Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

The Chair
Australian Accounting Standards Board
PO BOX 204
Collins Street
West Victoria 8007

05 May 2015

Dear Ms Peach

Ernst & Young's global submission to the IASB on the Invitation to comment – Exposure Draft ED/2014/6 *Disclosure Initiative (Proposed amendments to IAS 7)*

Following our local submission to AASB ED 258 dated 18 March 2015, please find enclosed Ernst & Young's global submissions to the IASB on the above discussion paper.

Yours sincerely

Ernst & Young

Ernst & Young

Encl

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working world

Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London
SE1 7EU

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
ey.com

INVESTOR IN PEOPLE

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

16 April 2015

Dear IASB members,

Invitation to comment – Exposure Draft ED/2014/6 *Disclosure Initiative (Proposed amendments to IAS 7)*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the Exposure Draft ED/2014/6 *Disclosure Initiative (Proposed amendments to IAS 7)* (the ED) issued by the International Accounting Standards Board (the Board) in December 2014.

We support the Board's Disclosure Initiative efforts to provide a better basis for disclosure effectiveness in the application of IFRS. However, we do not think the proposed amendments to IAS 7 *Statement of Cash Flows* are aligned with the objective of the Disclosure Initiative. More specifically, we believe the proposed additional disclosure requirements potentially will increase the disclosure overload.

If the Board decides to proceed with this proposal in its current form, we generally agree that the proposed IFRS Taxonomy changes reflect the proposed amendments to IAS 7. However, we believe the appropriate basis for an IFRS Taxonomy due process in general would be to publish the proposed IFRS Taxonomy Update when the final amendments to the relevant standard have been concluded. Therefore, we suggest that the IFRS Taxonomy due process should be a separate process.

Our concerns are explained in more detail in the Appendix as responses to the specific questions asked by the ED.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +44 (0)20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

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Appendix

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?

(a) We are concerned that the proposed amendment will add to the disclosure overload for the following reasons:

- We believe the disclosure of an entity's net debt reconciliation may well serve the needs of certain users of the financial statements in certain industries, predominantly those with significant capital investments. However, we are concerned that many other users may find this information is unhelpful and therefore adds "clutter" to the financial statements.
- We have noted that the practice of providing a net debt reconciliation or similar disclosures in financial statements, prepared in accordance with IFRS, on a voluntary basis is particularly common in those jurisdictions and industries, where such disclosures are already required under local GAAP, e.g. in the UK. However, the disclosure requirement proposed in the ED may not necessarily reconcile with the local GAAP requirements or common practices. Therefore, it may not be useful to the users relying on net debt information in their decision making process. In other jurisdictions and industries, where net debt disclosures are currently not common, the proposed disclosure may also not be perceived useful.

We recommend the Board to reconsider whether there is an appropriate basis for requiring the proposed disclosures across jurisdictions, across industries and across entities. In making this assessment, we believe it is important to recognise that entities may already, under current IFRS, provide net debt reconciliations on a voluntary basis if demanded by relevant users.

However, if the Board decides to proceed with the proposed amendment, we encourage it to consider the following:

- Assessing the need for the proposed amendment when the Principles of Disclosure project has reached a more advanced stage:
    - o As explained above, we are concerned that the proposed amendment will add to the disclosure overload and thus conflicts with the intention of the

Disclosure Initiative. It may be worthwhile to reconsider the proposed amendment after the Board has developed the principles of disclosure.

- Debt may need to be defined:
  - Although we understand the Board's concerns about defining debt, we note that the proposed amendment refers to the notion of "equity" in identifying which items shall be reconciled, and thus the proposed amendment assumes that debt can easily be distinguished from equity. This distinction is not always clear.
  - 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, vendor financing, 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 may expand the proposed disclosure beyond what users would find helpful in analysing net debt movements.
  - It may be argued that giving entities the flexibility to use their own definition of debt is a preferable approach as it will enable them to reflect key aspects of their business and respond to the specific needs of the users of their financial statements. However, we are concerned that this approach will introduce a non-GAAP measure into IFRS financial statements. The nature of such disclosure seems more in line with the type of information that is usually provided in the management commentaries elsewhere in the financial reports. Therefore, we are not convinced that, without a standardised definition of debt, this type of information lends itself well for financial statement disclosure purposes.
- Clarifying the meaning of "net basis":
  - The proposed paragraph BC8 clarifies that the disclosure may be provided on a "net basis". It is unclear whether net basis refers to balances or movements. That is, we understand that the balances being reconciled may be presented on a net basis if the movements are presented gross, but if the movements can be netted, we struggle to appreciate how the disclosure may be helpful. For instance, when an entity receives proceeds from borrowings, the increase in the amount of borrowings would correspond with the increase in the amount of cash and cash equivalents. Therefore, disclosing this movement in the reconciliation table on a net basis would not be very informative for the users of financial statements. As such, we encourage the Board to clarify what is meant by net basis presentation.

- Expanding the illustrative example:
    - The illustrative example included in the ED seems overly simplified. Generally, a reconciliation between the opening and closing balances 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 referred to 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.

The ED does not propose amendments to IAS 34 *Interim Financial Reporting*. Thus, we assume that the proposed reconciliation requirement will not be applicable to condensed interim financial statements.

(b) As with the proposed disclosure requirements about financing activities, 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. Furthermore, the nature of the disclosure required by the proposed paragraph 50A is similar to the type of information that is usually provided in the management commentaries elsewhere in the financial reports. We are not convinced that this type of information lends itself well for financial statement disclosure purposes.

If the Board decides to proceed with the proposal, we encourage the Board to consider the following:

- Although the term liquidity is not clearly defined in IFRS, paragraphs 48 and 49 of IAS 7 clarify that the current disclosure requirements regard funds "that are not available for use by the group". Furthermore, paragraph 49 exemplifies this by referring to funds "held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply". Under current practice the reference to availability is interpreted as within the restrictions imposed on the entity by external parties.

  The proposed amendment implies that the lack of liquidity for the purpose of disclosure should be given a wider definition, in that economic restrictions or constraints imposed by the entity itself on the use of its funds shall also be disclosed. This is illustrated in the proposed paragraph 50A, in which tax consequences of an entity's repatriation of foreign cash and cash equivalent balances is provided as an example of something impacting liquidity such that it requires disclosure.

  We believe the Board should clarify whether the intention of the amendment is to widen the implied notion of lack of liquidity in IAS 7, and if this is so, paragraphs 48 and 49 should be amended accordingly.

- The implied meaning of “restrictions” in the proposed paragraph 50A should be clarified, for instance in reference to:
    - Restrictions imposed by a board of directors on the use of funds that have been designated, but not yet employed, for specific investment projects
    - Situations in which non-controlling shareholders can block repatriation of cash
    - Other circumstances that commonly occur in practice
- The wording of paragraph 50 suggests that it contains a recommendation (not a requirement) to provide additional information that may be relevant to users in understanding the financial position and liquidity of an entity. Paragraphs 51 and 52 further elaborate on examples of such additional information. Yet the proposed paragraph 50A, which represents a requirement (as opposed to a recommendation), would be placed in between paragraph 50 and paragraphs 51-52, which not only would break the logical sequence, but may also create confusion as to which disclosures are required and which ones are merely encouraged or recommended.

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?

The proposed paragraph 59 clarifies that the amendments are to be applied for annual periods beginning on or after a specific date, but does not include specific transitional provisions applying to the resulting change in accounting policy. Paragraph 19 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* suggests that the default approach to account for a change in accounting policy resulting from the initial application of an IFRS is to apply the change retrospectively. However, the proposed paragraph BC17 clarifies that the IASB proposes the amendments to be applied prospectively. We believe this is confusing and also it is not clear whether the intention of the Board was to allow entities not to provide the proposed disclosures for comparative periods in the period of initial application. Therefore, we recommend the Board to clarify specific transitional provisions in the proposed paragraph 59 itself.

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?

(a) As the IFRS Taxonomy is directly derived from IFRS, constituents should be able to provide their comments on proposed Taxonomy updates reflecting final amendments to IFRS. One alternative would be to propose amendments to the Taxonomy simultaneously with the relevant ED, and then, subsequently, allow constituents to evaluate proposed amendments to the Taxonomy based on the final standard.

However, we are not convinced the first step of such a two-step exposure process would really add much benefit, but rather it could lead to unjustified additional costs.

(b) As explained above, we believe the proposed IFRS Taxonomy Update should be exposed when the final amendments have been concluded. Therefore, it should be issued as a separate document from the proposed amendments to the standard itself.