entity to use trade receivables, the settlement of liabilities, or the use of treasury shares. Therefore, we emphasise again our view that the IASB needs to develop a systematic approach and should not approach notes disclosure in form of isolated patchwork efforts.

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?

We would agree with the proposed transition provisions for the amendments. Nonetheless, we do not agree with the proposed amendments to IAS 7.

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 response to Question 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 it requires a different process of evaluation by constituents.