

December 2014

Exposure Draft ED/2014/6

Disclosure Initiative

Proposed amendments to IAS 7

Comments to be received by 17 April 2015

Disclosure Initiative

(Proposed amendments to IAS 7)

Comments to be received by 17 April 2015

Exposure Draft ED/2014/6 *Disclosure Initiative* (Proposed amendments to IAS 7) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form. Comments need to be received by **17 April 2015** and should be submitted in writing to the address below or email to commentletters@ifrs.org using our 'Comment on a proposal' page.

All comments will be on the public record and posted on our website unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

Disclaimer: the IASB, the IFRS Foundation, the authors and the publishers do not accept responsibility for any loss caused by acting or refraining from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

International Financial Reporting Standards (including International Accounting Standards and SIC and IFRIC Interpretations), Exposure Drafts and other IASB and/or IFRS Foundation publications are copyright of the IFRS Foundation.

Copyright © 2014 IFRS Foundation®

ISBN: 978-1-909704-69-5

All rights reserved. Copies of the Exposure Draft may only be made for the purpose of preparing comments to the IASB provided that such copies are for personal or internal use, are not sold or otherwise disseminated, acknowledge the IFRS Foundation's copyright and set out the IASB's address in full.

Except as permitted above no part of this publication may be translated, reprinted, reproduced or used in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without prior permission in writing from the IFRS Foundation.

The approved text of International Financial Reporting Standards and other IASB publications is that published by the IASB in the English language. Copies may be obtained from the IFRS Foundation. Please address publications and copyright matters to:

IFRS Foundation Publications Department
30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org



The IFRS Foundation logo/the IASB logo/the IFRS for SMEs logo/'Hexagon Device', 'IFRS Foundation', 'IFRS Taxonomy', 'eIFRS', 'IASB', 'IFRS for SMEs', 'IAS', 'IASs', 'IFRIC', 'IFRS', 'IFRSs', 'SIC', 'International Accounting Standards' and 'International Financial Reporting Standards' are Trade Marks of the IFRS Foundation.

The IFRS Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office as above.

CONTENTS

	<i>from page</i>
INTRODUCTION	4
INVITATION TO COMMENT	5
[DRAFT] AMENDMENTS TO IAS 7 STATEMENT OF CASH FLOWS	7
[DRAFT] AMENDMENTS TO THE ILLUSTRATIVE EXAMPLES ACCOMPANYING IAS 7 STATEMENT OF CASH FLOWS	8
PROPOSED IFRS TAXONOMY UPDATE RELATING TO THE EXPOSURE DRAFT DISCLOSURE INITIATIVE (PROPOSED AMENDMENTS TO IAS 7)	9
APPROVAL BY THE BOARD OF THE EXPOSURE DRAFT DISCLOSURE INITIATIVE (PROPOSED AMENDMENTS TO IAS 7) PUBLISHED IN DECEMBER 2014	14
BASIS FOR CONCLUSIONS ON THE EXPOSURE DRAFT DISCLOSURE INITIATIVE (PROPOSED AMENDMENTS TO IAS 7)	15
ALTERNATIVE VIEW OF MR TAKATSUGU OCHI	20

Introduction

This Exposure Draft, published by the International Accounting Standards Board (IASB), contains proposed amendments to IAS 7 *Statement of Cash Flows*.

During its Agenda Consultation in 2011, the IASB received requests to review the disclosure requirements in existing Standards and to develop a disclosure framework.

To complement the work being done by the IASB in its *Conceptual Framework for Financial Reporting* project, in 2013 the IASB started its Disclosure Initiative. The Disclosure Initiative is a portfolio of projects that are being undertaken with the aim of improving the effectiveness of disclosures in financial statements. The portfolio of projects includes both implementation and research projects together with ongoing activities that explore how presentation and disclosure principles and requirements in existing Standards can be improved.

This Exposure Draft of proposed amendments to IAS 7 forms part of the Disclosure Initiative. The objectives of the proposed amendments 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.

To meet the first objective, the IASB is proposing that an entity should disclose a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items. The result of requiring this reconciliation is that investors will be provided with improved disclosures about an entity's debt and movements in debt during the reporting period.

To meet the second objective, the IASB is proposing to extend the disclosures required by IAS 7 about an entity's liquidity and proposes disclosures about the 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.

This Exposure Draft also includes proposed changes to the IFRS Taxonomy to reflect the effect of the proposed amendments to IAS 7. This is the first time that proposed changes to the IFRS Taxonomy have been included in an Exposure Draft. The IASB plans to assess the form, content and timing of the proposed IFRS Taxonomy Update on the basis of feedback received on these proposals.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph(s) to which they relate;
- (c) contain a clear rationale; and
- (d) describe any alternative that the IASB should consider, if applicable.

The IASB is not requesting comments on matters in IAS 7 that are not addressed in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than **17 April 2015**. Comments on only some aspects of the proposals are also welcome and respondents need not respond to all of the questions in the invitation to comment.

Questions for respondents

Question 1—Disclosure Initiative amendments
--

<p>This Exposure Draft of proposed amendments to IAS 7 forms part of the Disclosure Initiative. Its objectives are to improve:</p>
--

- | |
|---|
| <ul style="list-style-type: none">(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. |
|---|

<p>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?</p>
--

Question 2—Transition provisions

<p>Do you agree with the proposed transition provisions for the amendments to IAS 7 as described in this Exposure Draft (see paragraph 59)?</p>

<p>If not, why and what alternative do you propose?</p>

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?

How to comment

Comments should be submitted using one of the following methods.

Electronically Visit the 'Comment on a proposal page', which can be found at:
(our preferred method) go.ifrs.org/comment

Email Email comments can be sent to: commentletters@ifrs.org

Postal IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

All comments will be on the public record and posted on our website unless confidentiality is requested. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

[Draft] Amendments to IAS 7 ***Statement of Cash Flows***

Paragraph 44A and its related heading and paragraphs 50A and 59 are added. New text is underlined.

Components of financing activities

44A An entity shall provide a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items. The reconciliation shall include:

- (a)** opening balances in the statement of financial position;
- (b)** movements in the period, including:
 - (i)** changes from financing cash flows;
 - (ii)** changes arising from obtaining or losing control of subsidiaries or other businesses; and
 - (iii)** other non-cash changes (for example, the effect of changes in foreign exchange rates, and changes in fair values).
- (c)** closing balances in the statement of financial position.

...

Other disclosures

...

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.

...

Effective date

...

59 [Draft] *Disclosure Initiative* (Amendments to IAS 7), issued in [date], added paragraphs 44A and 50A. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

**[Draft] Amendments to the Illustrative Examples accompanying
IAS 7 *Statement of Cash Flows***

Note E is added to the current illustrative example and should be read in conjunction with that example. New text is underlined.

As explained in paragraph 1 of the illustrative example, the example shows only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with IAS 1 *Presentation of Financial Statements*.

Notes to the statement of cash flows (direct method and indirect method)

...

E. Components of financing activities (excluding equity)

	<u>20X1</u>	<u>Cash flow</u>	<u>Non-cash changes</u>		<u>20X2</u>
			<u>Acquisition</u>	<u>New leases</u>	
Long-term borrowings	1,040	250	200	=	1,490
Lease liabilities	=	(90)	=	900	810
Long-term debt	<u>1,040</u>	<u>160</u>	<u>200</u>	<u>900</u>	<u>2,300</u>

Proposed IFRS Taxonomy Update relating to the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7)

This proposed IFRS Taxonomy Update accompanies, but is not part of, the proposed amendments.

Introduction

- 1 The objectives of the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7) 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.
- 2 The proposed amendments to IAS 7 *Statement of Cash Flows* that will result in changes to the IFRS Taxonomy comprise:

Proposed amendment to IAS 7	Overview of change to the IFRS Taxonomy
Components of financing activities (paragraph 44A)	Addition of a new table.
Other disclosures (paragraph 50A)	Addition of new line items.

- 3 For more information on the terminology and diagrams used in this document, please refer to the *Guide to Understanding the IFRS® Taxonomy Update*, which is available on the IFRS website.¹ A summary reference sheet can also be downloaded.²

Components of financing activities

Description—new table

- 4 The proposed amendments to IAS 7 require entities to provide a reconciliation of the amounts in the statement of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items.
- 5 Consequently, a new table has been proposed for inclusion within the IFRS Taxonomy, as follows:
- (a) new line items have been introduced to represent the opening and closing balances as well as movements in the balances for amounts in the statement of financial position for which cash flows have been, or would be, classified as financing activities, excluding equity items; and

¹ Go to: <http://go.ifrs.org/taxonomydocumentguide>.

² Go to: <http://go.ifrs.org/taxonomydocumentsummary>.

- (b) a new IFRS Taxonomy axis ‘Items for which cash flows are classified as financing activities, excluding equity items’ has been introduced to enable the breakdown of items in the statement of financial position by each type of item, for example, ‘lease liabilities’.

Details

Line items

Line items for disclosure of reconciliation of items for which cash flows are classified as financing activities, excluding equity items	ET^(a)	ER^(b)	Reference
Items for which cash flows are classified as financing activities, excluding equity items	M	D	Effective [date] IAS 7.44A(a); Effective [date] IAS 7.44A(c)
Increase (decrease) in items for which cash flows are classified as financing activities, excluding equity items	M	D	Effective [date] IAS 7.44A(b)
Increase (decrease) through financing cash flows, items for which cash flows are classified as financing activities, excluding equity items	M	D	Effective [date] IAS 7.44A(b)(i)
Increase (decrease) through obtaining or losing control of subsidiaries or other businesses, items for which cash flows are classified as financing activities, excluding equity items	M	D	Effective [date] IAS 7.44A(b)(ii)
Increase (decrease) through other non-cash changes, items for which cash flows are classified as financing activities, excluding equity items	M	D	Effective [date] IAS 7.44A(b)(iii)
Increase (decrease) through effect of changes in foreign exchange rates, items for which cash flows are classified as financing activities, excluding equity items	M	E	Effective [date] IAS 7.44A(b)(iii)
Increase (decrease) through changes in fair values, items for which cash flows are classified as financing activities, excluding equity items	M	E	Effective [date] IAS 7.44A(b)(iii)

continued...

...continued

Line items for disclosure of reconciliation of items for which cash flows are classified as financing activities, excluding equity items	ET^(a)	ER^(b)	Reference
Increase (decrease) through non-cash changes in lease liabilities, items for which cash flows are classified as financing activities, excluding equity items	M	E	Effective [date] IAS 7.IE A Statement of cash flows for an entity other than a financial institution

(a) Element types (ET) used within this document are Monetary (M) and Text (T).

(b) Element Reference types (ER) used within this document are required Disclosure (D) and Example (E).

Axis and members

6 The following table shows the axis and members used in the table.³

Components of items for which cash flows are classified as financing activities, excluding equity items	ER	Reference
Items for which cash flows are classified as financing activities, excluding equity items (A)	D	Effective [date] IAS 7.44A
Items for which cash flows are classified as financing activities, excluding equity items (DM)	D	Effective [date] IAS 7.44A
Long-term borrowings (M)	E	Effective [date] IAS 7.IE A Statement of cash flows for an entity other than a financial institution
Lease liabilities (M)	E	Effective [date] IAS 7.IE A Statement of cash flows for an entity other than a financial institution

³ In this table (A), (DM) and (M) denote an Axis, a Default Member, and a Member, respectively.

Example

- 7 Example A accompanying IAS 7, the statement of cash flows for an entity other than a financial institution, presents an example disclosure of the reconciliation of items for which cash flows have been, or would be, classified as financing activities, excluding equity items.

	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	<u>1,040</u>	<u>160</u>	<u>200</u>	<u>900</u>	<u>2,300</u>

Sample taxonomy view

- 8 The noted reconciliation would be tagged using the following line items, axis and members.

Line items for disclosure of reconciliation of items for which cash flows are classified as financing activities, excluding equity items	Items for which cash flows are classified as financing activities, excluding equity items (A)		
	Long-term borrowings (M)	Lease liabilities (M)	Items for which cash flows are classified as financing activities, excluding equity items (DM)
Items for which cash flows are classified as financing activities, excluding equity items [at beginning of period]	1,040	–	1,040
Increase (decrease) through financing cash flows, items for which cash flows are classified as financing activities, excluding equity items	250	(90)	160
Increase (decrease) through obtaining or losing control of subsidiaries or other businesses, items for which cash flows are classified as financing activities, excluding equity items	200	–	200

continued...

...continued

Line items for disclosure of reconciliation of items for which cash flows are classified as financing activities, excluding equity items	Items for which cash flows are classified as financing activities, excluding equity items (A)		
	Long-term borrowings (M)	Lease liabilities (M)	Items for which cash flows are classified as financing activities, excluding equity items (DM)
Increase (decrease) through non-cash changes in lease liabilities, items for which cash flows are classified as financing activities, excluding equity items	–	900	900
Items for which cash flows are classified as financing activities, excluding equity items [at end of period]	1,490	810	2,300

Other disclosures

Description

- 9 The proposed amendments to IAS 7 include the addition of paragraph 50A to the Standard. The added paragraph requires an entity to 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.
- 10 As a result, new line items are proposed for inclusion within the IFRS Taxonomy.

Details

Line items

Element label	ET	ER	Reference
Description of restrictions that affect decisions of entity to use cash and cash equivalent balances	T	D	Effective [date] IAS 7.50A
Tax liabilities that would arise on repatriation of foreign cash and cash equivalent balances	M	D	Effective [date] IAS 7.50A

Approval by the Board of the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7) published in December 2014

The Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7) was approved for publication by thirteen of the fourteen members of the International Accounting Standards Board. Mr Ochi voted against its publication. His alternative view is set out after the Basis for Conclusions.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Amaro Luiz De Oliveira Gomes	
Martin Edelmann	
Patrick Finnegan	
Gary Kabureck	
Suzanne Lloyd	
Takatsugu Ochi	
Darrel Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

Basis for Conclusions on the Exposure Draft *Disclosure Initiative (Proposed amendments to IAS 7)*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

- BC1 The proposed amendments to IAS 7 *Statement of Cash Flows* are part of the Disclosure Initiative. The Disclosure Initiative is a portfolio of projects that are being undertaken with the aim of improving the effectiveness of disclosures in financial statements. The portfolio of projects includes both implementation and research projects together with ongoing activities that explore how presentation and disclosure principles and requirements in existing Standards can be improved.
- BC2 The International Accounting Standards Board (IASB) developed the amendments in this Exposure Draft in response to requests from investors, including those received at the *Financial Reporting Disclosure Discussion Forum* and those included in the Feedback Statement (the 'Feedback Statement'), which was issued in May 2013. Investors highlighted that understanding cash flows of an entity is critical to their analysis and that there is a need for improved disclosures about an entity's debt, including changes in debt during the reporting period. The Feedback Statement noted that investors had been consistently asking for the IASB to introduce a requirement for entities to disclose and explain their net debt reconciliation.

Components of financing activities

- BC3 In addressing the request from investors to improve disclosures about an entity's debt, the IASB considered whether to include such disclosure improvements in its project to amend IAS 1 *Presentation of Financial Statements* when it published the Exposure Draft *Disclosure Initiative (Proposed amendments to IAS 1)* in March 2014. The IASB, however, decided not to do so because it would have delayed the publication of that set of proposals while the IASB undertook additional work on this topic. In addition, the IASB noted that debt is not defined or required to be disclosed in current International Financial Reporting Standards (IFRS) and therefore introducing a new requirement was outside the scope of the proposed amendments to IAS 1, which were seeking to clarify, instead of amend, the requirements of IAS 1.
- BC4 To understand investors' concerns, in early 2014 the IASB undertook a survey with investors. The first part of the survey sought to obtain information about why investors seek to understand the period-on-period movements in debt. The second part of the survey sought input on disclosures about cash and cash equivalents. The results of the survey helped the IASB to understand how investors use information about debt and why some investors were asking for a net debt reconciliation. On the basis of the survey, the IASB identified that a net debt reconciliation:
- (a) can be used to verify an investor's understanding of the entity's cash flows, because it provides a reconciliation between the statement of financial position and the statement of cash flows;

- (b) improves investors' confidence in forecasting an entity's future cash flows when it is used to verify an investor's understanding of an entity's cash flows;
 - (c) provides information about an entity's sources of finance and how those sources have been deployed over time; and
 - (d) enables investors to better understand an entity's exposure to risks associated with financing.
- BC5 The IASB considered the evidence obtained from the survey and decided to explore how it could provide the information requested by investors without having to define debt. The IASB is of the view that finding a commonly agreed definition of debt would be difficult and that attempts to find a definition could delay the project.
- BC6 The IASB identified that it could use the definition of financing activities in paragraph 6 of IAS 7 and propose a requirement to disclose a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items. IAS 7 defines financing activities as activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. A reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items, would capture information about an entity's borrowings. The IASB decided that capturing this information would be equivalent to the information investors are requesting about debt and that investors could calculate a net debt position from this.
- BC7 The IASB undertook further outreach with investors and preparers to assess whether requiring a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items, would:
- (a) capture the information investors were requesting about an entity's debt; and
 - (b) not result in an unnecessary cost to preparers.
- BC8 The IASB prepared illustrative examples of the proposed reconciliation and discussed these with its Global Preparers Forum and Capital Markets Advisory Committee. It was agreed that the proposed reconciliation would provide investors and analysts with sufficient information to perform their analysis of an entity's debt. The feedback received supported the proposed amendment and thus the IASB decided to proceed. It was also noted that the requirement for the disclosure should not prohibit disclosures from being provided on a net basis. Net basis, within this context, means the amounts in the statement of financial position for which cash flows have been, or would be, classified as financing activities, excluding equity items, less cash and cash equivalent balances. This is because some preparers may manage debt on a net basis and may already

provide this information in the financial statements today—requiring such an entity to change to a ‘gross reconciliation’ could be perceived as reducing information and limit management’s ability to explain its financial and risk management strategies.

- BC9 The outreach performed supported the IASB’s decision to explore amending IAS 7. It was, however, noted that there are other potential improvements to IAS 7 that the IASB should consider in its Principles of Disclosure research project, which is also part of the Disclosure Initiative.

Other disclosures

- BC10 The IASB also considered whether it should propose amendments to IAS 7 regarding disclosures about cash and cash equivalent balances. The IASB received feedback from investors that disclosures are needed to supplement those required by paragraph 48 of IAS 7 regarding cash and cash equivalent balances held by the entity that are not available for use by the group.
- BC11 The IASB spent time considering the request from investors for improved disclosures about cash and cash equivalent balances, including the feedback it had received as part of the survey undertaken with investors. The IASB also sought advice from its Global Preparers Forum.
- BC12 In considering the request from investors, the IASB noted that as part of an investor’s assessment of an entity’s financial strengths and weaknesses, debt is often offset against cash and cash equivalent balances to calculate a net position. This net position is used by the investor to assess a reporting entity’s liquidity. The IASB noted that investors are concerned that although the cash and cash equivalent balances are available to settle debt or to be used for other purposes, there may be some form of economic restriction in place (for example, the cash and debt are in different jurisdictions and using the cash to settle debt would trigger a tax payment) or there is a legal restriction in place that affects the decision of the entity to use the cash and cash equivalent balances.
- BC13 The IASB noted the advice from the Global Preparers Forum that highlighted any disclosure improvements would need to be broader than cash and cash equivalent balances. This is because an entity that decides that it is better to retain cash and cash equivalent balances in an overseas entity and seeks an alternative form of finance locally will seek to maximise its returns on cash and cash equivalent balances retained by the overseas entity. To achieve that maximisation, the entity may decide to invest these balances in marketable securities. Consequently, to be effective, the disclosure might need to be broader than cash and cash equivalent balances.
- BC14 The IASB considered disclosures currently required by IFRS to identify whether they addressed this request but decided that current disclosure requirements do not specifically address the investors’ concern.
- BC15 The IASB then considered whether it would be preferable to review disclosure improvements about cash and cash equivalent balances as part of the Principles of Disclosure research project. However, it decided that if it were to require a reconciliation of the amounts in the opening and closing statements of financial

position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items, then it would also respond to investors' request to improve disclosures about cash and cash equivalent balances. The IASB decided, however, that this amendment should not preclude further work being undertaken as part of the Principles of Disclosure research project.

- BC16 The IASB decided to address investors' concerns that although cash and cash equivalent balances are available to settle debt or to be used for other purposes, some form of economic or legal restriction may be in place that affects the decision of the entity to use the cash and cash equivalent balances. The IASB decided that if 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, or similar matters, are relevant to an understanding of the liquidity of the entity, those matters shall be disclosed.

Transition and effective date

- BC17 The IASB proposes that *Disclosure Initiative* (Proposed amendments to IAS 7) should be applied prospectively from its effective date with early application permitted.
- BC18 The IASB does not consider additional transition provisions to be necessary or beneficial. The proposed disclosure supplements information that is already provided in the financial statements. These amendments do not affect recognition and measurement.

IFRS Taxonomy

- BC19 Currently, changes to the IFRS Taxonomy are not subject to approval of the IASB and a public consultation is only undertaken after a final Standard is issued. The integration of IFRS Taxonomy-related activities within the standard-setting function of the IFRS Foundation triggered a review of the IFRS Taxonomy due process. As a consequence of this review, it has been proposed that future amendments to the IFRS Taxonomy content should be:
- (a) described in accompanying material to an Exposure Draft or final Standard in the form of a 'Proposed IFRS Taxonomy Update' and published with that Exposure Draft or final Standard; and
 - (b) approved by the IASB.
- BC20 The IASB discussed these proposed due process changes. The IASB recommended, and the Due Process Oversight Committee accepted, that a trial should be performed prior to public consultation of the proposed changes to the IFRS Taxonomy due process. This Exposure Draft is part of the trial. The IASB plans to assess the timing, usefulness, form and content of the Proposed IFRS Taxonomy Update on the basis of feedback received on the proposed amendments to the IFRS Taxonomy and on the due process question.

- BC21 Consequently, this Exposure Draft includes a section constituting a Proposed IFRS Taxonomy Update. This section describes proposals for how the proposed changes to IAS 7 set out in this Exposure Draft would be reflected in the IFRS Taxonomy. It has been included within this Exposure Draft as accompanying material and, although not forming an integral part of the Exposure Draft, has been reviewed and approved for publication by the IASB. Questions to respondents also include specific questions on the impact of changes to the IFRS Taxonomy that would result from proposals in this Exposure Draft.
- BC22 The IASB discussed the extent to which the IFRS Taxonomy should include elements representing items for which cash flows have been, or would be, classified as financing activities, and movements in those items. For the purposes of this Exposure Draft, it was decided 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 accompanying IAS 7. This list is not exhaustive. Additional elements may be necessary for entities to tag this disclosure as presented in their financial statements.

Alternative view of Mr Takatsugu Ochi

- AV1 Mr Ochi voted against the publication of the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7) for the following reasons.
- AV2 Firstly, Mr Ochi considers that it would be more appropriate to wait and address the requests from users of financial statements as part of the broader consideration of such matters in the Principles of Disclosure research project. This is because a fundamental review of IAS 7 *Statement of Cash Flows* is being carried out as part of that research project. Mr Ochi thinks that issuing a minor 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.
- AV3 Secondly, Mr Ochi considers that the proposals set out in this Exposure Draft do not meet the needs of users of financial statements. Mr Ochi notes that when users of financial statements requested a requirement for entities to disclose a net debt reconciliation, the aim was to improve information about liquidity. Mr Ochi does not consider that the proposals set out in this Exposure Draft respond adequately to this request from users of financial statements, because the proposals do not define debt or cash available to settle debt and therefore do not sufficiently improve information about an entity's liquidity risk. That is, the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
- AV4 Mr Ochi does not believe in the usefulness of the consolidated statement of cash flows. Mr Ochi believes that the statement of cash flows is useful when presented as part of separate financial statements; however, its usefulness is significantly impaired when it is presented as part of consolidated financial statements. This is because consolidated financial statements do not provide information about the location and the availability of assets and liabilities. For example, if a parent company has debt of CU100 and a 51 per cent controlled subsidiary has cash of CU100, it could be interpreted in the consolidated statement of financial position that the group has sufficient cash and cash equivalent balances to meet the debt.⁴ However, this may not be true. Although the parent does control the subsidiary, offsetting debt and cash without considering the location and the availability of the cash and cash equivalents does not, in Mr Ochi's view, make sense. For this reason, Mr Ochi is concerned that users of financial statements may be misled about an entity's liquidity risk if cash and cash equivalent balances are offset against the amounts included in the reconciliation proposed in this Exposure Draft.
- AV5 Thirdly, in relation to the costs, Mr Ochi thinks the costs of preparing the reconciliation proposed in this Exposure Draft could be larger than expected. When an entity uses the indirect method to prepare its statement of cash flows, the statement cannot be completed until after the statement of financial

⁴ In this Exposure Draft, monetary amounts are denominated in 'currency units' (CU).

position and the statement of profit or loss and other comprehensive income have been prepared. This is because the statement of cash flows reconciles the statement of financial position with the statement of profit or loss and other comprehensive income. The proposals set out in this Exposure Draft require a further reconciliation between the statement of financial position and the cash flows for each item that has been, or would be, classified as financing activities in the statement of cash flows, excluding equity items. Mr Ochi thinks this could place significant additional burden on preparers, which could delay finalisation of the financial statements.

AV6 Mr Ochi thinks that, as an interim improvement, requiring the disclosure of opening and closing cash and cash equivalent balances (or an average, if necessary), to be included in the separate financial statements of the parent company and key financial subsidiaries, would be much more useful and cost-effective than the reconciliation proposed in this Exposure Draft.

