17 April 2015

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2014/6 – *DISCLOSURE INITIATIVE*: PROPOSED AMENDMENTS TO IAS 7 – *STATEMENT OF CASH FLOWS*

In response to your request for comments on ED/2014/6 – *Disclosure Initiative*: Proposed Amendments to IAS 7 – *Statement of Cash Flows,* attached is the comment letter prepared by the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, investment analysts, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Prof Danie Coetsee
Chairman of the Accounting Practices Committee

Bongeka Nodada
Project Director – Financial Reporting Standards

SAICA SUBMISSION ON ED/2014/6 – *DISCLOSURE INITIATIVE*: PROPOSED AMENDMENTS TO IAS 7 – *STATEMENT OF CASH FLOWS*

GENERAL COMMENTS

We support the International Accounting Standards Board's (IASB or Board) in its efforts to improve the effectiveness of disclosures in relation to an entity's financing cash flows, however, we do not support the publication of these amendments.

As noted in the alternative view on page 20 of the exposure draft, we also believe that until the principles of the disclosure initiative are finalised, it would be premature to issue these amendments. It would be appropriate to wait and address the requests from users of financial statements as part of the broader consideration of such matters in the Principles of Disclosure research project. In addition, without a clear vision of future overall improvements to IAS 7 – *Statement of Cash Flows* and without an understanding of the framework of the disclosure initiative, the IASB may run the risk of requiring disclosures that do not necessarily meet users' needs, and that may require further amendments in the future.

If there is need for the IASB to introduce selective disclosure amendments to standards, prior to the completion of the Disclosure Initiative Project, we believe that it would be necessary for the IASB to consider and note in the Basis of Conclusions the following:

- why the additional disclosures are being requested and from what source they originate;
- why the existing disclosures are deficient in providing information that is both relevant and faithfully represent transactions and events to users of the financial statements; and
- how the new disclosures will meet the needs of such requests in providing incremental relevance and faithfully represent information to the users of the financial statements.

Should the IASB proceed and issue the proposed amendments, we have provided our responses to the questions below.

SPECIFIC COMMENTS

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 consider that paragraph 44A should meet the objectives of providing relevant information regarding financing cash flows that meet users' information needs. We are concerned that, due to the lack of clarity as to the purpose of the request of users, as well as what are the objectives and principles contained in the proposed amendments, the application of the proposed reconciliation in paragraph 44A would not necessarily provide the relevant and decision-useful information for users. We therefore recommend that the objective and principles of the amendments be clarified in the Basis for Conclusions.

These proposed amendments focus on providing information about the entity's financing activities, excluding equity items. We do not believe that focusing on one element (i.e. the debt element) of financing activities will assist in fulfilling the information needs of the users. We believe that investors would be interested in both aspects of funding (debt and equity), in order to better understand the gearing, liquidity and funding as a whole, of an entity. For example, in some jurisdictions, the ability for the entity to issue equity without further shareholders approvals may be an important component in the entity being able to settle its debt obligations.

We further note that the proposed amendments do not explain how compound instruments would be treated, if equity items are specifically excluded.

It is not clear how the reconciling items as set out in paragraph 44A(a)-(c) would meet the users' information needs. Further, some members were concerned about the operational difficulty of preparing such information on a consolidated basis. In addition, the view of some members was that the Board should consider disclosures that require cash flow information by geographical location/segments as part of the IFRS 8 – *Operating Segments* requirements, as this would provide more useful information to the users than the proposed reconciliation in aggregate.

We would also suggest that the examples in paragraph 44A(b)(iii) be aligned to the examples contained in the Illustrative Example. That is, 'New leases' is shown as a non-cash item, however, this is not specifically listed in paragraph 44A(b)(iii). In addition, we note that interest accruals are not considered in either the proposed paragraph or the example.

Paragraph 44A requires a reconciliation for *'each item for which cash flows have been, or would be, classified as financing activities'*. It is unclear from the amendments what is being referred to in relation to cash flows that '*would be'* classified as financing activities.

Paragraph 50A states "*An entity shall consider matters such as* ***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*". [Emphasis added]. It is unclear what is meant by 'restrictions' in the context of paragraph 50A and specifically, how this term would apply in the context of separate and consolidated financial statements. We presume that paragraph 50A is broader than the existing paragraph 48 in IAS 7. We consider that the proposed paragraph 50A is unclear as to whether restrictions should incorporate only legal restrictions, or restrictions imposed by management, or restrictions arising from administrative matters, or restrictions due to economic compulsion. We suggest that the IASB provide a clear definition of this term before these amendments are published.

Further some participants were concerned that the sentence *"If these, or similar, matters are relevant to an understanding of the liquidity of the entity, those matters shall be disclosed"*, in paragraph 50A, did not prescribe what information should be disclosed. These participants felt that the wording was too broad which could lead to inconsistencies regarding the type of information that is disclosed.

It is also unclear how the proposed amendment in paragraph 50A, which requires an entity to provide additional information that may be relevant to understanding an entity's liquidity, will interact with the existing disclosures required in IFRS 7 – *Financial Instruments: Disclosures* on liquidity risk. We request clarification to be provided in the Basis for Conclusions in this regard.

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?

We recommend that paragraph 59 of the exposure draft be revised to clarify that the proposed amendments will be applied prospectively. This would then be consistent with paragraph BC17 of the exposure draft.

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?

We do not provide any comments on the proposed IFRS Taxonomy changes.

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?

We do not agree with the proposed due process.

We believe it would be premature for efforts to be made in producing an IFRS Taxonomy prior to the finalisation of any standard/amendment/interpretation. The taxonomy is derived from the final standard/amendment/interpretation and not from exposure drafts.

We anticipate that the publication of the 'draft' IFRS Taxonomies at the same time as an exposure draft could cause delays in the due process required to publish a final standard/amendment/interpretation. For example, incorporating this in major IFRS projects, such as the leasing project, these additional processes may exacerbate the normal due process that an exposure draft would follow.

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