

EXPOSURE DRAFT – DISCLOSURE INITIATIVE (PROPOSED AMENDMENTS TO IAS 7) INTERNATIONAL FINANCIAL REPORTING BULLETIN 2015/03



Summary

The International Accounting Standards Board (IASB) has issued ED/2014/6 *Disclosure Initiative* (Proposed amendments to IAS 7) (the ED) for public comment.

The ED proposes the following amendments to IAS 7 *Statement of Cash Flows*:

- A reconciliation of the opening and closing carrying amounts for each item for which cash flows have been, or would be, classified as financing activities (e.g. borrowing, lease liabilities), and
- Disclosures about restrictions that affect an entity's decisions about whether to use cash and cash equivalent balances (including the tax liabilities that would arise when foreign cash and cash equivalents are repatriated).

The proposals are open for comment until 17 April 2015.

Background

As a result of the IASB's *Agenda Consultation 2011*, the IASB received requests to review the disclosure requirements within the existing standards and to develop a disclosure framework.

The IASB has considered elements of presentation and disclosure as part of its revision of the *Conceptual Framework for Financial Reporting*. In addition, and to complement the work being done in relation to the *Conceptual Framework* project, the IASB started its Disclosure Initiative project during 2013. The Disclosure Initiative is a portfolio of projects affecting existing IFRSs, as well as other implementation and research projects.

The proposals within the ED have resulted from decisions made during the Disclosure Initiative project.

STATUS

Exposure Draft

EFFECTIVE DATE

To be confirmed

ACCOUNTING IMPACT

Proposes additional disclosure about financing activities, and restrictions on the use of cash and cash equivalent balances.

Summary of the proposals

The ED proposes two amendments to IAS 7 to improve:

- a) Information provided about an entity's debt and debt movements, and
- b) Disclosure to help users understand restrictions on cash and cash equivalent balances.

a) Information provided about an entity's debt and debt movements

Based on an investor survey undertaken by the IASB in early 2014, the IASB sought to further understand why investors seek information on period-on-period movements in debt. From the survey, the IASB identified that a net debt reconciliation:

- (a) Can be used to verify an investor's understanding of an entity's cash flows
- (b) Improves investors' confidence in forecasting an entity's future 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.

However, the IASB noted that finding a commonly agreed definition of debt would be difficult. As an alternative, the IASB identified that it could use the definition of financing activities in paragraph 6 of IAS 7.

Hence the IASB proposes to require entities to disclose a reconciliation of the opening and closing carrying amounts for each item for which cash flows have been or would be classified as financial activities (excluding equity items).

The ED proposes that the reconciliation would include:

- Opening balance
- Movements in the period including:
 - Changes from financing cash flows
 - Changes arising from obtaining or losing control of subsidiaries or other businesses, and
 - Other non-cash exchanges (e.g. changes in foreign exchange rates, and changes in fair value)
- Closing balance.

An example of such a reconciliation is provided below:

	20X1	Cash flow	Non-cash changes		20X2
			Business acquisition	New leases	
Long-term borrowings	1,040	250	200	-	1,490
Lease liabilities	-	(90)	-	900	810
Long-term debt	1,040	160	200	900	2,300

b) Disclosure to help users understand restrictions on cash and cash equivalent balances

The IASB received feedback from investors that additional disclosures are needed regarding cash and cash equivalent balances that are not available for use.

The IASB noted that investors are concerned that although the cash and cash equivalent balances are typically available to settle debt, there may be some form of economic restriction in place (e.g. the cash and debt are in different jurisdiction 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 about whether to use the cash and cash equivalent balances.

The ED therefore proposes that an entity should disclose restrictions that affect its decisions about the use of cash and cash equivalent balances (including tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances).

Figure 1 – Example disclosure of the reconciliation of items for which cash flows have been, or would be, classified as financing activities, excluding equity items.

What the proposals mean

The proposed changes to IAS 7 mean that entities would have to disclose additional information on debt movements and restrictions on cash and cash equivalent balances.

The reconciliation of opening and closing carrying amounts would be required for each item for which cash flows have been, or would be, classified as financing activities (other than equity items).

What should entities do in response to the ED?

Entities may wish to consider how easily the information required for the proposed disclosures can be gathered from their accounting systems should the proposals be finalised in their current form.

Effective date and comment period

The effective date is yet to be confirmed. The ED proposes that the amendments would be applied prospectively from its effective date with early application being permitted.

The proposals are open for comment until 17 April 2015.



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