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14 April 2015

Mr. Hans Hoogervorst
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Comment on Exposure Draft, *Proposed Amendments to IAS 7*

1. The Accounting Standards Board of Japan ("ASBJ" or "we") welcomes the opportunity to provide comments on the International Accounting Standards Board's ("IASB") Exposure Draft ("ED") proposing to amend IAS 7 *Statements of Cash Flows* that the IASB published as part of its Disclosure Initiative. The ASBJ supports the IASB's disclosure initiative, because we believe that it will help address various concerns expressed by market participants and help improve the quality of an entity's financial information prepared in accordance with IFRSs.
2. With regard to the proposals in the ED, we generally agree with paragraph 50A of the ED proposing to require an entity to provide additional information that may be relevant to an understanding of the liquidity of an entity. On the other hand, we recommend that the IASB more carefully consider paragraph 44A of the ED proposing that an entity provide a reconciliation of certain items for which cash flows have been or would be classified as financing activities in the statement of cash flows during the redeliberation process.
3. For our comments on specific questions in the ED (other than those relating to IFRS taxonomy), please refer to the Appendix to this letter.

We hope our comments will contribute to the IASB's redeliberation.

Yours sincerely,

Tomo Sekiguchi
Board member of the Accounting Standards Board of Japan

Appendix

Comments on Specific 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?

Proposed requirement to provide a reconciliation of the amounts for certain items classified as financing activities

4. We do not think that the proposal requiring an entity to provide a reconciliation of certain items for which cash flows have been or would be classified as financing activities in the statement of cash flows would be an appropriate solution to address financial statement users' needs, while maintaining a reasonable balance between costs and benefits.

5. When we reached out to our constituents, financial statement users expressed support for the general direction of the IASB's proposal. Users informed us that they believe disclosure of an entity's debts (especially, the movements in an entity's outstanding debts and the reasons thereof) is critically important for their financial analysis and that the proposed disclosure requirement may help this analysis. At the same time, many of them thought that the proposed disclosure requirement to be insufficient and that further consideration was warranted such that the relevant disclosure would better satisfy their information needs.

6. For example, some users suggested that the IASB require or permit an entity to disclose the information using the "management approach" similar to the manner specified in IFRS 8 *Operating Segment*, whereby management can disclose the information used for internal reporting. While the suggested approach would help enrich the disclosures in the financial statement, it would be necessary to consider whether the benefit of following this approach would outweigh the related costs (including the decreased comparability between financial statements of different entities) as part of a much broader context.

7. In addition, financial statement preparers questioned whether the proposed amendment would really be effective in providing relevant information to users, and expressed a concern that the incremental costs of implementing the proposal may not necessarily be as minimal as some might have expected. They also worry that the cumulative effect of separate amendments in such a patchwork manner would not, in their totality, necessarily result in optimal disclosure requirements. Additionally, they pointed out that the proposed requirement already gave rise to inconsistency with the rationale of why the IASB decided not to require disclosure requirements relating to reconciliation of lease liabilities in the *Leases* project.

8. Considering that the IASB is now in the midst of reviewing disclosure requirements in a broader context, we think that the proposed requirement should be considered in the context of the overall package, so that the IASB does not risk unintended consequences such as disclosure requirements becoming fragmented and failing to achieve appropriate balance.

9. Accordingly, we recommend the IASB more carefully consider the proposed requirement in the ED, including whether to postpone finalisation of the proposed requirement until it undertakes a holistic review of related disclosure requirements.

Proposed requirement to provide additional information regarding the liquidity of an entity

10. We generally agree with the proposal to require an entity to provide additional information about the liquidity of an entity.

11. When we reached out to our constituents, users expressed support for the proposal. This is because they think that the effect of cash restriction on an entity is important for them to assess future net cash inflows to an entity (especially for the assessment of the entity's liquidity), considering that reporting entities adopt different cash management policies within a group, and the effect of restrictions is sometimes significant.

12. At the same time, preparers stressed that the effect of cash restriction is not always significant and disclosure should be required only when they are supposed to be relevant for users to assess the liquidity of an entity. In light of this, we think that it would be helpful if the Basis for Conclusions in the proposed standard states that disclosure of additional information would not be necessary unless the information is considered to be relevant for users to assess an entity's liquidity. In addition, it would be helpful if the proposed requirement were supplemented with concrete examples so that preparers can properly understand what types of disclosures are

intended by the proposed requirement.

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?

13. Save for suggestions and concerns stated in our response to Question 1, we do not have comments on the proposed transition provisions.