

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

**Ref: The IASB's Exposure Draft *Disclosure Initiative*: Proposed amendments to  
IAS 7 *Statement of Cash Flows***

Dear Mr Hoogervorst,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to the IASB's due process regarding the Exposure Draft (ED) *Disclosure Initiative*: Proposed amendments to IAS 7 *Statement of Cash Flows*. We are pleased to provide you with the following comments with the aim of improving the enforceability of IFRSs and the transparency and decision usefulness of financial statements.

ESMA agrees with the need to improve the requirements on reporting of cash flows in IFRS financial statements. In light of the importance of the analysis of information from cash flows for users' investment decisions and multiple issues identified by European enforcers when performing examinations in relation to statements of cash flows, ESMA urges the IASB to perform a fundamental review of IAS 7 on a timely basis, as part of the *Principles of Disclosures* project.

While ESMA agrees with these amendments and considers that they will result in improving the information on cash flows of the reporting entity, we would have preferred the IASB to address the presentation of statement of cash flows and related disclosures after fully exploring the interactions with disclosure requirements currently located in other Standards.

Our detailed comments on the ED are set out in the Appendix I to this letter. Please do not hesitate to contact us should you wish to discuss all or any of the issues we have raised.

Yours sincerely,

Steven Maijor

## Appendix I – ESMA’s detailed answers to the questions in the ED

### 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 components of financing activities

1. Over the recent years, European enforcers have regularly identified during their examinations of IFRS financial statements issues related to enforceability and consistent application of requirements related to the statement of cash flows. For that reason, ESMA urges the IASB to perform a fundamental review of IAS 7 on a timely basis as part of the *Principles of Disclosure* project. As ESMA places considerable emphasis on the importance of the statement of cash flows, we would have preferred the IASB to address the presentation of statement of cash flows and related disclosure comprehensively and on a conceptual basis.
2. ESMA understands the underlying rationale for the proposed amendments as users of financial statements have consistently requested IASB to add to IFRS ‘net debt reconciliation’ requirement that would provide useful information in the financial statements.
3. While the proposed amendments do not fully address the request the IASB received from users of financial statements for a net debt reconciliation requirement, we believe that they should nevertheless provide some short-term improvements to the information on the period-on-period movements on debt. Consequently, we believe they might help users in deriving additional information on financing activities from the financial statements.
4. However, we are of the view that the IASB could better justify why it has decided to address this request on a piecemeal basis as well as articulate better the arguments why the proposal provides the information users have requested as part of the ‘net debt reconciliation’. In this context, ESMA has concerns whether the information required by this amendment is equivalent to the information requested by users as part of the ‘net debt reconciliation’.
5. Finally, while ESMA considers that these amendments are a step in the right direction and understands that any definition of ‘net debt’ goes beyond these narrow scope

amendments, we believe that without a proper definition for ‘debt’, ‘cash available to settle debt’ and ‘net debt’, comparability and enforceability of financial information in this respect cannot be fully achieved.

*Disclosure about restrictions on cash and cash equivalents*

6. ESMA understands that the objective of this amendment is to expand the disclosure about restrictions on cash and cash equivalents from only legal restrictions to equally include economic restrictions/impediments in order to provide a more comprehensive picture of existing cash and cash equivalents available to settle debt that might not be fully or explicitly covered by the existing disclosure requirements. ESMA notes that the proposed amendments supplement the existing disclosure requirements in paragraph 48 of IAS 7 in circumstances where cash may be ‘available’ for use by the group, but there are costs or other financial implications which effectively restrict its use and when these disclosures are relevant to the understanding of the cash position and the liquidity of the entity.
7. ESMA agrees that the existence of economic restrictions (e.g. in form of tax liabilities on using the cash from a different jurisdiction to settle debt) is important information to users of financial statements that needs to be disclosed in the financial statements. However, we are of the view that legal restrictions and economic impediments have different characteristics and thus should be disclosed separately.
8. Further, ESMA believes that the drafting of the proposed paragraph 50A could be improved by referring to ‘economic restrictions’ and explaining them through an example of using the cash from a different jurisdiction to settle debt. We are of the view that these notions, currently included in paragraph BC 12 of the ED should be captured directly in the text of the standard. Furthermore, ESMA is of the view that additional examples of economic restrictions could help issuers and users to better understand the restrictions intended to be captured by this amendment.
9. While ESMA supports the objective of improving the quality of disclosures on the liquidity position of the reporting entity and on the effective restrictions on the use of cash or liquidity buffers, ESMA also points to multiple requirements related to cash and liquidity position of the group, such as in paragraph 48 of IAS 7, paragraph 13(a) of IFRS 12 *Disclosure of Interests in Other Entities* as well as paragraphs 34(a), 39 and B10A-B11F of IFRS 7 *Financial Instruments: Disclosure*. Therefore, similarly to our view on the first amendment we are of the view that the objective of improved disclosure on cash and liquidity position of an entity would be better addressed comprehensively, as part of the *Principles of Disclosure project*.

**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?*

10. ESMA agrees with the proposed transition requirements.

**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?*

11. ESMA is aware of the organisational changes that took place at the IASB in order to put together the teams working on the Disclosure Initiative and on the development of the IFRS taxonomy.
12. We do believe that having IFRS taxonomy published at the same time as the ED can be beneficial for stakeholders who could rapidly gain visibility on the way the ED would be reflected in electronic reporting. This could also allow reducing the timeline in terms of availability of taxonomy to its users.
13. However, we believe that the IASB should include adequate explanations in the ED to make sure that the proposed IFRS taxonomy is only a by-product of the standard setting process that cannot influence the way in which principles-based standards are developed.
14. Furthermore, taking into account the complex and long-lasting standard setting projects undertaken recently (such as accounting for financial instruments, revenue recognition, insurance contracts and leases) we would like to suggest to address IFRS taxonomy issues only in a near-final version of a new and complex standard. This measure could help to concentrate first on the development of the standards. However, we agree that with regard to less complex proposals (such as amendments to IAS 7), it might be beneficial to address taxonomy issues already earlier in the process, at the time of publication of the ED.