



**Australian Government**  
**Australian Accounting  
Standards Board**

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17 April 2015

Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Dear Hans

**IASB Exposure Draft ED/2014/6 *Disclosure Initiative* (Proposed Amendments to IAS 7)**

The Australian Accounting Standards Board is pleased to submit its comments on Exposure Draft ED/2014/6 *Disclosure Initiative* (Proposed Amendments to IAS 7). In formulating its views, the AASB sought and considered the views of its Australian constituents. The comment letters received are published on the AASB's website.

The AASB strongly supports the IASB's Disclosure Initiative project and considers the project will lead to improvements in financial reporting. However, although the AASB notes that the proposed amendments to IAS 7 *Statement of Cash Flows* are in response to user requests and appreciate the IASB is attempting to respond to user feedback, the AASB is concerned with several aspects of the proposals and recommends the IASB consider postponing the amendments until those issues are addressed.

Of particular concern to the AASB is the timing of the proposals and the absence of a definition of debt. As noted in paragraphs 1-3 of the Appendix, the AASB considers the proposed amendments should be postponed until the completion of the Principles of Disclosure project in which a supporting set of principles can be used to determine the disclosure requirements to address the concerns of users. The IASB could then reflect the proposed amendments in the Principles of Disclosure Discussion Paper.

In addition, the AASB is concerned that, without first establishing an IASB definition of debt, the proposed amendments may negatively impact on the consistency and comparability of the reconciliations between entities.

Furthermore, as noted in the attached Appendix, the AASB has concerns regarding:

- (a) level of detail in the proposed example in ED/2014/6 (see paragraphs 6-7);
- (b) risk of duplication of information (see paragraph 8);
- (d) net debt reconciliation versus gross debt reconciliation (see paragraph 9-10); and
- (e) clarification required regarding proposed paragraph 50A (see paragraph 11-13).

The AASB's responses to the specific matters for comment in ED/2014/6 are included in the Appendix to this letter.

If you have queries regarding any matters in this submission, please contact Lisa Panetta (lpanetta@asb.gov.au).

Yours sincerely

A handwritten signature in blue ink that reads "K. E. Peach".

Kris Peach  
Chair

**Appendix: Specific Comments on IASB ED/2014/6 *Disclosure Initiative* (Proposed Amendments to IAS 7)****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 Paragraph 44A – Components of financing activities*****Timing**

- 1 Whilst the AASB is supportive of the inclusion of a debt reconciliation the AASB is concerned with the timing of the proposals.
- 2 The AASB notes that one of the objectives of the IASB Principles of Disclosure project is to undertake a fundamental review of IAS 7 and potentially combine the disclosure requirements in IAS 7 with the disclosure requirements in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* 'with the goal of creating a new disclosure framework'. As a result, the AASB is concerned that there is a risk a further revision of IAS 7 may result in the proposed disclosure requirements being further revised or made redundant. Consistent with the alternative view noted in the Exposure Draft, the AASB is concerned that this may result in a duplication of costs to preparers to update systems and potentially confuse users of financial statements.
- 3 Therefore, the AASB strongly urges the IASB to consider postponing the proposed amendments until the completion of the Principles of Disclosure project in which a supporting set of principles can be used to determine the disclosure requirements to address the concerns of users. The IASB could then reflect the proposed amendments in the Principles of Disclosure Discussion Paper.

**Defining debt**

- 4 The AASB notes that paragraph BC5 states that '...The IASB is of the view that finding a commonly agreed definition of debt would be difficult and that attempts to find a definition could delay the project...' The AASB strongly recommends that the IASB reconsider the decision to proceed with the proposals without the definition of debt. As previously noted, the AASB supports the reconciliation proposed by the IASB, however thinks an IASB definition of debt to be applied by all entities and not a decision determined by management will ensure there is consistency and comparability between entities.

- 5 The AASB would prefer the IASB to continue outreach and research to determine the definition of debt while the IASB explores possible amendments to IAS 7 in the POD project. A definition of debt and the reconciliation, along with other amendments identified in the POD project could then be included in the POD Discussion Paper.

#### Proposed example

- 6 If the IASB proceeds with the amendments, the AASB strongly recommends the IASB expand the example in Note E to provide preparers with more guidance on the requirements in paragraph 44A.

The AASB considers the proposed example provided in Note E is too simple and recommends the example provided in Note E includes all items listed in paragraph 44A.

- 7 The AASB recommends that the examples in Appendix A in the IASB July 2014 Agenda Paper 11B are included in the amendments to IAS 7. Each example outlines a different scenario – one example in which the pension liability is included as a financing cash flow and another without pensions. In addition, each example provides extracts of the cash flow statement and notes to the statement of financial position followed by an example of the resulting reconciliation of financing activities. The AASB considers these examples would be more helpful to preparers than the overly simple example that is currently proposed in the ED.

#### Duplication of information

- 8 The AASB is concerned the proposed requirement in paragraph 44A may result in duplication of information which is in contrast to what the AASB considers is one of the objectives of the Disclosure Initiative project.

The AASB considers that many of the disclosures required in the reconciliation are already required in IAS 7 and therefore requiring the information to be included in the reconciliation will lead to duplication of the information. For example, proposed paragraph 44A(b)(ii) requires the reconciliation to include ‘changes arising from obtaining or losing control of subsidiaries or other businesses’, however paragraph 40 of IAS 7 already requires detailed disclosure of obtaining and losing control of subsidiaries. In addition, proposed paragraph 44A(b)(iii) requires the reconciliation to include ‘other non-cash changes...’, however paragraphs 43-44 of IAS 7 notes that ‘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...’ Therefore, the information would be readily available to users to enable them to prepare a debt reconciliation if required and thereby reducing the time and cost for preparers of including additional disclosures.

#### Net Debt reconciliation

- 9 The AASB notes that paragraph BC8 states that ‘...the requirement for the disclosure should not prohibit disclosures from being provided on a net basis.’ The AASB is concerned with the IASB’s decision to continue to allow entities to present a net debt reconciliation. The AASB considers the net debt position could be misleading to users as a net debt reconciliation requires the cash held by an entity to be netted against debt.

Therefore, the cash available to an entity and/or the actual debt position of the entity is not evident to users. For this reason the AASB prefers disclosure of the gross position.

Furthermore, the AASB is concerned that allowing an entity to continue to prepare a net debt reconciliation may impact on the comparability of financial statements. The AASB is concerned that diversity in practice may arise as the proposals do not include any requirements in relation to net debt reconciliations. If the IASB decides to proceed with permitting entities to prepare a net debt reconciliation, the AASB recommends that the IASB includes requirements in IAS 7 relating to net debt reconciliations that are consistent with the proposed debt reconciliation requirements and include the same level of detail required by proposed paragraph 44A.

- 10 In addition, the AASB questions why the statement in paragraph BC8 has not been included in the Standard, rather than the BC, to ensure all entities are aware of the allowance.

#### ***Proposed Paragraph 50A – Other disclosures***

- 11 The AASB appreciates the concerns of users of financial statements regarding cash and cash equivalent disclosures, however the AASB does not believe the proposed requirements in paragraph 50A sufficiently address the issue and are largely a duplication of disclosure requirements required in paragraphs 10 and 13 of IFRS 12 *Disclosure of Interests in Other Entities* and paragraph 42D IFRS 7 *Financial Instruments: Disclosures* and paragraphs 38-45 of IAS 12 *Income Taxes*.
- 12 The AASB is concerned without clarification of the disclosure required by proposed paragraph 50A, it may result in duplication of information and/or a misunderstanding of what is required to be disclosed. If the IASB decides to proceed with the amendments, the AASB strongly recommends the paragraph be reworded to ensure a clear communication of what is required.
- 13 In addition, the AASB recommends the IASB considers postponing amendments addressing cash and cash equivalents disclosures until a complete review of cash and cash equivalents disclosures as part of the Principle of Disclosures project is completed.

#### **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?

- 14 The AASB supports the proposed transition provisions as outlined in paragraph 59.

#### **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?

- 15 The AASB is not aware of any Australian entity that has adopted IFRS Taxonomy for application in Australia. However, after reviewing the proposed amendments to the IFRS Taxonomy the AASB notes that, although proposed paragraph 44A requires a reconciliation for changes ‘for each item for which cash flows have been, or would be, classified as financing activities...’, the proposed taxonomy does not include the words ‘have been, or would be’, as stated in the sub heading ‘line items’ in paragraph 5(b).
- 16 In addition, the AASB notes that the following items are not included in the taxonomy as potential changes that may be required in the reconciliation:
- (a) extinguishment or forgiveness; and
  - (b) conversion or other capitalisation of debt.

#### **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?

- 17 The AASB is not aware of any Australian entity that has adopted IFRS Taxonomy for application in Australia. Therefore, we do not have any comments to make at this stage.