

Need to know

IASB proposes amendments to IAS 7 Statement of Cash Flows under the Disclosure Initiative

In a nutshell

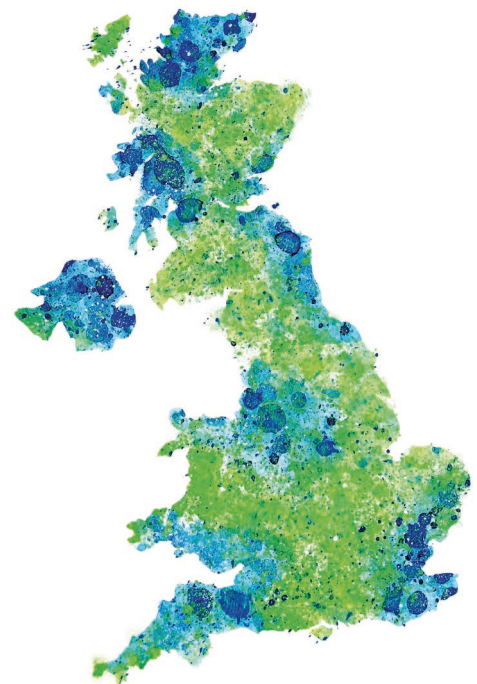
- The Exposure Draft ("ED") proposes amendments to IAS 7 *Statement of Cash Flows* to improve information provided to users of financial statements about an entity's financing activities and liquidity.
- The proposed amendments would require an entity to provide (i) a reconciliation of the amounts in the opening and closing statement of financial position for each item for which cash flows have been, or would be, classified as financing activities, excluding equity items; and (ii) disclosure about matters that are relevant to understanding the entity's liquidity, such as restrictions that affect the decisions of an entity to use cash and cash equivalent balances.
- Comments on the proposals are due by 17 April 2015.

This edition of Need to know outlines the proposed amendments to IAS 7 *Statement of Cash Flows* set out in the recent Exposure Draft ED/2014/6 issued in December 2014 for public comment.

Why are amendments being proposed?

The amendments proposed in ED/2014/6 *Disclosure Initiative: Proposed amendments to IAS 7* result from the IASB's Disclosure Initiative, which comprises several smaller projects to improve presentation and disclosure requirements in existing Standards. As part of the Disclosure Initiative, the IASB has already issued ED/2014/1 in March 2014 which proposed amendments to IAS 1 *Presentation of Financial Statements*. The Disclosure Initiative is seen as a complement to the IASB's comprehensive review of the Conceptual Framework, which is currently taking place and includes considerations to improve presentation and disclosure guidelines for future Standards.

The main objective of the proposed amendments to IAS 7 is to improve information about (i) changes in an entity's liabilities that relate to financing activities in the statement of cash flows; and (ii) the availability of cash and cash equivalents and restrictions affecting an entity's decisions to use the cash and cash equivalent balances (including foreign exchange controls or tax implications associated with cash repatriation).



What are the proposed amendments?

The proposed amendments would require an entity to provide the following information.

- i) A reconciliation of the opening and closing amounts in the statement of financial position for each liability for which cash flows have been, or would be, classified as financing activities in the statement of cash flows.

The reconciliation should include:

- a) opening balances in the statement of financial position;
- b) movements in the period, including: (i) changes from financing cash flows; (ii) changes arising from obtaining, or losing, control of subsidiaries or other businesses; and (iii) other non-cash changes (for example, the effect of changes in foreign exchange rates and changes in fair values); and
- c) closing balances in the statement of financial position.

The ED proposes to add the following illustrative example:

Components of financing activities (excluding equity)					
	20X1	Cash Flow	Non-cash changes		20X2
			Acquisition	New leases	
Long-term borrowing	1,040	250	200	–	1,490
Lease liabilities	–	(90)	–	900	810
Long-term debt	1,040	160	200	900	2,300

Observation

The liabilities to be included in the reconciliation would be those for which the related cash flows meet the current definition of financing activities in IAS 7. The proposed amendments would not prohibit disclosures being provided on a net basis (i.e. liabilities relating to finance activities less cash and cash equivalents) because some entities manage debt on a net basis and the IASB did not intend to limit management's ability to explain its financial and risk management strategies.

- ii) Disclosure of restrictions that affect the decisions of an entity to use cash and cash equivalent balances, including tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances.

Observation

The IASB decided to require additional disclosures about the entity's ability to use cash and cash equivalents to address concerns raised by investors that although cash and cash equivalents may be available to settle debt or be used for other purposes, restrictions may exist that affect the entity's decisions to use the cash or cash equivalents. This situation could arise from existing economic restrictions (for example, the cash and debt are in different jurisdictions and using the cash to settle debt would trigger a tax payment) or from legal restrictions on the ability of the entity to freely use the cash.

In their analysis, the IASB considered existing requirements to disclose restrictions of cash and cash equivalents:

- IAS 7 requires the disclosure of significant cash and cash equivalent balances that are held by an entity that are not available for use by the group; however, this requirement does not address the situation where cash and cash equivalents may be available but as a result of restrictions the entity has assessed that it is more economical to use alternative sources of finance;
- IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose significant restrictions to access or use the assets and settle the liabilities of the group; however, the IASB felt that this disclosure does not address economic impediments.

Proposed effective date, transition requirements and comment period

The ED does not specify an effective date and earlier application is proposed to be permitted.

The IASB will determine the effective date as part of considering the comments they receive on this ED.

The proposed amendments would be applied prospectively. There are no transition requirements considered in the ED.

Comments on the ED are due by 17 April 2015.

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