



In brief

A look at current financial reporting issues

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IFRS IC decision on disclosure of changes in liabilities arising from financing activities

At a glance

The IFRS Interpretations Committee (IC) received a request from users of financial statements about the disclosure of changes in liabilities arising from financing activities.

The IC published an agenda decision identifying areas on which entities should focus when preparing this disclosure. It also emphasised the need for entities to consider carefully the disclosure and disaggregation requirements in IAS 1 and IAS 7.

All entities should reconsider their existing disclosures in the light of the IC's comments and determine whether any changes are required.

What is the issue?

The IC received a request from users of financial statements about the disclosure requirements in IAS 7 relating to changes in liabilities arising from financing activities. The request asked whether the disclosure requirements in IAS 7 are adequate to require an entity to provide disclosures that allow users to evaluate changes in financing liabilities.

Paragraph 44A of IAS 7 requires an entity to “*provide disclosures that enable users of financial information to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes*”.

The IC observed that an entity applies judgement in determining the extent to which it disaggregates and explains the changes in liabilities arising from financing activities to meet the objective in paragraph 44A. However, an entity should not reduce the understandability of financial statements by aggregating material items that have different natures or functions or by failing to provide additional explanation relevant to understanding items in the financial statements.

The IC concluded that the principles and requirements in IAS 1 and IAS 7 provide an adequate basis for an entity to disclose information about changes in liabilities arising from financing activities that enables investors to evaluate

those changes. Compliance with the disclosure requirements in IAS 7, together with the requirements in IAS 1, is adequate to require an entity to provide disclosures that meet the objective in IAS 7. The IC explained this conclusion in an agenda decision issued on 25 September 2019.

The agenda decision also explained that an entity which complies with the requirements in IAS 7 by preparing a tabular reconciliation should provide:

- A reconciliation of changes in liabilities arising from financing. (If an entity also chooses to define, and reconcile, a different 'net debt' measure, this does not remove the requirement for the entity to identify and reconcile the changes in its liabilities arising from financing activities.)
- Separate disclosure of changes in liabilities arising from financing activities from the changes in any other assets or liabilities.
- Information that enables users to link the items included in the reconciliation to the opening and closing balance in the statement of financial position.
- Appropriate disaggregation (for example, by presenting separately material reconciling items and not aggregating dissimilar items).
- Additional disclosure, where necessary, to explain the items in the reconciliation.

What is the impact and for whom?

The agenda decision identifies areas that require particular attention when entities prepare information to explain the changes in liabilities from financing activities. All entities should reconsider their existing disclosures in the light of the IC's comments and determine whether any changes are required.

When does it apply?

The agenda decision has no formal effective date. The IC has noted that agenda decisions might often result in explanatory material that was not previously available, which might cause an entity to change an accounting policy. The IASB expects that an entity would be entitled to sufficient time to make that determination and implement any change. In this case, entities should consider carefully the presentation of disclosures about changes in financing activities in financial statements for periods ending on 31 December 2019. Any change in policy should be applied retrospectively, and comparative amounts should be restated.

Where do I get more details?

For more information, refer to the agenda decision (<https://www.ifrs.org/news-and-events/updates/ifric-updates/september-2019/>) or please contact Tony Debell (tony.m.debell@pwc.com), Katie Woods (katie.woods@pwc.com) or Pablo Aligia (pablo.a.aligia@pwc.com).

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