Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Sent electronically through the IASB Website (www.ifrs.org)

17 April 2015

Mr Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

IASB Exposure Draft ED/2014/6 *Disclosure Initiative*
(Proposed amendments to IAS 7)

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft (ED).

We appreciate the IASB's work undertaken as part of the Disclosure Initiative, particularly the effort to improve the effectiveness of disclosures in financial statements. We therefore support the IASB's proposal to improve disclosures relating to an entity's liquidity.

However, we have significant concerns about the proposal to require a reconciliation of cash flows that have been or would be classified as 'financing activities' in the statement of cash flows, except for equity items, and accordingly are compelled not to support this proposal.

Our responses to the questions raised in the ED are explained in more detail in the Appendix.

If you have any questions regarding the matters raised in this letter, please contact me or Katherine Leung, our Manager in Standard Setting, at katherineleung@hkicpa.org.hk.

Yours sincerely,

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Head of Financial Reporting

CN/KL

Encl.

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Detailed comments on IASB ED/2014/6 *Disclosure Initiative* (proposed amendments to IAS 7)

<u>Question 1- Disclosure Initiative amendments</u>

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?

<u>Proposed amendments in paragraph 44A of the ED</u>

We have significant concerns about the proposal to require a reconciliation of cash flows that have been, or would be, classified as 'financing activities' in the statement of cash flows, except for equity items.

We consider that there is a lack of principle for requiring a reconciliation on 'financing activities' and it is not clear why a reconciliation only on 'financing items' would be useful. We suggest that the IASB should develop a principle as part of its Disclosure Initiative project for why and when reconciliations should be required.

We note in paragraph BC4 of the ED that investors would be interested in an entity's sources of financing (which we believe should include equity as well as debt), how those funds are deployed over time and the risks associated with those financing. Given this interest, it is not clear why the proposals would require cash flow movements from financing activities that are debt in nature and not equity. Furthermore, we are aware that some entities would not necessarily classify items that are debt in nature, such as borrowings, derivatives and debt-factoring arrangements, as a 'financing activity' as defined in IAS 7 because it may be more appropriately classified as an 'operating item'. If these items were classified as operating items due to, for example, the nature of the business, the aim of the proposed reconciliation would not be met.

We also note in paragraph BC5 of the ED that the IASB has not defined 'debt' on the basis that 'finding a commonly agreed definition of debt would be difficult and that attempts to find a definition could delay the project'. Because investors have highlighted the need for improved information about an entity's debt [as mentioned in paragraph BC2 of the ED] but there is no clear definition of what constitutes 'debt', we are concerned that entities would develop their own interpretation of the proposed requirement, which may ultimately lead to diversity in practice.

We think that instead of finding a commonly agreed definition of debt, the IASB could put the onus on entities to define what constitutes sources of financing. We note that

IAS 1 *Presentation of Financial Statements* already requires to some extent disclosures about an entity's capital management, e.g.:

- paragraph 134 of IAS 1 requires information that enables users to evaluate the entity's objectives, policies and processes for managing capital;
- paragraph 135(b) of IAS 1 requires a summary quantitative data about what the entity manages as capital and explains that some entities regard some form of debt as part of capital; and
- paragraph 135(c) of IAS 1 requires changes in the summary quantitative data from the previous period.

In this regard, we think that these existing IAS 1 disclosures could be expanded or modified to include an entity's broad sources of financing to meet the needs of investors, and the IASB could consider whether an entity should disclose what it manages as sources of financing.

In view of our concerns highlighted above, we consider that any benefit from requiring the reconciliation as proposed in the ED would be outweighed by the costs for providing the reconciliation.

Proposed amendments in paragraph 50A of the ED

We support the IASB's objective to improve disclosures relating to an entity's liquidity. However, we recommend that the IASB provide more examples on what restrictions would affect an entity's decision to use cash and cash equivalent balances.

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?

If the IASB proceeds to finalise the proposals in this ED, including the proposed amendments in paragraph 44A, we would support applying the proposed amendments prospectively and permitting early application.

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?

IFRS Taxonomy is not mandatorily required for use in Hong Kong and therefore we do not have direct responses to Question 3.

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?

Regarding Question 4(a), we would not support the publication of proposed amendments to IFRS Taxonomy at the same time of an ED if the inclusion of any taxonomy proposals or requirements were to slow down the principal standard-setting process.