ED258 sub 1

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Ms Kris Peach
Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West
Melbourne VIC 8007

Dear Ms Peach

Re: ED 258 Disclosure Initiative
(Proposed amendments to AASB 107)

This submission relates only to the proposed amendments to AASB 107 *Statement of Cash Flows* and does not address issues relating to the proposed amendments to IFRS Taxonomy and procedures.

We would answer the following IASB question in the negative:

> 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?

AASB 107 currently contains the following paragraphs:

43 **Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.**

44 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
(b) the acquisition of an entity by means of an equity issue; and
(c) the conversion of debt to equity.

Of particular significance is the second sentence of paragraph 43 which requires that all the relevant information about these investing and financing activities be provided.

Proposed paragraph 44A therefore specifically requires duplication of information already required to be provided in the financial reports.

In our opinion:

- To the extent that investors are unable to interpret the information already supplied in the Statement of Cash Flows and that required by paragraph 43, this is an education problem.
- To the extent that compliers of financial reports are failing to supply the information required by paragraph 43, it is a compliance problem.

Neither problem will be resolved by requiring the duplication of information already supplied.

At most, we would find the addition to paragraph 43 of a sentence to the following effect to be acceptable, provided it is not in black lettering:

> "This information may be supported by a reconciliation of movements in financing activities (excluding equity items)."

We note that separately the IASB is undertaking a fundamental review of IAS 7 Statement of Cash Flows as part of the Principles of Disclosure project and hence we consider the proposed amendments premature.

In relation to the example reconciliation proposed to be added to the Illustrative Examples – which we submit should not be added – we make the following comments:

- Each of the amounts shown in the reconciliation should be able to be specifically identified elsewhere in the financial reports – in particular, cash inflows and cash outflows should be shown separately.
- In the extremely rare circumstances where an entity is in receipt of a no- or low-interest loan, the reconciliation would need to show the effects of the unwinding of present value discounts. Such amounts would always be non-material. However, in a formal reconciliation they would have to be shown, whereas their omission from the disclosures currently required would not prevent a near reconciliation – sufficient for most purposes – being obtained.[1]

  > As an example: Loans – opening balance $1,596; new borrowings $200; repayments $171; closing balance $1,631. The discrepancy of $5 (unwinding of present value discounts) is not a sufficient amount to upset analysis of the financial reports, but if a formal reconciliation is required to be supplied it would have to be separately shown.

- We understand that the new *Leases* accounting standard is shortly due for release which is likely to require changes to the illustrative example. This is another reason why we consider the proposed amendments to be premature.

We shall be pleased to supply any further information you may require.

David G Maxwell FCA
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[1] This information would be disclosed as part of the reconciliation between net result and operating cash flows included in illustrative example A, but not formally required by the Standard.