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17 April 2015

Dear Sir

Exposure Draft ED 2014/6: Disclosure Initiative - Proposed amendments to IAS 7

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the ED.

We fully support the principles of the IASB's Disclosure Initiative project. However, we are not convinced that it is appropriate for the proposed changes to be made to IAS 7. In particular, it is not clear that the amendments would result in the disclosure of a complete population of items that are used to finance an entity's activities. We suggest that it would be more appropriate to develop additional requirements as part of the Principles of Disclosure element of the Disclosure Initiative project, in order that a sounder conceptual basis can be developed for any changes that are to be introduced.

For the question of the inclusion of updates to the IFRS Taxonomy in each of the IASB's exposure drafts, while we acknowledge that there could be some advantages, we do not support this approach. We are concerned that the complexity of associated changes to the IFRS Taxonomy, in particular for new and significantly amended IFRSs, could result in the issue of new proposals being delayed; in addition, there are often substantial changes between the exposure draft and final standard stages, and the development of changes to the IFRS Taxonomy for exposure drafts could therefore be an inefficient approach. We are also concerned at the risk of the development of new and amended IFRSs being influenced by the relative ease with which their requirements could be reflected in the IFRS Taxonomy, which we believe would be inappropriate.

Our responses to the questions in the ED are set out in the attached Appendix.

[1] Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels. Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.
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We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Andrew Buchanan

Global Head of IFRS

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?

We do not agree with the proposed amendments.

We note that the IASB decided not to attempt to define net debt as it considered that this could have been difficult and might have delayed the project (see paragraph BC5). Instead the focus is on items classified within financing activities in the statement of cash flows. While a reconciliation based on those items might provide some useful information, we are not convinced that this will provide users of financial statements with the improved disclosures that they suggested were necessary (see paragraph BC2).

The proposed amendments would appear to capture only some, but not necessarily all, of the items that an entity might consider to be part of its financing activities. While we can understand the rationale for excluding equity items, we find the apparent optionality for the inclusion of cash and cash equivalent balances (see paragraph BC8) more difficult as these typically form an integral part of the overall (net) financed position.

By basing the scope of items for inclusion in the reconciliation on whether they are classified for cash flow purposes as financing, questions may arise about items which are only partially classified as financing. It appears that the intention may be for those items to be partially included, and it would be appropriate for this to be made clear if the proposals are taken forward. Again assuming that partial inclusion is intended, it would also be appropriate to clarify the extent to which those items should be reconciled to line items in the statement of financial position. We note that difficulties may also arise for debt securities when interest cash flows are classified as operating rather than financing.

We also note that the Principles of Disclosure element of the project is in its early stages. Rather than introducing new requirements, as proposed in the ED, we consider that the question of circumstances in which reconciliations of opening and closing balances should be provided, and the balances for which reconciliations should be given, should be addressed as part of that wider project. This would enable the information to be disclosed to be identified on an appropriately conceptual basis, and the related practical issues around the implementation of any new requirements to be dealt with.

We also disagree with the proposals for additional information about liquidity. In particular, it is not at all clear how these disclosures would provide information that is in addition to that already required by paragraph 13 of IFRS 12 *Disclosures of Interests in Other Entities*. We suggest that, as with the reconciliations themselves, that any additional disclosure requirements are considered as part of the Principles of Disclosure project.

If the IASB does decide to proceed with the proposals set out in the ED, we suggest that the following amendments are made to enhance the quality of information that is provided:

- In the proposed table showing components of financing activities (excluding equity), the cash flows should be grossed up in order that new financing arrangements are shown separately from repayments; and
- As a consequential amendment, IAS 16.73(e) and IAS 38.118(e) should require the separate presentation for those assets acquired for cash and non-cash consideration.

In addition, it would be appropriate to clarify whether the proposed reconciliation is considered to form a component of the statement of cash flows, or is simply an additional disclosure requirement. This may have an effect on interim financial reports prepared in accordance with IAS 34.

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?

In paragraph BC17, the IASB notes its proposal that the amendments should be applied prospectively from their effective date. However, this is not reflected in the text of paragraph 59, which implies that retrospective application in accordance with IAS 8 would be required. In order that the IASB's intention is made clear, and to avoid questions being raised in future about requirements for comparative information, we suggest that the transitional provisions are amended to read:

> 59. [Draft] *Disclosure Initiative* (Amendments to IAS 7) issued in [date], added paragraphs 44A and 50A. Those amendments shall be applied prospectively as of the beginning of the annual period in which they are initially applied. Comparative information is not required in the annual or interim financial statements of the annual period of adoption. 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.

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?*

It is not entirely clear that the Taxonomy would include all items identified in IAS 7.17 as giving rise to financing cash flows, as the proposed Taxonomy refers to long term borrowings and lease liabilities.

Question 4 - IFRS Taxonomy due process

As reference 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 acknowledge that there would be advantages of accelerating the timetable for the publishing proposed changes to the IFRS Taxonomy, with these being published at the same time as the related proposals to issue or amend IFRSs. However, we are not convinced that this would be an appropriate approach.

While the concurrent exposure of proposed changes to the IFRS Taxonomy may be relatively straightforward in cases such as the proposed amendments to IAS 7, it could be significantly more difficult for a new IFRS or more comprehensive amendment. Consequently, we believe that careful consideration would need to be given to the potential for delay to be introduced to the standard setting process, which we consider would be inappropriate. It is also frequently the case that proposals set out in an Exposure Draft change (sometimes significantly) by the time a final standard is published, and the inclusion of proposed changes to the IFRS Taxonomy in an Exposure Draft might be at too early a stage in the standard setting process.

We also believe that the development of new and amended IFRSs should be focussed on enhancing the quality of financial reporting, including transparency of disclosures. We do not believe that it is appropriate, when considering the question of whether a particular disclosure should (or should not) be required by a new or amended standard, to be influenced by the relative ease with which that disclosure could be incorporated into the IFRS Taxonomy.