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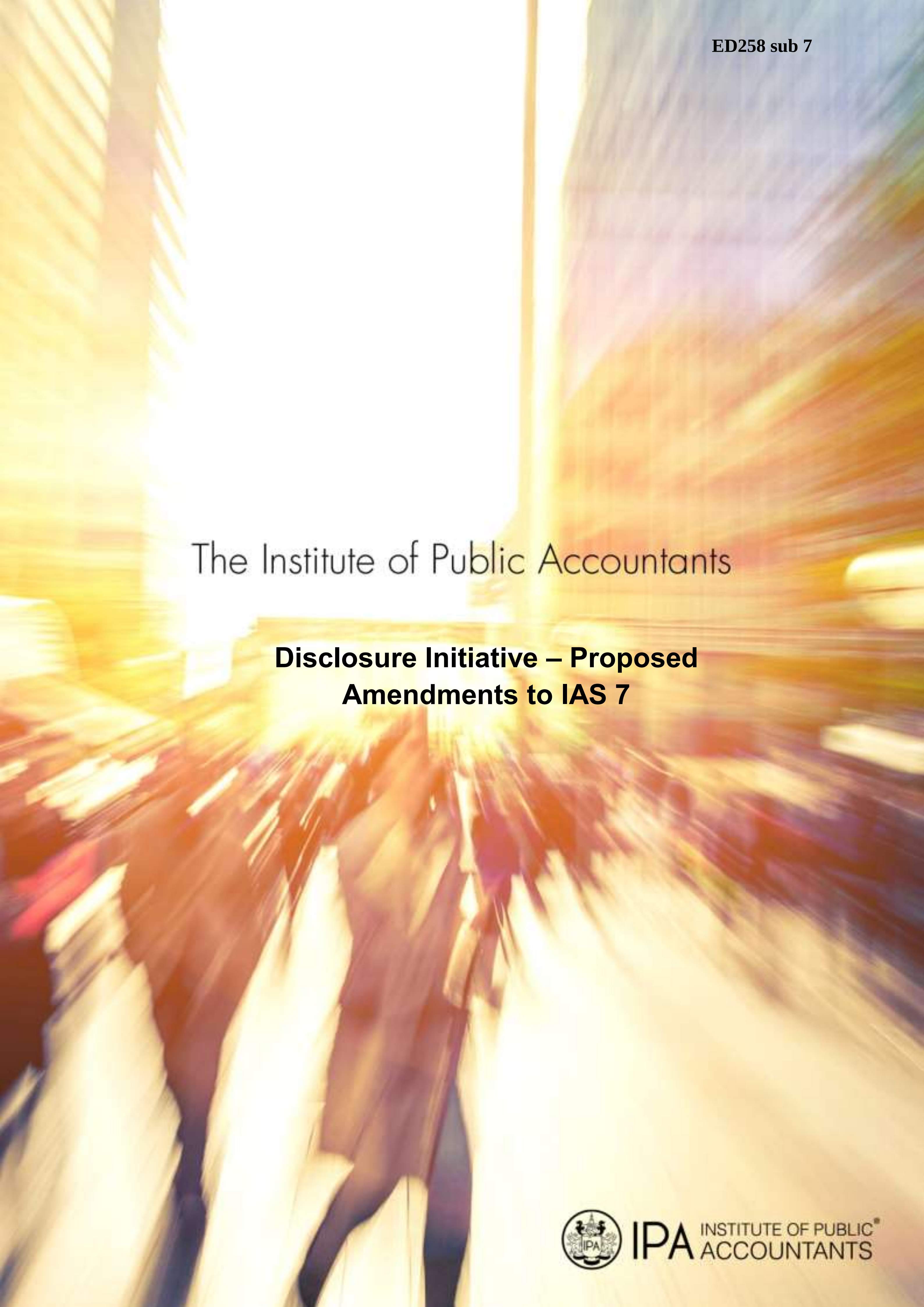

The Institute of Public Accountants

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.