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Our ref **MV/288**  
Contact **Mark Vaessen**  
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16 April 2015

Dear Mr Hoogervorst

**Exposure Draft on Disclosure Initiative (Proposed Amendments to IAS 7)**

We appreciate the opportunity to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2014/6 *Disclosure Initiative – Proposed Amendments to IAS 7* (the ED), published in December 2014. We have consulted with, and this letter represents the views of, the KPMG network.

We support the IASB's objective to improve the information provided to users about financing activities and liquidity as part of the broader Disclosure Initiative. We understand why the IASB has limited itself to the proposed amendments. However, for the reasons explained further below, we are concerned that the IASB's proposals will not result in users receiving more relevant information about an entity's debt and movements in debt.

We consider that there are limited changes that the IASB could make that would better achieve this objective. The reconciliation could be improved by allowing the requirement to be applied based on management's judgement of an entity's specific facts and circumstances, even making use of an entity's own definition of terms like 'debt' and 'net debt', if properly explained in the financial statements. Further, we believe that inclusion in the required reconciliation of those assets that the entity intends to use to settle those debts, including cash and cash equivalents, would provide more relevant and meaningful information to users.

Similarly, the liquidity disclosures could be more beneficial to users if the scope of the requirement to describe 'restrictions' were extended to a wider range of financial assets. We are concerned that many financial assets over which such restrictions exist are unlikely to meet the definition of cash and cash equivalents.

Finally, we encourage the IASB to consider the impact of adding a reconciliation requirement on the Objective in IAS 7, as well as on the Scope (IAS 7.01 – 03). Both of these sections discuss the provision of information about cash and cash equivalents in a statement of cash flow; we

believe the proposed amendments may warrant expanding the Objective and Scope to incorporate information about an entity's financing activities and its liquidity.

The Appendix to this letter contains our detailed responses to the questions on the proposals.

In the medium term, we would expect the limited amendments made as part of this project to be further complemented on a consistent basis by the outcome of the broader discussions within the Principles of Disclosure project. However, we are supportive of making amendments in the short-term that address user demand.

Lastly, as proposed, we believe the current amendments will add to the cost/effort to prepare the financial statements, but acknowledge their potential to bring benefits to end users. It is important that the IASB consider the balance of cost to and benefit of adopting these amendments such that ultimately the former is outweighed by the latter.

Please contact Mark Vaessen or David Littleford at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

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## Appendix

This appendix contains our detailed responses to the proposals.

### Disclosure Initiative amendments

#### **Question 1: Do you agree with the proposed amendments? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?**

##### Proposed addition of paragraph 44A

We do not believe that the reconciliation proposed will provide necessarily meaningful information to users. We appreciate that the IASB has proposed this amendment in lieu of one that reconciles 'debt' because 'debt' is not defined in IFRS, and fixing such a definition will take significant time; however, we believe that the proposed solution does not achieve the objectives outlined in the ED and we are not convinced that the approach will deliver sufficient useful information to users to outweigh the cost.

We consider that the proposed reconciliation is too prescriptive and does not allow an entity appropriate flexibility to disclose information on debt and movements in debt in a manner that is most appropriate in its specific circumstances.

We note that the illustrative example in section E of the ED provides a simplistic example that works well for the liabilities shown – 'long-term borrowings' and 'lease liabilities'. However, the information becomes less meaningful when other line items in the statement of financial position that are not directly debt-related are reconciled in this manner; for example those that include financing cash flows for 'exercise of stock options' or 'redemption of preferred shares'.

To improve its relevance, we believe the reconciliation should permit an entity to use its own definitions of 'debt' and 'net debt'. While not defined in IFRS, if an entity provides its definition of these terms to complement its disclosure, then we believe transparency and appropriate consistency and comparability can be achieved.

Such an approach is supported by the results of an IASB survey of users of financial statements discussed at its March 2014 meeting<sup>1</sup>. A majority of respondents indicated that it would be sufficient if the "IASB did not define debt, but required additional disclosures about what management defines as debt...[and] if it was the responsibility of management to define debt there should be clear disclosures about what is included in the debt category."

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<sup>1</sup> Agenda Paper 11C, IASB March 2014 meeting

We believe that the proposed reconciliation is also missing a key component necessary to understand an entity's net debt: debt-management assets (described below). We believe that this component is required to provide users the information they are requesting. In the aforementioned IASB survey discussed at its March 2014 meeting, respondents indicated that areas where disclosure could be improved included "greater detail about debt to assess changes; and to improve their understanding of management strategies for managing debt."

A reconciliation of those assets an entity often uses to settle its debt ("debt-management assets") will allow users to understand cash flows related to those assets that form part of an entity's debt management strategy; however, they are not within the scope of the current proposal as they would not be considered financing cash flows. An example of such an asset may be an investment that an entity holds, the proceeds of which it intends to use to settle payments on items considered to be debt. Also included in these assets would be cash and cash equivalents, for which the aggregate movement in the period could be included as a separate line item in this reconciliation.

We consider that inclusion of this component would provide users with additional information in the noted areas for improvement. Overall, we believe that this approach will provide preparers the ability to provide the most relevant information that enables users to understand what the entity manages as debt and the financial assets that the entity intends to use to settle debt. By requiring an explanation and reconciliation of movements on these amounts, we consider the IASB can more appropriately achieve its stated objectives.

In our experience, not all sectors make use of cash flow financing activities and related information as relevant performance indicators (e.g. banking). Therefore, introducing a requirement to provide these reconciliations results in a compliance exercise for preparers – and additional financial statement clutter for users – in these sectors. We would recommend that the IASB consider how the requirements could reflect the potential lack of relevance of these disclosures in certain sectors.

#### Proposed addition of paragraph 50A

We consider that the current focus of paragraph 50A will not have the expected impact on disclosure of an entity's liquidity because the scope of the proposed disclosure requirement – cash and cash equivalent balances – is too narrow. To maximise the return on financial assets, entities may decide to convert the cash into another asset (e.g. investments) that would be considered held for purposes other than meeting short-term cash commitments. As a result, it would no longer meet the definition of cash or cash equivalents as defined in IAS 7.6 and 7.7.

In these cases, financial assets that are subject to restrictions on their use or repatriation are unlikely to be cash and cash equivalents and so are beyond the scope of paragraph 50A; as a result, the additional disclosure requirements will not apply. To achieve more useful disclosure, the IASB could broaden the scope of any new disclosures to include these other financial assets, which is in line with both the advice received from the Global Preparers Forum noted in BC13 of the ED, as well as the need to highlight cash flows related to 'debt-management assets' (as defined

above and similar to that discussed in a wider UK Financial Reporting Council and Board discussion<sup>2</sup> on ‘liquid assets’).

Notwithstanding a widening of the scope as above, we do not believe the wording of the proposed paragraph 50A is clear. The proposed guidance requires an entity to consider matters such as restrictions affecting the decisions of an entity to use cash and cash equivalent balances, and provides an example of such a restriction being tax liabilities that would arise on repatriation of foreign cash and cash equivalents. Tax implications are a disincentive, rather than a true ‘restriction’, so we assume that the IASB wishes the word to be read in the widest sense. However, there is a danger that the term may be interpreted in its more natural, narrower sense. We do not disagree with the wider intention but would urge the IASB to reconsider its use of the word ‘restriction’ and / or to explain its use, such as adding additional examples of its wider intent.

#### Interim financial statements

The IASB has not proposed any consequential amendment to IAS 34 *Interim Financial Reporting* for these disclosures to be included in interim financial statements. While it could be argued that such disclosures would fall under the IAS 34.15 requirement to include “an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of an entity since the end of the last annual reporting period”, given the importance that many investors place on interim financial reporting, the IASB should make clear its intent as to how these proposals interact with IAS 34.

#### **Transition provisions**

##### **Question 2: Do you agree with the proposed transition provisions for the amendments to IAS 7 as described in the Exposure Draft? If not, why and what alternative do you propose?**

We are confused by the transitional provisions. Paragraph 59 contains no guidance beyond the usual retrospective application guidance in accordance with IAS 8.22; however, the BC refers to prospective application.

Also, we are uncertain as to the meaning of prospective application in the context of this disclosure-only standard. Some may read this as an exemption from providing comparative information, while others may assume the IAS 1 comparative requirements still apply – in particular given the preamble included to Example E.

We recommend that the IASB clarify its intention in respect of the transition rules and ensure that they are adequately explained in the standard and the BC.

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<sup>2</sup> Agenda Paper 11B, IASB December 2014 meeting

## **IFRS Taxonomy**

**Question 3(a): Are the amendments reflected at a sufficient level of detail?**

**Question 3(b): Should any line items or members be added or removed?**

**Question 3(c): Do the proposed labels of elements faithfully represent their meaning?**

**Question 3(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?**

As we have stated in our comments above, we consider the illustrative example to be overly simplistic. We have also suggested that entities should be permitted to use judgement to select the line items used in the reconciliation. Therefore, we believe the proposed list of elements to be added to the IFRS Taxonomy should not be limited to the information required by the IASB's proposals in this ED and suggest that the IASB consider whether there are any common practice elements that could appropriately be added to the Taxonomy. Otherwise, we have no further comments.

## **IFRS Taxonomy due process**

**Question 4(a): Do you agree with the publication of the proposed IFRS Taxonomy Update at the same time that an Exposure Draft is issued?**

Our understanding of the IASB's experience is that there are benefits to the development of the Taxonomy in conjunction with the development of new or amended IFRSs. We understand that the IASB believes that the concurrent development of the Taxonomy can help to ensure that proposed disclosure requirements are clear and achieve the intended result. On this basis, we support the development of the Taxonomy in conjunction with an ED, at least for less complex proposals such as this IAS 7 amendment, and its exposure for comment at that time.

We are less convinced that this would be an efficient process for more complex, longer-lasting projects that may go through various stages of development before finalisation. In these cases, a consultation on the Taxonomy would be better done either separately or at a stage near finalisation.

**Question 4(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 have no additional comments in this area.