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Statement of Cash Flows and Related Matters – Initial Research Findings Issues Paper

Objective

- 1 The objective of this agenda paper is to:
 - (a) consider a summary of the initial research findings in the IASB project on *Statement of Cash Flows and Related Matters* and discuss initial analysis of the findings and next steps for the project; and
 - (b) seek EFRAG FR TEG/CFSS views on a list of detailed topics to be further assessed by the IASB for feasibility and possible benefits of resolving the related issues by balancing various stakeholder priorities, potential complexities of solutions and the impact on the length of the project.
- 2 The input received from EFRAG FR TEG-CFSS members will be presented at the ASAF meeting on 24-25 March 2025 and will help the IASB decide on the project plan and next steps for the project at its May meeting.
- 3 In addition to this paper, agenda paper 10-02 IASB AP06 *Cash Flow Statement* has been uploaded for the session.

Questions for the ASAF meeting in March

- 4 The questions below are to be addressed at the upcoming ASAF meeting in March 2025.

Questions for the ASAF March meeting

- 5 Do you have any questions or comments on the IASB findings from the initial research?
- 6 Considering the initial research findings, to help the IASB consider the next steps in the project:
- (a) Do you agree with the topics identified as stakeholder priorities (paragraph 7)?
 - (b) Do you think there are any detailed topics that have been missed?
 - (c) Which topics do you think would most benefit from being assessed together because of their interconnected nature?
 - (d) Do you have any comments on the key factors to be considered by the IASB in deciding the next steps for the project?

EFRAG Secretariat analysis on the IASB initial research findings

Topics to consider (slide 9 of Paper 6 for the March 2025 ASAF meeting)

- 7 The IASB has concluded its initial research on the project of *Statement of Cash Flows and Related Matters* and has confirmed the list of key topics for preliminary consideration on the project. The key topics include:
- (a) Requirements for classifying cash flows
 - (b) Disaggregation of cash flow information
 - (c) Definition of cash and cash equivalents
 - (d) Effects of non-cash transactions
 - (e) Method of reporting operating cash flows
 - (f) Information about commonly used cash flow measures
 - (g) Statement of cash flows for financial institutions
- 8 The findings of the EFRAG discussion paper [The Statement of Cash Flows – Objectives, Usage and Issues](#) ('the DP') (published in November 2024), identify similar priority topics to those identified by the IASB's initial research. However, based on EFRAG's DP, the list of key topics in paragraph 7 can be expanded on some additional aspects as follows:
- (a) *Non-cash transactions* – EFRAG's DP did not only consider information on non-cash transactions. It discussed including non-cash transactions in the statement of cash flows.

- (i) For transactions that could be characterised as transactions performed by an agent and ‘multiple component’ transactions (most commonly transactions including the transfer of a good or service and a financing component), the DP presented the preliminary view that it would result in more relevant information to present these ‘gross’ in the statement of cash flows. That is, the cash flows of an agent should be included in the statement of cash flows of the principal. Similarly, all the component of a ‘multiple component’ transaction should be reflected in the statement of cash flows. Accordingly, if an entity orders its bank to acquire it an asset an at the same time providing a financing solution, the transaction should be reflected as if the entity would first receive cash inflows from a financing activity, then have cash outflows related to acquiring the asset and subsequently cash outflows related to paying back the loan and interest.
 - (ii) For transactions that do not involve cash, for example acquisitions made in own shares or bitcoins, the DP noted that whether these should be presented in the statement of cash flows would depend on the objective of the statement of cash flows.
- (b) *Alternatives to the statement of cash flows* — EFRAG’s DP also considered whether alternatives to the statement of cash flows could provide more useful information to users. An alternative to the statement of cash flows could be a statement of net debt or a statement of changes in working capital in their analysis.
- (c) *Method of reporting operating cash flows* – this topic has not been seen as important by European stakeholders. The input received by EFRAG has generally indicated that European users generally prefer the indirect presentation of cash flows from operating activities and most entities report cash flows from operating activities using this presentation.
- (d) *Other disclosures* — In addition to the disclosures identified by the IASB, EFRAG’s DP, based on input collected, suggested information about:
- (i) preparation and classification choices made by the entity;
 - (ii) intercompany cash flows (some users would like to know if an entity in a group is financing investments in another entity in the group);
 - (iii) restrictions and location of cash (for example, if cash is located in a subsidiary that is not fully controlled, all the cash of that subsidiary cannot be transferred

to other entities within the group by means of dividend payments, as the minority interests of the subsidiary should also have their share of the dividends, and in addition there may be various fees and taxes that would have to be paid when transferring cash (which would reduce the amount of cash that can be transferred);

- (iv) non-recurring cash flows;
- (v) impact of business combinations on the statement of cash flows;
- (vi) reconciliations.

Key research findings on the topics to consider (slides 10–16 of Paper 6 for the March 2025 ASAF meeting)

9 With respect to each key topic identified in the IASB's initial research, EFRAG Secretariat makes the following recommendations based on EFRAG's DP input:

- (a) *Requirements for classifying cash flows* – the IASB finding on this topic are consistent with the evidence collected by EFRAG's DP.

On interconnections with other topics, EFRAG Secretariat agrees that classification, disaggregation and definition of cash equivalents affect the structure of the statement of cash flows and the relationship between free cash flows and the statement of cash flows. In the view of the EFRAG Secretariat more importantly, requirements on classifications would not clarify the purpose and objectives of the statement of cash flows first.

- (b) *Disaggregation of cash flow information* - the IASB finding on this topic are consistent with the evidence collected by EFRAG's DP. Furthermore, the input received by EFRAG shows that the potential disaggregation of CAPEX (including growth versus maintenance) may not be possible in practice. Possible way to address these problems is to provide more granular disclosures on CAPEX figures to enable users to make their own assessment. An issue may be that only cash outflows resulting in an asset that will be recognised on the statement of financial position can be classified as investing activity in the statement of cash flows.

On interconnections with other topics, EFRAG Secretariat agrees that users seek disaggregated information about non-cash changes to some assets and liabilities reflected in items presented in the SCF, however, this interconnection is not that strong and the EFRAG Secretariat assesses that topic of disaggregation might be consider by the IASB separately from the topic of effects of non-cash transactions.

- (c) *Definition of cash and cash equivalents* - the IASB finding on this topic are consistent with the evidence collected by EFRAG's DP except that:
- (i) EFRAG has not heard from users that they prefer a definition closer to cash and do not raise issues with cash equivalents;
 - (ii) EFRAG has received input that some users want non-cash transactions reflected in the statement of cash flows.

On interconnections with other topics, EFRAG Secretariat:

- (i) agrees that the definition of cash equivalents affects the structure of the statement of cash flows and the line items presented;
 - (ii) agrees that the definition of cash equivalents affects the scope of non-cash transactions; however, the EFRAG Secretariat notes that the issue of non-cash transactions is much broader than what is considered cash and cash equivalents.
- (d) *Effects of non-cash transactions* - the IASB findings on this topic are consistent with the evidence collected by EFRAG when developing its DP. In addition, EFRAG has received input that non-cash transactions should be reported in the statement of cash flows.

On interconnections with other topics, the EFRAG Secretariat notes that in addition to the interconnections of this topic with the definition of cash equivalents and disaggregation, addressing this issue will involve considering the objectives of the statement of cash flows (see also paragraph 8(a) above).

- (e) *Method of reporting operating cash flows* – EFRAG has not heard any major concerns related to the method of reporting operating cash flows from European constituents.
- (f) *Information about commonly used cash flow measures* - the IASB finding on this topic are consistent with the evidence collected by EFRAG's DP. EFRAG has also received different input on whether it would be useful or inappropriate to define non-GAAP measures in Accounting Standards and that an alternative to defining it would be to require entities explaining how it is calculated.
- (g) *Statement of cash flows for financial institutions* - the IASB finding on this topic are consistent with the evidence collected by EFRAG's DP. The general feedback received by EFRAG is that the statement of cash flows for financial institutions is largely not useful (beyond the information provided elsewhere in the financial statements).

Various alternatives/additional information to the statement of cash flows have been suggested to EFRAG including providing regulatory information in the statement of cash flows, the appropriateness of which has also been questioned.

EFRAG Secretariat analysis on the key factors to consider in deciding the IASB project plan

- 10 The initial analysis of the IASB staff of research findings does not eliminate any of the key topics (refer to paragraph 7) identified in the research. While some topics might require small changes without looking at the IAS 7 *Statement of Cash Flows* holistically, other topics might entail more significant changes considering the interconnections between topics and the potential complexities to fully resolve possible reporting deficiencies. It should be noted that the research feedback suggests differing priorities for some topics i.e., the definition of cash equivalents is a high priority for many preparers, accounting firms and national standard-setters, but not a priority for users.
- 11 The feedback on the initial research recommends that the project should move quickly to resolve ‘quick wins’, however, it should consider the balance between timing, sufficiently resolving the possible reporting deficiencies and minimising disruption. The need for ‘quick wins’ has also previously been communicated by EFRAG CFSS.
- 12 The key factors to be considered by the IASB in deciding the next steps of the project are:
 - (a) *Stakeholder priorities* – how to best meet user information needs while considering the needs of the other stakeholders; and
 - (b) *Potential complexity of solutions* – understand the potential complexities of solutions to the key topics will help assess which approaches might be more efficient considering that:
 - (i) Approaches to one topic might affect another topic and resolve connected problems;
 - (ii) Change management for some approached might be more challenging;
 - (iii) Some approaches might require greater technical challenges.
- 13 Applying the key factors is intended to give the IASB the information needed to assess the next steps of the project. The initial assessment using the key factors is included in slides 22 and 23 of the agenda paper 10-02 and is reproduced in Appendix 1 to this issues paper.
- 14 In general, EFRAG Secretariat agrees with the assessment made using key factors in relation to stakeholder priorities and potential complexities of each identified topic (see Appendix 1) except for:

- (a) *Consistent application of categories (classification)* – just providing stricter requirements on the classification, without considering the main objectives of the statement of cash flows, would in the view of the EFRAG Secretariat result in consistency for the purpose of consistency without considering the objective and purpose of the statement of cash flows. The EFRAG Secretariat accordingly questions whether this should be a priority;
- (b) *Consistent application of definition of cash equivalents (cash and cash equivalents definition)* – similarly, this topic would result in consistency for the purpose of consistency without considering the objective and purpose of the statement of cash flows. The EFRAG Secretariat accordingly questions whether this should be a priority;
- (c) *Presentation method of operating cash flows* – this topic has not been identified as priority topic in EFRAG’s DP. There is also no priority ranking identified by users and preparers in the table included in Appendix 1. Therefore, EFRAG Secretariat is of the view that the topic raises limited interest from stakeholders.
- (d) *Statement of cash flows for financial institutions* – EFRAG Secretariat observes that there is no priority ranking identified by users and preparers in the table included in Appendix 1. However, EFRAG’s DP notes that the topic may be relevant for ‘to become’ IFRS preparers. Existing financial institutions may have systems in place to produce the statement of cash flows. The cost of preparing a statement of cash flows may accordingly be limited for existing preparers. However, the cost could be higher for future preparers that would have to put system in place to produce a statement that is not considered useful.

Question for EFRAG FR TEG/CFSS

- 15 Does EFRAG FR TEG/CFSS have any comments in response to the questions for ASAF members included in paragraphs 5-6 above and to the comments made by the EFRAG Secretariat above in relation to the findings collected by and assessments performed by the IASB?

Appendix 1: Initial assessment using key factors

Source: the IASB

Topic	Detailed topics identified in findings	Investor priority	Preparer & others priority	Potential complexity
Classification (see slide 10)	Definitions of categories and subtotals		✓	High
	Consistent application of categories		✓	Low
Disaggregation (see slide 11)	Specific information users seek that is often not disaggregated	✓		Moderate
Cash equivalents (see slide 12)	Definition of cash equivalents/objective of the statement of cash flows		✓	High
	Consistent application of definition		✓	Low
Non-cash (see slide 13)	Non-cash transactions economically similar to cash transactions	✓		High
	Improved accessibility of currently disclosed non-cash information	✓		Low

Topic	Detailed topics identified in findings	Investor priority	Preparer & others priority	Potential complexity
Presentation method (see slide 14)	Specific direct method information that might provide sufficient benefits			Moderate
	Guidance on deciding method			Low
Common cash flow measures (see slide 15)	Requirements similar to MPMs for cash flow measures	✓	✓	Low
	Possible additional subtotals in the statement of cash flows	✓	✓	Moderate
Financial Institutions (see slide 16)	Potential for changes to classification, disaggregation or disclosure to improve usefulness for financial institutions			Moderate
	Potential for scope out for some entities			High