

**IASB issues amendments to IAS 7 Statement of Cash Flows requiring disclosure of changes in liabilities arising from financing activities.**



## Why have these amendments been issued?

The amendments are part of the IASB's Disclosure Initiative project, which comprises several smaller projects to improve presentation and disclosure requirements in existing Standards.

The objective of the amendments in IAS 7 is to improve the information provided by entities about their financing activities.

## What are the amendments to IAS 7?

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

### **Observations**

The amendments do not introduce a definition of 'financing' because the IASB concluded that it will be difficult to agree on a common definition that could address the needs from different users. Instead, the IASB decided that once an entity concluded that a particular transaction is, or will be, classified as a financing activity in the Statement of Cash Flows, then it should apply that classification to the separate disclosures of financing activities.

This approach could be challenging for entities that have transactions that could, depending on specific facts and circumstances, be classified either as financing or operating activities (for example vendor financing or debt factoring arrangements).

The amendments do not prescribe a specific format to disclose financing activities. However, the amendments indicate that an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The amendments also include illustrative examples to show how an entity can provide such reconciliation.

### **Observations**

The Board decided that a reconciliation is only one way to fulfil the disclosure objective due to concerns raised that a reconciliation of financing activities will not be helpful in providing a complete picture of all sources of financing in certain industries, particularly banking.

In addition, many entities already provide disclosures of financing activities such as 'net debt reconciliations'.

In those cases, the amendments clarify that when an entity discloses information to explain changes in their assets and liabilities, then financing activities should be identified separately.

## Effective date and transition requirements

The amendments are to be applied prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. Entities are not required to present comparative information for earlier periods.

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