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

Dear Hans,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Exposure Draft (hereafter ED) Disclosure Initiative – Proposed amendments to IAS 7, issued on 18 December 2014.

IFRS technical amendments

We agree with the two additional disclosures proposed in the ED. Both are a step in the right direction to enhance users’ understanding of an entity’s cash flows, financing and liquidity and thus both will be useful to users in making decisions about providing resources to the entity.

However, whilst such disclosures will be useful in the short term, they should not preclude further work to be carried out within the IASB’s Disclosure Initiative projects on respectively the notions of debt and net debt, the reconciliation of which has consistently been requested by users, as well as on how to better portray the location and availability of assets and liabilities.

In this context, regarding the reconciliation of financing items, excluding equity, our understanding from the Basis for conclusions, with which we agree, is that this requirement does not prevent these disclosures from being provided in the form of a net debt reconciliation.

We provide in the Appendix drafting suggestions related to both proposed amendments.
IFRS Taxonomy update

We are much more circumspect about and not favourable to the proposed IFRS Taxonomy update process for the reasons exposed hereafter.

We do however understand that, as mentioned in the consultation, it is a trial for a proposed due process, and appreciate to be able to comment on it.

We are concerned with the place this taxonomy update will take in relation to the IFRS technical content. We are first concerned about the taxonomy constraining the standard setting process both as regards the principle-based character of IFRS as well as the IASB’s resources and timing entailed by such process. In addition we are concerned about the burden imposed on respondents. We consider that the IASB’s focus should remain on setting high quality standards based on principles and not on a developing a reporting tool amongst others.

As for the content and format of the update, we note that this update in the context of IAS 7 is relatively simple. Yet, even though the update is aimed at readers who are not required to have any knowledge of the XBRL technical format, the terminology and format used are unfamiliar and not very straightforward. We are therefore concerned about what updates alongside major new proposed IFRSs would look like and the time which would be needed to analyse and comment them.

In addition, recent history of the standard setting process has shown that there may be significant differences between an exposure draft and the final standard issued, therefore raising for all parties involved a cost/benefit issue. If at all, the process of bringing the taxonomy for consultation should only be made during the time between when the standard is published and its effective date.

In trying to better understand the update and provide useful comments to the questions raised by the IASB, we have looked at other documents on the ifrs.org/xbrl website and would suggest that, should future updates be published for consultation, they take the more “IFRS-like” format of the IFRS Taxonomy Illustrated. However, as this document comprises references coming from common practice, it is unclear how these are taken into account and how this should be considered in relation to the IASB’s consultation which is limited to information required by the proposed amendments to IFRS or presented in the illustrative examples.

Our detailed comments to the questions raised in the Discussion Paper are set out in the Appendix.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin

Head of Financial Reporting Technical Support
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?

Reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows are classified as financing activities, excluding equity items
We agree with the proposed amendment. It is a step in the right direction towards information requested by users of financial statements, namely a net debt reconciliation which is already provided by some preparers.
We also consider that, as mentioned in the Basis for conclusions, it should be clear to preparers and users that this does not prevent these disclosures from being provided in the form of a net debt reconciliation.
However, being short term fixes, we consider that they should not preclude further work by the IASB on the notions of debt, net debt and on the reconciliation of these notions within its Disclosure Initiative. In this context, discussions which occurred around the previous Financial Statements Presentation project on the specific topic of the financing section should be useful input.
We would however suggest a change in drafting of the illustrative example as the notion of “long-term debt” presented as a total is undefined in IFRS, could create confusion in view of the existing ‘current and non-current’ terminology, and ill fits with the IASB’s explanation in the Basis for conclusions that it does not use the term debt because it is undefined and would take some time to get agreement on. We note by the way that the proposed taxonomy update does not refer to this term either.

Additional disclosure on restrictions that affect the entity’s decisions to use cash and cash equivalent balances
We agree with the proposed additional disclosure. As for the previous amendment, it is a step in the right direction to enhance users’ understanding of an entity’s liquidity.
We do however understand the reasons provided by Mr Ochi in his dissent, especially as relates to the fact that the consolidated statement of cash flows does not provide any information about the location and availability of assets and liabilities.
We therefore would encourage the IASB to further work on these aspects within its Disclosure Initiative.
In addition, we suggest that the notion of “legal and/or economic” restriction be added in the drafting of the requirement so that it cannot be read in the sole context of the example provided regarding tax liabilities which would be generated upon repatriation of cash and cash equivalents.
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 agree with the proposed prospective application of the proposed amendments as they bear no impact in terms of recognition and measurement.

However, § 59 could usefully be redrafted in a more understandable way as to it requiring prospective application. As it is currently stated, it is explicit only in the basis for conclusions (BC17).

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?

See answer to question 4.

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?

Preliminary remarks

As noted by the IASB, this part of the consultation is a trial of the proposed due process regarding the IFRS Taxonomy.

Not being XBRL experts, in order to be able to provide an assessment of the proposed IFRS Taxonomy update, we have proceeded as described hereafter.
We have first read through the two documents referenced in the ED:

- Guide to Understanding the IFRS Taxonomy Update

Even though these documents are helpful in providing background and a better understanding of the structure of the taxonomy and the terms used in the IFRS Taxonomy Updates, the terminology and format are not straightforward.

We have therefore sought to look at some other documents provided on the IFRS.org/XBRL pages of the website and in particular have looked at IFRS Taxonomy Illustrated (organised by IFRS) (http://www.ifrs.org/XBRL/Resources/Pages/IFRS-Taxonomy-Illustrated-2014.aspx).

Assessment of process and content

We have found the IFRS Taxonomy Illustrated to be more reader-friendly and more accessible to people with no knowledge of the XBRL technical format but who are familiar with IFRS and IFRS financial statements, as the “look and feel” is more “IFRS-like”. We would therefore propose that, should this due process be confirmed, the update be published in the format of the IFRS Taxonomy Illustrated.

Our position is reinforced by the fact that within the context of this ED, the proposed update is relatively simple. We do have concerns about what an update related to a major proposed IFRS would look like and the time it would impose on respondents to analyse and comment on.

In particular, at first reading of the ED, it appears counterintuitive for the table of the illustrative example to be presented in the update in what could appear to be in an inverted dimension.

From our going through the various documents a number of questions have arisen in conjunction with the questions asked in this ED as the documents include wider aspects and notions than those included in the ED:

- The ED limits the proposed list of elements to be added to the IFRS Taxonomy to information required by the proposed amendments to IAS 7 or presented in the illustrative examples in IAS 7: without disagreeing with this, we note that the guide mentions – and the Illustrative Taxonomy comprises – references such as ‘common practice’ and ‘entity specific’:
  - There is however no indication of the criteria that need to be met in terms of empirical analysis for references to be considered as ‘common practice’ and therefore warrant inclusion in the taxonomy;
  - There is no indication as to the timing over which ‘common practice’ references may start to be included in the taxonomy;
- For some topics, usually when requirements build on existing requirements, such as in this ED, it could be useful to indicate what an entity-specific reference/label could be (even though it is not included in the IASB’s taxonomy): for instance, in this ED, there could be examples of the various line items which are considered as financing and already exist in the taxonomy (e.g. non-current borrowings, current borrowings, bonds, notes & debentures) or may be found in real-life examples.

- Should the IASB want to limit the proposed list of elements to be added or changed, it would follow that there would need to be a core taxonomy which is limited to similar items for all standards by which the updates may be assessed.

- The ED asks whether the level of detail is appropriate. Given the level of detail in the IFRS Taxonomy Illustrated (which includes common practice references), it is difficult to evaluate as one could wonder why:

  - The line item ‘Increase (decrease) through financing cash flows, items for which cash flows are classified as financing activities, excluding equity items’ is not broken down further using current and non-current notions for instance (not included in IAS 7 but in IAS 1);
  - The line item ‘Increase (decrease) through obtaining or losing control of subsidiaries or other businesses, items for which cash flows are classified as financing activities, excluding equity items’ is not broken down further in ‘obtaining control’ and ‘losing control’;
  - The line item ‘Increase (decrease) through other non-cash changes, items for which cash flows are classified as financing activities, excluding equity items’ is broken down in three further lines, two of which being mentioned in parentheses in the amendment and the third in the illustrative example.

As regards the publication of the taxonomy update alongside the ED, whilst we understand the IASB’s objective of streamlining the work of the two teams (standard-setting and taxonomy), we are concerned that:

- The taxonomy process could constrain principle-based standard-setting in a process similar to disclosure checklists and also in terms of the IASB’s resources and the timing of publication;
- The exposure of the taxonomy would impose a review burden on the respondents and to a certain extent constrain/frame their thinking also as regards the accounting technical content of the consultation;
- The review burden could be such that the rate of response to the IFRS technical content and to the taxonomy may be significantly different or could lead to longer consultation periods being requested;
- The taxonomy is given as much prominence as the standard setting process. We consider that the IASB’s focus should be on setting high quality IFRS based on principles and not on developing a reporting tool which, for the time being, is not imposed by all regulators for filings and therefore provides for a certain degree of uncertainty as to the cost/benefits ratio of defining the taxonomy for one tool amongst others;
Recent history of the standard-setting process has shown that there may be significant differences between an exposure draft and the final standard issued, therefore raising for all parties involved a cost/benefit issue. If at all, the process of bringing the taxonomy for consultation should only be made during the time between the publication of a standard and its effective date.

Conclusion
In view of the above, Mazars is not favourable to the process of issuing a Taxonomy proposed update alongside an exposure draft. If at all necessary, we consider that a consultation on the taxonomy should be performed after the standard is published and before its effective date, provided a number of issues expressed above are clarified.