David Schraa
Regulatory Counsel

April 17, 2015

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street, First Floor
London, EC4M 6XH
United Kingdom

RE: ED/2014/6 Disclosure initiative – proposed amendments to IAS 7

Dear Mr. Hoogervorst:

The Institute of International Finance (IIF), via its Senior Accounting Group (SAG), welcomes the opportunity to comment on the Exposure Draft ED/2014/6 Disclosure initiative – proposed amendments to IAS 7 (the ED).

The SAG appreciates the efforts undertaken by the IASB in addressing investors' need to better understand an entity's period-on-period movements in debt and of any liquidity restrictions that affect an entity's ability to deploy its resources. These are also critical issues for the banking industry because financing is a core component of its business.

However, as currently drafted, the SAG is not supportive of the proposals in its present form for the reasons set out below.

Disclosures on reconciliation of opening to closing balances of financing activities items (excluding equity)

<u>The current proposal would only provide a *partial* view of a bank's debt movements and financing activities, which undermines its usefulness.</u>

Banks' issuance of long-term debt to comply with Basel III and the forthcoming FSB Total Loss Absorbing Capacity (TLAC) requirements is continuously increasing. Partly as a result of the need to find ways to meet regulatory requirements, partly as a result of market pressure, financial innovation will continue in this area. When such issuances are classified as equity for accounting purposes, which may be the case in many instances, such instruments will fall out of the scope of the proposed ED.

Similarly other funding sources, such as deposits, money market paper and other sources with a tenor less than one year will not be captured by these new disclosures. Such funding can provide significant sources of liquidity for financial institutions in somewhat the same way as supplier credit can for corporates.

Therefore, in the context of a bank's operations, reconciliation of financing activities disclosed solely based upon the IASB's current proposed approach would not only increase banks' operational burden without providing further value-added information on their financing risks and activities, but it would also only provide partial disclosure, which would provide little or no value to end users.

Moreover, a partial view can confuse investors or send misleadingly negative signals to them. This is not only of importance to individual issuers, but may be detrimental to macroprudential concerns and financial stability, given the criticality of liquidity to a bank's financial soundness and the soundness of the overall financial system.

Consequently, the SAG strongly believes that the proposed amendments are not useful for the banking sector and will fulfill the IASB's initial goals only for the corporate industry.

The SAG believes that the needs of investors could be better served by enhancing disclosures of the liquidity risk analyses and risk management processes stipulated under IFRS 7 *Financial Instruments: Disclosures*, including disclosures that will assist investors to understand the changing characteristics of capital and debt instruments, capital adequacy and banks' overall financing of liquid positions. In stipulating the enhanced disclosures, the information that investors want and perceive as being relevant should be more clearly articulated in the main body of IFRS 7 (or at the very least in the Basis of Conclusion). This would facilitate the clarity, consistency and relevancy of the information provided.

Given the Basel requirements for disclosures of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) under Pillar 3 that will provide more complete information on a bank's liquidity, banks should be allowed to present coherent liquidity disclosures to improve the market's understanding of liquidity-related issues, leveraging regulatory requirements and avoiding fragmentation of disclosures of the same or related information.

Disclosure of restrictions on cash and cash equivalents

The IAS 7 proposal states that "Additional information may be relevant to an understanding of the liquidity of an entity. An entity shall consider matters such as restrictions that affect the decisions of an entity to use cash and cash equivalent balances, including tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances. If these, or similar, matters are relevant to an understanding of the liquidity of the entity, those matters shall be disclosed."

We believe the primary aim of the IASB in introducing information on liquidity restrictions is to address how freely cash and other available financing resources can be moved around a Group. The SAG agrees that information on liquidity restrictions is useful to users of financial statements.

However, the SAG is concerned that the current ED is focused on cash and cash-equivalent balance restrictions only, whereas liquidity restrictions could be much broader given post-crisis liquidity regulations, which can restrict cash transfers owing to, for example, liquidity buffers that have to be built up in a jurisdiction or mandatory reserves that are required by local central banks. Such restrictions are fully integrated into banks' liquidity management, on which consistent disclosure should be built.

We also note that the proposed disclosure requirement in IAS 7 may overlap with the existing requirement in IFRS 12 (e.g. paragraph 13) to disclose restrictions on the access to or use of assets, including statutory, contractual and regulatory restrictions. Any confusion or duplication should be addressed and the nature, scope and parameters of the disclosure of restrictions should be clarified.

In providing additional clarity, particular attention should be paid to how to analyze economic constraints such as tax effects, and legal or regulatory restrictions on the movement of liquidity, to facilitate the application of the disclosure requirements. The SAG suggests limiting the scope of required disclosures to significant legal restrictions that affect the entity rather than general legal requirements that apply to all entities in a particular jurisdiction, such as exchange controls. To contextualize, this would in effect mean that:

- Legal restrictions unique or of significance to an entity that a reader would not be generally aware of (such as company-specific liquidity buffers that compel restrictions on transfer of funds) would be highlighted.
- Commercial or economic effects that may act as restrictions de facto (such as tax-cost disincentives to moving funds or cross-border charges) would be excluded as these reflect strategic business decisions.

Moreover, economic restrictions may not enable better understanding of an entity's liquidity risk. For instance, in a stressed situation, an entity would make the necessary funds transfers even if they are subjected to tax disadvantages.

As discussed above, any disclosure enhancements should be made within the context of an entity's exposure and management of liquidity risk under the existing IFRS 7 disclosure framework and related prudential requirements. As such, the IASB should rather reconsider all the disclosures requirements on liquidity restrictions and the potential overlap between IFRS 7, IFRS 12 and IAS 7.

Overall conclusion on additional disclosures

Banks already make specific and specialized disclosures of their liquidity positions and there will be additional disclosures to come with the full implementation of the new liquidity standards, and the forthcoming TLAC regulation. Users' understanding of those new requirements will be critical and will require banks' investing resources to develop appropriate disclosures.

More broadly in the context of IAS 7, while recognizing the difficulties of eliminating a primary statement for a specific industry, and as previously recommended by the EDTF, the SAG reiterates its position that a consolidated cash flow statement does not provide useful information for banks.

Given the complexity of the implementation of the proposed ED and its limited usefulness from a banking-sector perspective, as stated earlier the SAG is not supportive of the ED, given that it would put additional burdens on reporting, especially but not only for banks, without a clear resulting benefit to the improvement of users' understanding. If the decision is to maintain some version of the proposal, a partial solution would be to address its limitations as noted below.

Given that the proposal is for an additional disclosure requirement (and not an amendment to a primary statement), we note that this is a good example of a situation when entities may choose not to provide information if it is not material.

In the event the IASB decides to proceed with finalizing and issuing the proposal as currently drafted, the SAG recommends:

- including a statement in the Basis for Conclusions to explain the fact that the statement on debt reconciliation may be less useful (and often less material) for prudentially-regulated banking entities, given the issues discussed above. This could help alert users to the need to take their own view of any disclosures provided; and
- limiting the scope of required disclosures to significant legal restrictions that affect the entity's position as discussed further above and clarifying its interactions with IFRS 7 and IFRS12.

This approach may indirectly have the benefit of somewhat decreasing the operational burden on banks (for which the disclosure is less relevant than for other issues) and perhaps reducing overlap in disclosure requirements with prudential regulatory requirements.

Taxonomy changes

We have no comments on the taxonomy review process. Since the audience for taxonomy changes is likely to be different from the audience interested in amendments to accounting standards, we suggest that it would be more efficient for such consultations to be issued separately.

The SAG stands ready to assist the IASB in considering how best to reflect banks' liquidity position in financial statements. Should you have any comments or questions on this letter, please contact the undersigned or Dorothée Bucquet (dbucquet@iif.com; +1 202 682 7456).

Best regards,

David Schraa
Regulatory Counsel
IIF