



36. Sitzung IFRS-FA am 06.03.2015
36_02a_IFRS-FA_DI_IAS7_Draft_CL

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Berlin, 20. Februar 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 agree with the proposed disclosure amendments of the ED. In our view the IASB has not yet developed a systematic approach about the content of the notes and a corresponding strategy for adding or revising IFRS 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 Targeting for 'quick wins' with the risk of stopping half way, or even taking the risk of unintended cross-cutting issues, is in our view not beneficial. We highlighted in our previous comment letter that the IASB needs to have a clearer vision of how to improve disclosures more fundamentally, especially guidance with clearer objectives for notes disclosure.

We think the proposed disclosure requirements of the ED do not respond adequately to the request from users of financial statements regarding a net debt disclosure and the corre-

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



sponding reconciliation of net debt. Furthermore, we think the proposed disclosure requirements are overlapping to some extent with existing IFRS disclosure guidance.

We are more supportive of the alternative view expressed by Mr Takatsugu Ochi that issuing a minor amendment without a clear vision of future overall improvements to IAS 7 shortly before the fundamental reconsideration as part of the Principles of Disclosure project could give rise to a duplication of the costs required to update systems and could potentially confuse users of financial statements.

Our responses to the individual questions in the ED are attached as an appendix to this letter. If you would like to discuss any aspect of our comments further, please do not hesitate to contact 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 have concerns as follows:

Proposed paragraph 44A – Roll-forward disclosure

Disclosure objective and user expectations

We believe the proposed disclosure requirements do not address the main request from users regarding a net debt disclosure and the roll-forward of net debt. Furthermore, we believe an objective to improve information about the entity's financing activities requires a more holistic approach, including a comprehensive review of existing disclosure requirements.

Cross-cutting issues

The proposed roll-forward requirement would duplicate with the reconciliation for lease liabilities as proposed in the IASB 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 in the *Leases* project², based on feedback received, the roll-forward disclosure for lease liabilities was identified as costly and complex that would not meet the cost-benefit assessment. This appears to be inconsistent with the cost-benefit assessment of the proposed roll-forward of the ED. At least it indicates that the IASB needs to develop a clear strategy and objectives on roll-forward disclosures within a broader context. We recall such

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

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 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". 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 user's needs.

'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 specific level, eg individual class of assets, or even a portion of an asset, eg 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 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 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 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.

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 a

more narrative format, eg in circumstances of very limited movements during the reporting period. Disclosure guidance in other Standards contains 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

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. For example we think the proposed disclosure would 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. On the other side it might be difficult to enforce such disclosure because it needs clear evidence that certain matters truly affect the decision of the entity how to use certain assets. We emphasize that IFRS disclosure should still focus on information that affect the decision of capital providers.

We also consider the proposed disclosure as inconsistent. It is not clear to us why such disclosure requirement would be limited to cash and cash equivalent balances. We think other items also need to be considered by capital providers to understand the entity's liquidity. In light of information that is relevant to an understanding of the liquidity of the entity, as stated in the ED, 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 disclosure about the entity's liquidity position, we recommend a more holistic approach across all IFRSs with clear disclosure objectives and derived consistent requirements.

Cross-cutting issue

Similar to the roll-forward proposals in paragraph 44A of the ED, we perceive that the proposed guidance in paragraph 50A duplicates with other existing IFRS disclosure guidance, 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 disclosure about management of capital in IAS 1 *Presentation of Financial Statements*. We believe that disclosure objectives and derived requirements should not overlap in a large extent across different Standards and it should be clear whether or not specific disclosure requirements and more general principles relate to each other. Within this context we believe the IASB needs to develop a strategy of (re)aligning disclosure requirements across IFRSs.



Furthermore, the relation to 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 the binding character for both requirements is different and whether both, paragraphs 50 and 50A, are derived from the same broader requirement in paragraph 48 of IAS 7. As indicated above, we think the IASB should improve disclosure guidance about liquidity more comprehensively.

Liabilities arising from repatriation of foreign cash and cash equivalent balances

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 respond 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 because it requires a different process and expertise of evaluation by constituents.