CBN

COMMISSIE VOOR BOEKHOUDKUNDIGE NORMEN

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Correspondant	**Your references**	**Our references**	**Date**
Ignace Bogaert Tel. +32(0)22776174		**COR 2015-027**	01.04.2015

Invitation to comment – IASB ED *Disclosure Initiative – Proposed amendments to IAS 7*

Dear Sir / Madam,

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on *Disclosure Initiative – Proposed amendments to IAS7* issued by the IASB (the "Board") on 18 December 2014 (hereinafter the "ED").

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?

The BASB is concerned that the proposed amendment will add to the disclosure overload problem. We believe the disclosure of an entity's net debt reconciliation may well serve the needs of certain users of the financial statements. However, we are concerned that many other users may find this information unhelpful and therefore adding *clutter* to the financial statements. We have seen numerous examples in practice where entities, the users of financial statements of which were interested in such information, were able to disclose net debt reconciliation under the current IFRS standards on a voluntary basis.

We believe the Board should reconsider whether debt must be defined before proceeding with the proposed amendments for the following reasons:

- Paragraphs BC5 and BC6 of the ED explain that the IASB is of the view that finding a commonly agreed definition of debt would be difficult and time-consuming and therefore the Board decided to use the definition of financing activities. As a result, the proposed amendment refers to "*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*".

Although we understand the Board's concerns about defining debt, we note that the proposed amendment refers to the notion of "equity" and therefore would bear similar concerns due to lack of clarity in the distinction between debt and equity.

- In practice, there is some diversity in what cash flows are classified as financing (e.g. interest paid, cash received from a government grant, cash flows arising in factoring agreements, etc.), which in turn will create diversity in the application of the proposed reconciliation requirement.
- We also note that the proposed reconciliation requirement does not distinguish between different items, for instance derivatives and other more traditional financing items. This in effect expands the requirement beyond what users might find helpful in analysing net debt movements.
- The illustrative example included in the ED seems overly simplified. Generally, a reconciliation between the opening and closing balance of long-term borrowings will reflect accrued interest, down payments, etc. It may be that the lack of such common elements in the example reflects the "net basis" approach commented on above, or alternatively, that the Board is using a somewhat less common example to illustrate the proposed requirement. If the former, we believe the Board needs to clarify that the example is illustrating the net approach. If the latter, we would suggest that the example was expanded to include elements that are common in practice to make it relevant and sufficiently illustrative.

As with the proposed disclosure requirements about financing activities, as discussed above, we are concerned the proposed additional disclosure requirement regarding an entity's liquidity may not provide useful information. This is because we find the intention and the scope of the proposal unclear, for the following reasons:

Although the term liquidity is not clearly defined in IFRS, paragraph 48 of IAS 7 states:

> "An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity *that are not available for use by the group*."

Paragraph 49 further clarifies that:

> "There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries."

These requirements seem to suggest that the liquidity of an entity should be considered from the prospective of pure legal restrictions and constraints.

However, the proposed amendment implies that the liquidity of an entity would also be affected by economic restrictions or constraints. In particular, tax liabilities arising on the repatriation of foreign cash and cash equivalent balances, considered as an example in paragraph 50A of the ED, would not result in those funds not being *available for use by the group*. However, from the economic prospective it may be that the group decides not to repatriate such funds.

Therefore, we believe that the proposed amendment potentially widens the implied notion of lack of liquidity in IFRS, and we would therefore recommend the Board to clarify if that is the intention, and in that case, paragraphs 48 and 49 should be amended accordingly.

Considering the apparent economic aspect of the liquidity definition applied by the Board in the proposed amendment, it would be helpful if the Board provides more examples on what would be considered as *"restrictions that affect the decisions of an entity to use cash and cash equivalents balances"* either within the body of the standard itself or within illustrative examples accompanying IAS 7. For instance, the focus of the proposed requirement seems to be on the transfer of funds from subsidiaries to the parent. However, there may be restrictions on the transfer of funds the other way. A parent may not have the ability to transfer cash to subsidiaries for their investment purposes due to local currency restrictions. This may be considered "relevant to an understanding of the liquidity" of the entity. Another example may be the ability of a non-controlling interest to block repatriation of cash.

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 support the proposed transition provisions.

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?

(a) See our response to (d) below.

(b) See our response to (d) below.

(c) Yes.

(d) We believe the proposed decision for the IFRS Taxonomy update to be limited to information specifically required in the IAS 7 amendment or presented in the illustrative examples limits the practical usefulness of the updated taxonomy. The taxonomy update would be more useful if it also considered anticipated common practice elements, i.e. new line items expected to be generated by a significant number of users who apply the amended standard. This would likely reduce the risk of preparers not being provided with sufficient guidance in the taxonomy, and thus reduce costs and efforts of preparers, and also improve comparability of XBRL information between preparers.

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 agree that proposing amendments to the IFRS Taxonomy simultaneously with the ED is helpful. However, we also acknowledge that the Taxonomy is directly derived from IFRS, and as such constituents should be able to provide their comments on proposed Taxonomy updates reflecting final amendments to IFRS. In particular, if the final amendments are different from the previously proposed amendments, we would be concerned if constituents are not allowed an opportunity to provide input to the Taxonomy updates.

The bases for conclusions, illustrative examples, etc., justify and explain the ED. Therefore, we believe these different elements of the ED should follow each other, and not be interrupted by proposed Taxonomy updates. Rather, the proposed Taxonomy updates should be included in an ED as a separate section. We believe this will enhance the readers' ability to appreciate the proposed amendments to the standards, and it will also reduce the risk of readers' misinterpreting the interplay between the standards and the Taxonomy.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be.

Yours faithfully,

Jan Verhoeye
Chairman BASB

New address: BASB, Vooruitgangstraat 150 – 8th floor, Office B029, B 1210 Brussels