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

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

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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

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