CFA Society United Kingdom

16 April 2015

IASB
30 Cannon Street
London EC4M 6XH

Response to exposure draft ED/2014/6:
Disclosure initiative: Proposed amendments to IAS 7 *Statement of Cash Flows*

The Financial Reporting and Analysis Committee (FRAC) of the CFA Society of the UK (CFA UK) welcomes the opportunity to respond to the IASB's exposure draft on proposed amendments to IAS 7. CFA UK represents more than 10,000 investment professionals working across the financial sector including asset managers, buy-side analysts, sell-side analysts and credit rating analysts, among others. For advocacy purposes in the field of financial reporting, these members are represented by the FRAC.

Understanding changes in a company's gross and net debt position and the liquidity of its cash and cash equivalent resources is an important part of the risk assessment process of investors. This proposal is a step in the right direction, as it satisfies investors' minimum requirements.

Generally speaking, investors focus on a company's net debt position. Defining precisely which assets and liabilities should be included in net debt is subjective and hence we appreciate why a definition of net debt has been excluded from these proposals for expediency. Investors can make their own calculations of net debt provided balance sheet disclosure is sufficiently granular.

Nevertheless, we believe that an IFRS definition of net debt would improve the comparability of net debt figures currently reported by companies to the financial community. We would encourage the IASB to work towards a definition of net debt in the future. Once this is defined we would, of course, wish to see a reconciliation of net debt between reporting periods rather than the proxy reconciliation (based on cash flow financing items) that is currently proposed.

On a separate but related note, investors would like greater disclosure on debt covenants as these can clearly have a material impact on the value of an equity instrument, yet disclosure is voluntary and not always forthcoming.

Below we respond to your specific questions:

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?

Response:
The proposed amendment 44A would provide useful additional disclosure regarding changes in financial obligations arising from non-cash changes. In addition to disclosing the impact of a change in perimeter we would also like a breakdown of other non-cash changes to be disclosed, specifically: foreign exchange movements, changes in fair values and changes in lease liabilities. The requirement for this breakdown is not immediately clear to us from the draft. We believe it should be made clear that the illustrative example provided is a highly simplified one and that additional columns and rows are likely to be needed for the disclosure to be useful.

The proposed amendment 50A would provide useful information regarding the tax implications of repatriating foreign cash holdings. However, we are not sure that the wording is sufficiently clear to make companies disclose all restrictions, other than tax, on converting cash tied up in foreign subsidiaries into the domestic currency and repatriating. Generally, we would like greater disclosure on both the geographic location of cash balances and the currency in which the cash is held.

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?

Response:
We are comfortable with the disclosure to be prospective rather than retrospective. However, we would like to see at least half yearly disclosure of the reconciliation rather than just annual.

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?

Response:
We find it useful to have this taxonomy information as it aids our understanding of the proposal. However, we are unclear why only long-term borrowings, and not short-term borrowings, are included in the table of components on page 11 and the example on pages 8 and 12.

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?

Response:
Yes we find the taxonomy helps our understanding of the proposed change.

We would welcome further discussions on the issues raised in this response.

Yours sincerely,

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About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 10,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

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