**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.

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:<br>(a) information provided to users of financial statements about an entity's financing activities, excluding equity items; and<br>(b) disclosures that help users of financial statements to understand the liquidity of an entity.<br>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)?<br>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:<br>(a) are the amendments reflected at a sufficient level of detail?<br>(b) should any line items or members be added or removed?<br>(c) do the proposed labels of elements faithfully represent their meaning?<br>(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:<br>(a) do you agree with the publication of the proposed IFRS Taxonomy Update at the same time that an Exposure Draft is issued?<br>(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.