ED258 sub 2

WESTWORTH KEMP
CONSULTANTS

710/2 York Street
Sydney NSW 2000

4 March 2015

The Chairman
The International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UK

CC Australian Accounting Standards Board

By email

Dear Sir

Re: Disclosure Initiative - Proposed Amendments to IAS 7

Westworth Kemp Consultants (www.westworthkemp.com.au) value the opportunity to provide feedback into the disclosure initiative project. We are a boutique consultancy, based in Sydney, Australia, specialising in financial reporting, assurance and compliance issues, particularly in the context of litigation and dispute resolution and we also provide advice to clients on the application of financial reporting standards. We have noticed that over the years published financial reports have become longer as more and more disclosure requirements have been added, such that key elements of an organisation's story can be lost in the detail.

We are particularly interested in the disclosure of financing activities and liquidity as we have been involved in a number of cases involving failed non-bank lenders and managed investment schemes where the lack of liquidity was not apparent until very late in the piece.

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?

We support the proposed paragraphs 44A and 50A. However, in some of the financial reports of non-bank lenders we have reviewed, the entity has shown its borrowings as an operating cash flow rather than a financing cash flow. In the case of these lenders, a reconciliation between the opening and closing statements of financial position showing cash and non-cash items would have revealed that deposits from investor/lenders were not being repaid, but merely rolled over, and that interest was

WESTWORTH KEMP
CONSULTANTS

being capitalised into the balances. We therefore suggest that where borrowings are treated as operating cash flows, similar disclosures should be given.

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?

We agree with the proposed transitional provisions.

We have no comments on Questions 3 and 4 as we have never used the taxonomy.

If you wish to discuss any of these matters further, please contact me at chris@westworthkemp.com.au.

Yours faithfully

Chris Westworth, LLB, FCA, FAICD

Stephanie Kemp MA, FCA

ED258 sub 3

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

18 March 2015

Invitation to comment on AASB Exposure Draft *Disclosure Initiative (Proposed Amendments to AASB 107)* (ED 258)

Dear Ms Peach

Ernst & Young Australia is pleased to provide comments on the AASB's Exposure Draft 258 *Disclosure Initiative (Proposed Amendments to AASB 107)* (the 'ED'). As usual we will forward to the AASB when available a copy of our global submission on the related IASB Exposure Draft ED/2014/6 *Disclosure Initiative (Proposed Amendments to IAS 7)*. This letter therefore only provides comments on the Australian specific matters raised in the ED, in particular the proposal to exclude the disclosures in paragraph 44A from Tier 2 disclosure requirements.

The proposed paragraph 44A in IAS 7 would introduce a requirement to disclose a reconciliation of the amounts in opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items.

The AASB has indicated in ED 258 its intention to exclude this proposed disclosure from Tier 2 disclosure requirements on the basis of paragraph 3(a) of the 'Tier 2 Disclosure Principles; applying the 'user need' and 'cost-benefit' principles of the IFRS for SMEs, indicating that while the disclosure satisfies the needs of users in regard to disaggregation of amounts presented in the financial statements, the cost to entities of the proposed disclosure would be expected to exceed the benefits to users.

It might be expected that movements in balance sheet items that commonly fall within the notion of 'net debt', as are intended to be captured by the proposed paragraph 44A disclosures, would be of particular relevance to users of the financial statements of non-publicly accountable entities. For instance, many large private groups may have significant levels of borrowings. A clear disclosure indicating the nature and amounts of movements in such borrowings is likely to be viewed as useful information by the users of those financial statements. Such disclosure would appear to be well aligned with the general philosophy underpinning the Reduced Disclosure Requirements (RDR), focusing on matters such as liquidity and solvency and disaggregation of financial statements items (*Tier 2 Disclosure Principles*, paragraph 6). As such, the decision of the AASB in this situation appears to have been more heavily influenced by the 'cost-benefit' principle than the principle of 'user need'. However, a view that the costs outweigh the benefits would seem contrary to the view of the IASB in the Basis for Conclusions to ED/2014/6, which indicates at BC7 that such a reconciliation 'would not result in an unnecessary cost to preparers'. As such, we recommend the AASB reconsider whether the proposed disclosure does in fact meet the requirements for exclusion from Tier 2 disclosure requirements.

We would be pleased to discuss our comments further with you. Please contact Vincent Sheehan (vincent.sheehan@au.ey.com or (03) 9655 2941) or Peter Gerhardy (peter.gerhardy@au.ey.com or (08) 8417 2057) if you wish to discuss any of the matters in this response.

Yours sincerely

Ernst & Young

ACT Government
Chief Minister, Treasury and Economic Development

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Ms Peach,

ED 258 Disclosure Initiative (Proposed amendments to AASB 107)

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on Exposure Draft 258 Disclosure Initiative (Proposed amendments to AASB 107).

HoTARAC does not support the proposed amendments. HoTARAC's view is that the IASB should not be adding ad hoc disclosure requirements to IAS 7 in light of the current project reviewing IAS 7 as part of the 'Disclosure Initiative'. If the IASB decides to proceed with introducing the proposed amendments, the AASB should consider the appropriateness and relevance of such new disclosures to Australian public sector entities in the General Government Sector. The AASB might consider providing an exemption from these new disclosure requirements for those entities.

HoTARAC would also urge the IASB to exercise caution in incorporating Extensible Business Reporting Language (the IFRS taxonomy) into exposure drafts to ensure this does not evolve into a set of de facto disclosure formats.

HoTARAC's detailed comments and responses to questions from the exposure draft are attached.

If you have any queries regarding HoTARAC's comments, please contact Tony Olliffe from the Australian Department of Finance by phone on 02 6215 3918 or by email, tony.olliffe@finance.gov.

Yours sincerely

David Nicol
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee
March 2015

ATTACHMENT

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?

(a) HoTARAC does not agree with the proposed amendments.

HoTARAC questions whether the IASB should be attempting to introduce a requirement to disclose the information necessary for a debt reconciliation without a common understanding of what constitutes debt (BC 3). Paragraph 5 of the basis for conclusions uses the justification that defining what is to be measured would delay the project (BC5).

HoTARAC has a concern about adding ad hoc disclosure requirements to IAS 7, without a firm set of supporting principles, as part of an umbrella project that encompasses the principles of disclosure for, among others, IAS 7. HoTARAC notes that the principles of disclosure project was at least partly initiated through concerns over the volume of financial statement disclosures. HoTARAC notes there is no explanation as to why this change cannot be incorporated into the broader disclosure project to achieve a more robust and meaningful outcome.

HoTARAC considers that the principles of disclosure project should be completed before changes are made to IAS 7. HoTARAC notes that it would be more cost-effective for preparers to have a single revision to IAS 7 to incorporate into their accounting systems. As the proposed disclosure requirement is an indirect solution to the question of a debt reconciliation, it may also result in entities making unnecessary disclosures which are of no clear benefit to users.

(b) While HoTARAC has no specific objection to the disclosure requirement, changes of this type should be made through the principles of disclosure project.

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?

HoTARAC has no objection to the proposed transition provisions.

Question 3—IFRS Taxonomy Do the proposed IFRS Taxonomy changes appropriately reflect the disclosures that are set out in the proposed amendments to IAS 7 and the accompanying illustrative example? In particular: (a) are the amendments reflected at a sufficient level of detail? (b) should any line items or members be added or removed? (c) do the proposed labels of elements faithfully represent their meaning? (d) do you agree that the proposed list of elements to be added to the IFRS Taxonomy should be limited to information required by the proposed amendments to IAS 7 or presented in the illustrative examples in IAS 7?

HoTARAC members do not use the IFRS taxonomy so has no comment.

Question 4—IFRS Taxonomy due process As referenced in paragraph BC20, the IASB is holding a trial of a proposal to change the IFRS Taxonomy due process. Although not constituting a formal public consultation of the IFRS Taxonomy due process, views are sought on the following: (a) do you agree with the publication of the proposed IFRS Taxonomy Update at the same time that an Exposure Draft is issued? (b) do you find the form and content of the proposed IFRS Taxonomy Update useful? If not, why and what alternative or changes do you propose?

HoTARAC has no comment on the taxonomy as noted above. HoTARAC recommends the IASB ensure that IFRS taxonomy is clearly distinct from the standard setting process, so it does not result in a set of boilerplate disclosures. Again, this would seem to be contrary to the overall aim of the disclosure initiative.

AASB Specific Matters for Comment

1. whether you agree with the with the proposal to exclude the disclosures in paragraph 44A from Tier 2 disclosure requirements;

HoTARAC agrees.

2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to: (a) not-for-profit entities; and (b) public sector entities, including GAAP/GFS implications;

HoTARAC is not aware of any regulatory impact on public sector entities. HoTARAC cannot comment on other not-for-profit entities. As this is a disclosure requirement, HoTARAC considers it unlikely there will be GAAP/GFS implications.

3. whether, overall, the proposals would result in financial statements that would be useful to users;

HoTARAC questions the usefulness of the disclosures. This appears to be a needlessly rushed amendment for a proposal that would more appropriately be considered as part of the 'Principles of Disclosure' project.

4. whether the proposals are in the best interests of the Australian economy; and

HoTARAC has no comment.

5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

In HoTARAC's view this will impose additional costs on preparers with no clear benefit to users. This is particularly pertinent to the public sector, where such a reconciliation is likely to be irrelevant to users of General Government Sector entity financial reports. These entities are funded through appropriations from consolidated revenue and are often prohibited from borrowing independently. If this exposure draft is progressed towards a standard, HoTARAC believes there is a strong case for exempting entities in the General Government Sector under the AASB's policy document *Process for Modifying IFRSs for PBE/NFP.* At a minimum, HoTARAC recommends public sector application be delayed until the proposal can be assessed under the AASB policy document (key points would be the costs and benefits and the nature of debt in the public sector).

Shane Buggle | Deputy Chief Financial Officer

17 April 2015

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

Dear Mr Hoogervorst

Re: ED/2014/6 'Disclosure Initiative' (Proposed amendments to IAS 7)

Australia and New Zealand Banking Group Limited (ANZ) is listed on the Australian Securities Exchange. Our operations are predominantly based in Australia, New Zealand and the Asia Pacific region. Our most recent annual results reported profits before tax of A$10.3 billion (US$9.5 billion) and total assets of A$772 billion (US$676 billion).

We welcome the opportunity to comment on this exposure draft (ED) and are supportive of the IASB's efforts to respond to feedback from the financial statement user community in relation to 'net debt' disclosures. In summary, our views on the ED proposals are as follows:

Paragraph 44A – reconciliation

In the interest of timely improvements to IFRS, we **support** the introduction of the paragraph 44A reconciliation **subject to** the IASB providing banks/financial institutions with an exemption from this requirement on the basis that, in our view, the resultant information is not decision useful for users of financial statements of such entities. This scope exclusion would be consistent with the approach under UK GAAP from where some of the investor demand for a 'net debt' reconciliation has emanated.

Additionally, we encourage the IASB to consider further improvements to disclosure in this area, including whether definitions of 'debt' and 'net debt' can be developed, as part of a research project within the broader Disclosure Initiative.

Paragraph 50A – additional information to help users understand the liquidity of an entity

We **do not support** the introduction of paragraph 50A because:

(a) in our view, it does not adequately respond to the information needs of users and as a consequence will result in increased preparation costs without a corresponding benefit; and

(b) in combination with the existing requirements, it creates a patchwork of overlapping piecemeal disclosures which reduce the understandability (and consequently the decision usefulness) of the resultant information.

We encourage the IASB to consider a more holistic solution to investors information needs in this area as part of a longer term research project.

IFRS Taxonomy changes

We **recommend** that IFRS Taxonomy changes be exposed separately from amendments to accounting standards since the stakeholders are likely to be different.

Level 9, 833 Collins Street, Docklands, VIC 3008Australia | **Phone** +61 3 8655 5277 | anz.com
Australia and New Zealand Banking Group Limited ABN 11 005 357 522

Detailed comments on the questions raised in the ED are attached as an Appendix to this letter.

Should you have any queries on our comments, please do not hesitate to contact me at shane.buggle@anz.com.

Yours sincerely

SHANE BUGGLE
Deputy Chief Financial Officer

Copy: Chairman, Australian Accounting Standards Board (AASB)

APPENDIX

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?

Our comments on each of the proposed amendments are set out below.

Paragraph 44A – reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items

We acknowledge that proposed paragraph 44A responds to consistent requests from investors for the IASB to introduce a disclosure requirement for entities to disclose and explain their 'net debt' reconciliation. In this context,**we support** the introduction of the paragraph 44A reconciliation **subject to** the IASB providing banks/financial institutions with an exemption from this requirement on the basis that, in our view, the resultant information is not decision useful (for the reasons outlined below) for users of financial statements of such entities. This scope exclusion would be consistent with:

- the approach articulated in paragraphs 60 and 63 of IAS 1 *Presentation of Financial Statements* which acknowledge that a different form of presentation (in that case of the balance sheet) may provide information that is reliable and more relevant for financial institutions; and
- the approach under UK GAAP from where some of the investor demand for a 'net debt' reconciliation has emanated. The UK GAAP 'net debt' reconciliation requirement does not apply to banks.

Rationale for our view that paragraph 44A reconciliation will not provide decision useful information for users of financial statements of banks/financial institutions

While we recognise the fundamental importance of information on liquidity for users of financial statements of banks/financial institutions, in our view the proposed paragraph 44A reconciliation is incapable of holistically capturing a bank's liquidity management activities and accordingly will add operational cost without a corresponding information benefit. In particular:

- Banks/financial institutions regularly issue long-term instruments designed to comply with capital requirements such as Basel III which may be classified as equity for accounting purposes. When classified as equity rather than debt, such long-term debt instruments would be outside the scope of the proposed reconciliation;
- Similarly, other funding sources such as deposits, money market borrowings, commercial paper and other similar debt with relatively shorter tenors will form part of operating activities within the statement of cash flows and thus, will be outside the scope of the proposed reconciliation even though they are a significant component of a bank/financial institution's financing and liquidity; and
- Given the importance of liquidity and management of maturity mismatches to banks/financial institutions, comprehensive disclosures addressing this area are already included both:
    - within the financial statements (e.g. IFRS 7 disclosures); and
    - outside the financial statements (e.g. Basel Pillar 3 disclosures).

Future focus

In the interest of timely improvements to IFRS, we support the indirect approach adopted by the IASB of using the definition of financing activities in paragraph 6 of IAS 7*Statement of Cash Flows* rather than developing a new definition for 'debt'. Nevertheless, given investor demand for greater disclosure on 'net debt', we encourage the IASB to continue to investigate how disclosure can be enhanced in this area as a longer-term research project within the broader Disclosure Initiative.

Paragraph 50A – additional information to help users understand the liquidity of an entity

We interpret proposed paragraph 50A as requiring disclosure of:

- 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; and
- similar matters relevant to an understanding of the liquidity of the entity.

While we acknowledge the demand from users of financial statements for additional information in this area, we **do not support** proposed paragraph 50A because:

(a) in our view, it does not adequately respond to the information needs of users and as a consequence will result in increased preparation costs without a corresponding information benefit; and

(b) in combination with the existing requirements of IAS 7 *Statement of Cash Flows*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 12 *Income Taxes*, proposed paragraph 50A creates a patchwork of overlapping piecemeal disclosures which reduce the understandability (and consequently the decision usefulness) of the resultant information.

Notwithstanding the general objective stated in the *Introduction* to the ED, it appears financial statement users are seeking to understand how freely cash and cash equivalents can be moved around a Group, and their availability to settle 'debt' against which they may be offset in a 'net debt' reconciliation. In our view, satisfying this need is a complex matter requiring consideration of issues including:

- articulating the purpose / objective of the proposed disclosure (including how the resultant information will enhance decision making by users of financial statements) with greater clarity / precision;
- analysis of the utility of the proposed disclosures in meeting the information needs of financial statement users. In our view, liquidity is primarily relevant to financial statement users in a forward-looking context (i.e. the ability to pay debts as and when they are due and continue in operation without any intention or necessity to liquidate the entity or to cease trading). Accordingly, disclosure of piecemeal information on restrictions on a point in time cash balance is unlikely to be of significant predictive (or modelling) value;
- the appropriateness of consolidated financial statements as a vehicle for conveying liquidity information noting that if liquidity risks crystallise, the consequences arise at an individual legal entity level in the first instance;
- the definition of 'repatriation of cash' as used in proposed paragraph 50A which appears intended to have a broader application than 'repatriation of profit'. Given that repatriation of cash can take many forms and is typically the subject of complex tax planning, compliance with the proposed disclosure requirement may necessitate disclosure of a range of possible outcomes based on hypothetical future events that are unlikely to have significant information value to financial statement users.
- refinement of the disclosure requirements of IAS 7 *Statement of Cash Flows* (e.g. paragraph 48), IFRS 12 *Disclosure of Interests in Other Entities* (e.g. paragraphs 10(b)(i) and 13) and IAS 12 *Income Taxes* (e.g. paragraph 81(f)) so as to present an integrated and holistic view. In our view the ED proposal and existing requirements are a patchwork of overlapping piecemeal disclosures which reduce understandability and consequently decision usefulness of the resultant information;

- the intended difference in interpretation between 'not available' (which implies an absolute assessment) as used in IAS 7.48 and 'restrictions' (which implies matters of degree) as used in proposed paragraph 50A and the resultant breadth/depth of information that the IASB is expecting to be disclosed.
- liquid assets other than cash and cash equivalents that are also considered by an entity in managing its liquidity position. This is particularly relevant for banks/financial institutions as noted in the previous section.

Give the above concerns, we encourage the IASB to abandon the paragraph 50A proposal and establish a research project to facilitate detailed consideration of these matters as part of its Disclosure Initiative.

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?

We agree with the proposed transition provisions.

Question 3—IFRS Taxonomy
Do the proposed IFRS Taxonomy changes appropriately reflect the disclosures that are set out in the proposed amendments to IAS 7 and the accompanying illustrative example? In particular: (a) are the amendments reflected at a sufficient level of detail? (b) should any line items or members be added or removed? (c) do the proposed labels of elements faithfully represent their meaning? (d) do you agree that the proposed list of elements to be added to the IFRS Taxonomy should be limited to information required by the proposed amendments to IAS 7 or presented in the illustrative examples in IAS 7?

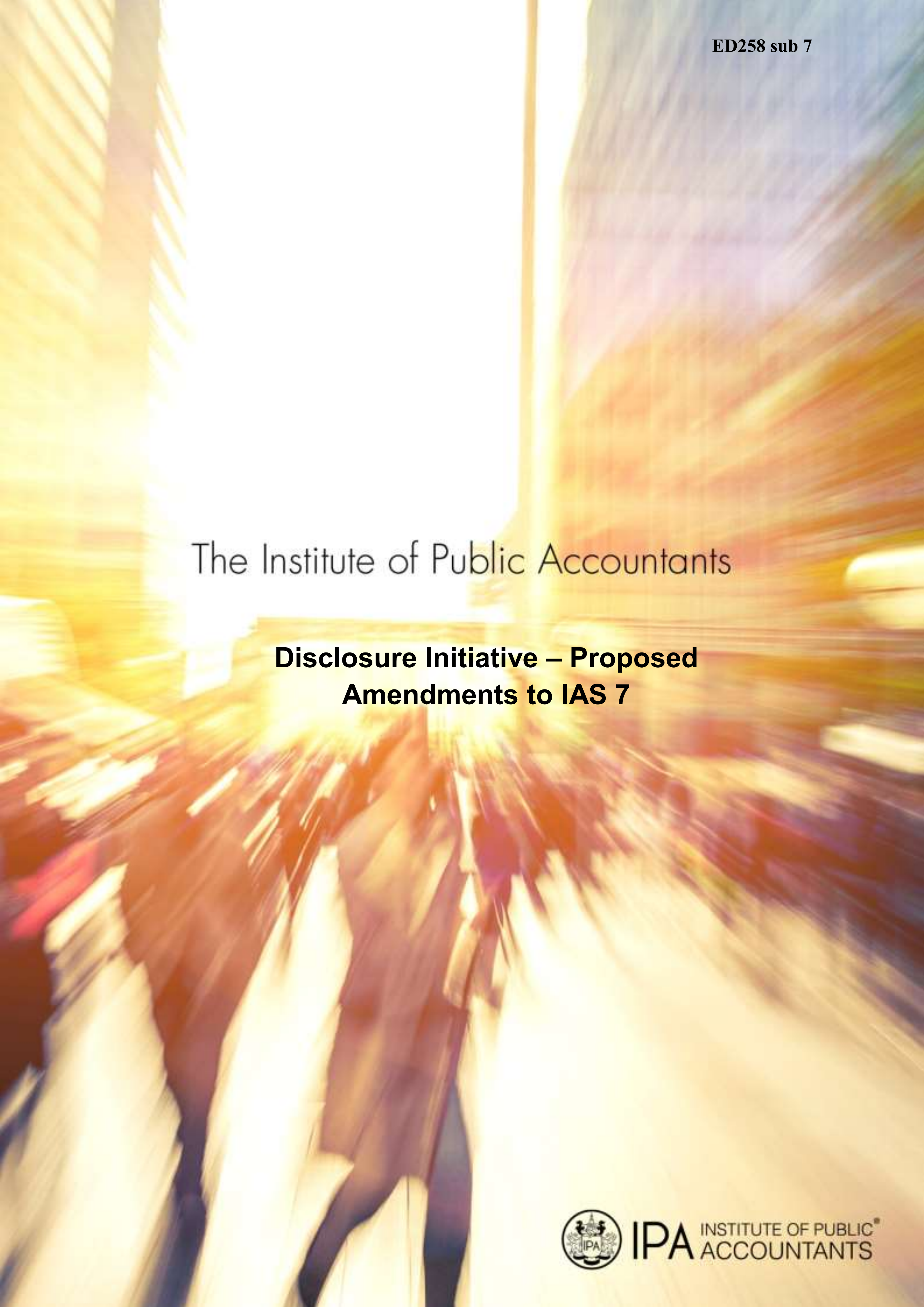
As we do not use the IFRS Taxonomy, we have no comments on this question.

Question 4—IFRS Taxonomy due process
As referenced in paragraph BC20, the IASB is holding a trial of a proposal to change the IFRS Taxonomy due process. Although not constituting a formal public consultation of the IFRS Taxonomy due process, views are sought on the following: (a) do you agree with the publication of the proposed IFRS Taxonomy Update at the same time that an Exposure Draft is issued? (b) do you find the form and content of the proposed IFRS Taxonomy Update useful? If not, why and what alternative or changes do you propose?

(a) We recommend that IFRS Taxonomy changes be exposed separately from amendments to accounting standards. Since the stakeholders are likely to differ, we suggest that it would be more appropriate and efficient for the IASB to conduct separate consultations on these matters.

(b) As we do not use the IFRS Taxonomy, we have no comments on this question.

ED258 sub 7



The Institute of Public Accountants

Disclosure Initiative – Proposed Amendments to IAS 7

IPA INSTITUTE OF PUBLIC ACCOUNTANTS

20 April 2015

The Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom	The Chairperson Australian Accounting Standards Board PO Box 204 Collins Street West Victoria 8007 Australia

Dear Sir/Madam

Disclosure Initiative – Proposed Amendments to IAS 7

The Institute of Public Accountants (IPA) welcomes the opportunity to comment on the on Exposure Draft ED 2014/6 'Disclosure Initiative (proposed amendments to IAS 7)'. The IPA ***does not support*** the proposed amendments to IAS 7 'Statement of Cash flows' for the following reasons:

- The IPA believes rather than making minor amendments to IAS 7, if the IASB is serious about improving the disclosures in relation to liquidity, including its associated risk, amendments should be made to IFRS 7 'Financial Instruments: Disclosures' including enhancing the requirements at IFRS 7.39.

- The IASB should also revise the IAS 1 'Presentation of Financial Statements' disclosures relating to capital management IAS 1.134-136 to link capital management disclosures with risk profile adopted by the entity to handle liquidity stress.

- A reconciliation of the non-equity balances in the statement of financial position relating to financing activities will not assist user decision-making. The IPA is concerned with the IASB use of reconciliations as the "go to" disclosure to address user needs. We believe provision of targeted quantitative disclosures with appropriate qualitative management analysis is a more appropriate response and in keeping with the objectives of the Disclosure Initiative. Where reconciliations are to be included in accounting disclosures there should also be a requirement to provide qualitative analysis of material reconciling items. If the need to include reconciliation is driven by analyst needs for model inputs these need to be addressed separately with appropriate taxonomy support.

Furthermore, we believe that the IASB decision not to pursue improved going concern requirements and disclosures to be particularly short-sighted. Also we believe the IASB and other stakeholders need to address the ongoing issue in relation to the compliance with IFRS 7 disclosures which are often obtuse, uninformative and often nothing more than "boilerplate".

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Our detailed comments and responses to the questions in the Exposure Draft are set out in Appendix A.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen LaGreca (stephenlagreca@aol.com.) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours faithfully

Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants

APPENDIX A

Question 1 – Disclosure Initiative Amendments

This Exposure Draft of proposed amendments to IAS 7 forms part of the Disclosure Imitative. The 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 the 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?

IPA response

The IPA does not support the proposed requirement to include a reconciliation of the non-equity balances in the statement of financial position relating to financing activities. The IPA is of the view the proposed reconciliation does not:

- meet the objectives of the disclosure initiative in improving the effectiveness of financial statement disclosures as a reconciliation without explanation as to nature and reason for the reconciling item
- provide the users useful information in forecasting an entity's future cash flows. The proposed reconciliation disclosed historical cash flows and as such not necessarily relevant in relation to future cash flows. Rather the IFRS 7.39(a) would be a much better indicator of future cash flows arising from financing activities
- provide qualitative information over the entity's sources of finance including the basis for changes in the maturity profile, and
- provide any insight into the risk profile adopted by the entity including the mix of debt instruments and the level of equity funding versus debt funding and the basis for such determinations.

Furthermore, the IPA is unconvinced the information required for the reconciliation has not already been made available by other standards such as IFRS 7 and IFRS 13 as well as in the current disclosures required by IAS 7 e.g., IAS 7.40(d) the amount of liabilities acquired under a business combination.

The use of a reconciliation historical movement in debt instruments as the disclosure mechanism to enhance understanding forecast liquidity needs and liquidity risk is inappropriate. The question that needs to be addressed is not in relation to amendments IAS 7, but whether the disclosures required by IFRS 7 and, in particular, IFRS 7.39 in relation to liquidity risk are sufficient. An enhancement to the IFRS 7 requirements in relation to maturity analysis and disclosures about terms and conditions of debt instruments and certain hybrid instruments that may affect their maturity is needed (e.g., early repayment triggers).

Furthermore, under liquidity risk management rather than a simple boilerplate recitation of motherhood statements, a requirement to discuss the impact of recent repayment refinancing should be required, in particular the impact on both the liquidity risk of the entity and on the maturity profile. This should cover the rationale for early repayment; the substitution/choice of different debt instruments e.g. bank debt for publicly issued debt securities, the management of liquidity "buckets"; the degree that changes have been driven by liquidity consideration or debt repricing risk. These liquidity disclosures should not be a "static" disclosure, but rather reflect how the entity is actively managing the risk in the current period, including renegotiation of debt facilities, extension of existing facilities, amendments to covenants and changes in financing providers.

There should be better integration with the liquidity requirements of IFRS 7 with the capital management requirements of IAS 1.134-136. The level of equity and its relationship with debt level needs to be better articulated and the impacts on the entity's risk profile and its ability to absorb external shocks discussed. The decision or otherwise to increase debt with no adjustment to equity should be explained, as should the basis for the substitution of an equity instrument (including hybrids) for debt.

Question 2 – Transition provisions

Do you agree with proposed transition provisions for amendments to IAS 7 as described in this Exposure Draft (see paragraph 59)?

If not, why and what alternative do you propose?

IPA response

The IPA does not support prospective application of the proposed amendments. In the event IASB proceeds with the amendment to IAS 7, the IPA would prefer a retrospective application of the proposed amendments as it is likely much of the information required should be readily available and therefore would not be burdensome on preparers.

Question 3- IFRS Taxonomy

Do the proposed IFRS Taxonomy changes appropriately reflect the disclosures that are set-out in the proposed amendments to IAS 7 and the accompanying illustrative example? In particular

- *(a) Are the amendments reflected at sufficient level of detail?*
- *(b) Should any line items or members be added or removed?*
- *(c) Do the proposed labels of elements faithfully represent their meaning?*
- *(d) Do you agree that the proposed list of elements to be added to the IFRS Taxonomy should be limited to the information required by the proposed amendments to IAS 7 or presented in the illustrative examples in IAS 7?*

Question 4- IFRS Taxonomy due process

As referenced in paragraph BC 20, the IASB is holding a trial of a proposal to change the IFRS Taxonomy due process. Although not constituting a formal consultation of the IFRS due process, views are sought on the following:

- *(a) Do you agree with the publication of the proposed IFRS Taxonomy update at the same time that an Exposure Draft is issued?*
- *(b) Do you find the form and the content of the proposed IFRS Taxonomy update useful? If not, why and what alternative or changes do you propose?*

IPA response

The IPA does not support the proposal to integrate the development of the Taxonomy with the standard setting process. The exposure draft process should be focussed on the development of conceptually sound accounting standards and not diverted by needs to address issues relating to the Taxonomy.

The IPA has no opinion on the proposed changes in the Taxonomy.

ED258 sub 8

Building a better
working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

The Chair
Australian Accounting Standards Board
PO BOX 204
Collins Street
West Victoria 8007

05 May 2015

Dear Ms Peach

Ernst & Young's global submission to the IASB on the Invitation to comment – Exposure Draft ED/2014/6 *Disclosure Initiative (Proposed amendments to IAS 7)*

Following our local submission to AASB ED 258 dated 18 March 2015, please find enclosed Ernst & Young's global submissions to the IASB on the above discussion paper.

Yours sincerely

Ernst & Young

Ernst & Young

Encl

Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London
SE1 7EU

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
ey.com

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

16 April 2015

Dear IASB members,

Invitation to comment – Exposure Draft ED/2014/6 *Disclosure Initiative (Proposed amendments to IAS 7)*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the Exposure Draft ED/2014/6 *Disclosure Initiative (Proposed amendments to IAS 7)* (the ED) issued by the International Accounting Standards Board (the Board) in December 2014.

We support the Board's Disclosure Initiative efforts to provide a better basis for disclosure effectiveness in the application of IFRS. However, we do not think the proposed amendments to IAS 7 *Statement of Cash Flows* are aligned with the objective of the Disclosure Initiative. More specifically, we believe the proposed additional disclosure requirements potentially will increase the disclosure overload.

If the Board decides to proceed with this proposal in its current form, we generally agree that the proposed IFRS Taxonomy changes reflect the proposed amendments to IAS 7. However, we believe the appropriate basis for an IFRS Taxonomy due process in general would be to publish the proposed IFRS Taxonomy Update when the final amendments to the relevant standard have been concluded. Therefore, we suggest that the IFRS Taxonomy due process should be a separate process.

Our concerns are explained in more detail in the Appendix as responses to the specific questions asked by the ED.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +44 (0)20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

Appendix

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?

(a) We are concerned that the proposed amendment will add to the disclosure overload for the following reasons:

- We believe the disclosure of an entity's net debt reconciliation may well serve the needs of certain users of the financial statements in certain industries, predominantly those with significant capital investments. However, we are concerned that many other users may find this information is unhelpful and therefore adds "clutter" to the financial statements.
- We have noted that the practice of providing a net debt reconciliation or similar disclosures in financial statements, prepared in accordance with IFRS, on a voluntary basis is particularly common in those jurisdictions and industries, where such disclosures are already required under local GAAP, e.g. in the UK. However, the disclosure requirement proposed in the ED may not necessarily reconcile with the local GAAP requirements or common practices. Therefore, it may not be useful to the users relying on net debt information in their decision making process. In other jurisdictions and industries, where net debt disclosures are currently not common, the proposed disclosure may also not be perceived useful.

We recommend the Board to reconsider whether there is an appropriate basis for requiring the proposed disclosures across jurisdictions, across industries and across entities. In making this assessment, we believe it is important to recognise that entities may already, under current IFRS, provide net debt reconciliations on a voluntary basis if demanded by relevant users.

However, if the Board decides to proceed with the proposed amendment, we encourage it to consider the following:

- Assessing the need for the proposed amendment when the Principles of Disclosure project has reached a more advanced stage:
  - As explained above, we are concerned that the proposed amendment will add to the disclosure overload and thus conflicts with the intention of the

Disclosure Initiative. It may be worthwhile to reconsider the proposed amendment after the Board has developed the principles of disclosure.

- Debt may need to be defined:
  - Although we understand the Board's concerns about defining debt, we note that the proposed amendment refers to the notion of "equity" in identifying which items shall be reconciled, and thus the proposed amendment assumes that debt can easily be distinguished from equity. This distinction is not always clear.
  - In practice, there is some diversity in what cash flows are classified as financing (e.g., interest paid, cash received from a government grant, cash flows arising in factoring agreements, vendor financing, etc.), which in turn will create diversity in the application of the proposed reconciliation requirement.
  - We also note that the proposed reconciliation requirement does not distinguish between different items, for instance derivatives and other more traditional financing items. This in effect may expand the proposed disclosure beyond what users would find helpful in analysing net debt movements.
  - It may be argued that giving entities the flexibility to use their own definition of debt is a preferable approach as it will enable them to reflect key aspects of their business and respond to the specific needs of the users of their financial statements. However, we are concerned that this approach will introduce a non-GAAP measure into IFRS financial statements. The nature of such disclosure seems more in line with the type of information that is usually provided in the management commentaries elsewhere in the financial reports. Therefore, we are not convinced that, without a standardised definition of debt, this type of information lends itself well for financial statement disclosure purposes.
- Clarifying the meaning of "net basis":
  - The proposed paragraph BC8 clarifies that the disclosure may be provided on a "net basis". It is unclear whether net basis refers to balances or movements. That is, we understand that the balances being reconciled may be presented on a net basis if the movements are presented gross, but if the movements can be netted, we struggle to appreciate how the disclosure may be helpful. For instance, when an entity receives proceeds from borrowings, the increase in the amount of borrowings would correspond with the increase in the amount of cash and cash equivalents. Therefore, disclosing this movement in the reconciliation table on a net basis would not be very informative for the users of financial statements. As such, we encourage the Board to clarify what is meant by net basis presentation.

- Expanding the illustrative example:
  - The illustrative example included in the ED seems overly simplified. Generally, a reconciliation between the opening and closing balances of long-term borrowings will reflect accrued interest, down payments, etc. It may be that the lack of such common elements in the example reflects the "net basis" approach referred to above, or alternatively, that the Board is using a somewhat less common example to illustrate the proposed requirement. If the former, we believe the Board needs to clarify that the example is illustrating the net approach. If the latter, we would suggest that the example was expanded to include elements that are common in practice to make it relevant and sufficiently illustrative.

The ED does not propose amendments to IAS 34 *Interim Financial Reporting*. Thus, we assume that the proposed reconciliation requirement will not be applicable to condensed interim financial statements.

(b) As with the proposed disclosure requirements about financing activities, we are concerned the proposed additional disclosure requirement regarding an entity's liquidity may not provide useful information. This is because we find the intention and the scope of the proposal unclear. Furthermore, the nature of the disclosure required by the proposed paragraph 50A is similar to the type of information that is usually provided in the management commentaries elsewhere in the financial reports. We are not convinced that this type of information lends itself well for financial statement disclosure purposes.

If the Board decides to proceed with the proposal, we encourage the Board to consider the following:

- Although the term liquidity is not clearly defined in IFRS, paragraphs 48 and 49 of IAS 7 clarify that the current disclosure requirements regard funds "that are not available for use by the group". Furthermore, paragraph 49 exemplifies this by referring to funds "held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply". Under current practice the reference to availability is interpreted as within the restrictions imposed on the entity by external parties.

  The proposed amendment implies that the lack of liquidity for the purpose of disclosure should be given a wider definition, in that economic restrictions or constraints imposed by the entity itself on the use of its funds shall also be disclosed. This is illustrated in the proposed paragraph 50A, in which tax consequences of an entity's repatriation of foreign cash and cash equivalent balances is provided as an example of something impacting liquidity such that it requires disclosure.

  We believe the Board should clarify whether the intention of the amendment is to widen the implied notion of lack of liquidity in IAS 7, and if this is so, paragraphs 48 and 49 should be amended accordingly.

- The implied meaning of “restrictions” in the proposed paragraph 50A should be clarified, for instance in reference to:
    - Restrictions imposed by a board of directors on the use of funds that have been designated, but not yet employed, for specific investment projects
    - Situations in which non-controlling shareholders can block repatriation of cash
    - Other circumstances that commonly occur in practice
- The wording of paragraph 50 suggests that it contains a recommendation (not a requirement) to provide additional information that may be relevant to users in understanding the financial position and liquidity of an entity. Paragraphs 51 and 52 further elaborate on examples of such additional information. Yet the proposed paragraph 50A, which represents a requirement (as opposed to a recommendation), would be placed in between paragraph 50 and paragraphs 51-52, which not only would break the logical sequence, but may also create confusion as to which disclosures are required and which ones are merely encouraged or recommended.

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?

The proposed paragraph 59 clarifies that the amendments are to be applied for annual periods beginning on or after a specific date, but does not include specific transitional provisions applying to the resulting change in accounting policy. Paragraph 19 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* suggests that the default approach to account for a change in accounting policy resulting from the initial application of an IFRS is to apply the change retrospectively. However, the proposed paragraph BC17 clarifies that the IASB proposes the amendments to be applied prospectively. We believe this is confusing and also it is not clear whether the intention of the Board was to allow entities not to provide the proposed disclosures for comparative periods in the period of initial application. Therefore, we recommend the Board to clarify specific transitional provisions in the proposed paragraph 59 itself.

Question 3 – IFRS Taxonomy

Do the proposed IFRS Taxonomy changes appropriately reflect the disclosures that are set out in the proposed amendments to IAS 7 and the accompanying illustrative example? In particular:

(a) are the amendments reflected at a sufficient level of detail?

(b) should any line items or members be added or removed?

(c) do the proposed labels of elements faithfully represent their meaning?

(d) do you agree that the proposed list of elements to be added to the IFRS Taxonomy should be limited to information required by the proposed amendments to IAS 7 or presented in the illustrative examples in IAS 7?

(a) See our response to (d) below.

(b) See our response to (d) below.

(c) Yes.

(d) We believe the proposed decision for the IFRS Taxonomy update to be limited to information specifically required in the IAS 7 amendment or presented in the illustrative examples limits the practical usefulness of the updated taxonomy. The taxonomy update would be more useful if it also considered anticipated common practice elements, i.e., new line items expected to be generated by a significant number of users who apply the amended standard. This would likely reduce the risk of preparers not being provided with sufficient guidance in the taxonomy, and thus reduce costs and efforts of preparers, and also improve comparability of XBRL information between preparers.

Question 4 – IFRS Taxonomy due process

As referenced in paragraph BC20, the IASB is holding a trial of a proposal to change the IFRS Taxonomy due process. Although not constituting a formal public consultation of the IFRS Taxonomy due process, views are sought on the following:

(a) do you agree with the publication of the proposed IFRS Taxonomy Update at the same time that an Exposure Draft is issued?

(b) do you find the form and content of the proposed IFRS Taxonomy Update useful? If not, why and what alternative or changes do you propose?

(a) As the IFRS Taxonomy is directly derived from IFRS, constituents should be able to provide their comments on proposed Taxonomy updates reflecting final amendments to IFRS. One alternative would be to propose amendments to the Taxonomy simultaneously with the relevant ED, and then, subsequently, allow constituents to evaluate proposed amendments to the Taxonomy based on the final standard.

However, we are not convinced the first step of such a two-step exposure process would really add much benefit, but rather it could lead to unjustified additional costs.

(b) As explained above, we believe the proposed IFRS Taxonomy Update should be exposed when the final amendments have been concluded. Therefore, it should be issued as a separate document from the proposed amendments to the standard itself.