Verband der Industrie- und Dienstleistungskonzerne in der Schweiz
Fédération des groupes industriels et de services en Suisse
Federation of Industrial and Service Groups in Switzerland

17 April 2015

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

Comment Letter on Exposure Draft on the Disclosure Initiative – amendments to IAS 7

Dear Sir/Madam,

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 61 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to the ED on the disclosure initiative. Our response (in the appendix) has been prepared in conjunction with our member companies.

Yours sincerely

SwissHoldings
Federation of Industrial and Service Groups in Switzerland

Michel Demaré
Chair

Christian Stiefel
Director

cc SH Board

APPENDIX

ANSWERS TO SPECIFIC QUESTIONS IN INVITATION TO COMMENT

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?

Components of financing activities

We agree there are benefits of providing information on the evolution of debt or net debt to the users of financial statements. However, we do not agree with the method being proposed in paragraph 44A of the exposure draft.

We consider that such disclosure should be based on what is used by management for internal review, in order to reduce the operational costs and to maintain a strong connection with the way that the entity actually manages its debt, consistent with the principles of *IFRS 7 Financial Instruments Disclosures*. We therefore consider that this ED should not only focus on the elements that are included in financing activities in the statement of the cash flows but, should entities desire, they should be permitted to also include in the disclosures the element that an entity utilizes in its definition of net debt. This would include not only cash and cash equivalents but also additional items such as marketable securities.

Consequentially, we do not consider that it is appropriate to require a prescriptive reconciliation per balance sheet line item or at even lower levels, as indicated in illustrative example E. We consider that it would be preferable to allow entities' more discretion to present this type of information in a way that they consider most appropriate for their circumstances.

On a more detailed aspect we also consider that the inclusion in a reconciliation of "*each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items*" would include the cash flows of derivatives which hedge financial items, since these are presented separately from the related debt on the statement of financial position. We consider that this would be particularly complicated in the situation where a single derivative hedges both interest and principal payments as the impact of such hedging activity may need to be bifurcated into the amount recorded the operating and financial sections of the statement of cash flows. This would complicate and potentially confuse the additional disclosures.

Consequentially, we disagree with the proposal as currently drafted as we consider that the cost and time to prepare such a prescriptive reconciliation will potentially be completely disproportionate to the information provided.

Due to these deficiencies, we consider that the proposed requirements should be amended as shown below, in order to be principle-based, and allow preparers to work out the best methods of presentation of this information based on the needs of their users and the information actually used by management.

An entity shall provide information about the evolution of debt on the basis of the information provided internally to key management personnel. In this context "debt" shall include items in a reconciliation of the amounts in the opening and closing statements of financial position for each items for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items. On a voluntary basis, where the following information is used internally by management to monitor its net financial assets and liabilities, an entity may also include in the reconciliation items that its uses to arrive at the entity's definition of net debt, such as cash and cash equivalents and marketable securities.

The information shall include:

(a) an explanation of which items in the statement of financial position are included in the entity's definition of debt or net debt;
(b) opening balances of debt or net debt in the statement of financial position;
(c) 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).

(d) closing balances of debt or net debt in the statement of financial position.

As regards the proposed requirements in 50A we are concerned that in order to address a few specific situations, the Board proposes a rather general requirement to disclose restrictions on the use of cash.

It should be noted that an entity may have different options to use the available cash in a foreign subsidiary. It could, for example, be used to repay debt, to fund investments/acquisitions or may be repatriated. Some of these options may have negative financial consequences (such as increased tax payments) or other restrictions. However, which restriction should be disclosed in such a situation? What is the definition of a "restriction" on cash? Is cash that is blocked due to exchange control issues (e.g. related to the current situation in Venezuela) restricted or does it even require an impairment?

We recommend that the Board makes a more specific proposal on how to address the issues raised above. If this is not warranted because standards should be principle based, the Board should look for alternative places to require such disclosures instead of drafting a completely new paragraph in IAS 7.

IAS 7 paragraphs 48 and 49 already mention that disclosure should be made if the cash and cash equivalents is not available for use by the group. A simple amendment to these paragraphs would be sufficient. Certain paragraphs in IAS 12 *Income taxes* could also be amended to capture the additional disclosures that users of financial statements appear to require.

Finally, we would like to mention that we concur with the point mentioned in BC13, that ideally the "disclosure improvements would need to be broader than cash and cash equivalent balances", specifically that they should include short-term investments such as marketable securities.

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 suggest that the IASB clarify how the prospective application mentioned in paragraph BC17 should be applied. Paragraph 59 does not mention the word "prospectively", nor does it clarify whether comparative information need be provided. As we have already mentioned, we consider the proposed requirement to be overly complicated, and if it is finalised in its current form, we consider that relief from providing comparative information would be necessary in the first year.

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?

Whilst we do not object to these proposals we would prefer that matters related to the IFRS Taxonomy are handled in documents outside of the usual standard setting process since many IFRS constituents will not be involved in this level of detail.

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?

As noted above we would prefer that the IFRS Taxonomy due process is not part of the Exposure Draft process.