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Statement of Cash Flows and Related Matters – scoping the project

Issues Paper

Objective

- 1 The objective of this agenda paper is to provide an update and seek any views or comments from EFRAG FR TEG on the IASB tentative decisions related to the topics to be considered in the *Statement of Cash Flows and Related Matters* project ('SCF project').

Background

- 2 In March 2025, EFRAG FR TEG-CFSS considered a summary of initial research findings of the IASB on perceived deficiencies with the requirements of IAS 7 *Statement of Cash Flows* and provided input on a list of detailed topics to be further assessed by the IASB for feasibility and possible benefits of resolving the related issues considering various stakeholder priorities, potential complexities of solutions and the impact on the length of the project.

IASB tentative decisions

- 3 In May 2025, the IASB discussed the feedback received from stakeholders and various consultative groups on the identified key topics for preliminary consideration along with the different stakeholder priorities associated with them. The IASB took the following tentative decisions in relation to the SCF project plan:
 - (a) Topics to be assessed for potential ways to improve:
 - (i) the disaggregation of cash flow information in the financial statements
 - (ii) the reporting of information about non-cash transactions in the financial statements
 - (iii) the transparency of information about cash flow measures not specified in IFRS Accounting Standards
 - (iv) the consistent application of the requirements in IAS 7 for classifying cash flows as operating, investing, and financing

- (v) the consistent application of the definition of 'cash equivalents'.
- (b) Topics to be excluded from the project plan:
- (i) defining growth and maintenance capital expenditures
 - (ii) developing new requirements for cash flow information by segment
 - (iii) developing specific offsetting requirements
 - (iv) changing the requirements of IAS 7 to present operating activities using the direct or the indirect method
 - (v) defining the measures 'free cash flows' or 'net debt'
 - (vi) re-defining the categories of operating, investing, or financing as an objective
 - (vii) aligning the classification of cash flows in the statement of cash flows with the classification of related income and expenses in the statement of profit or loss applying IFRS 18 *Presentation and Disclosure in Financial Statements* as an objective
 - (viii) expanding the definition of 'cash and cash equivalents'
 - (ix) developing alternatives to a statement of cash flows.
- (c) The approach to deal with the issue of the statement of cash flows (as currently prepared) not being relevant for most financial institutions, to be to:
- (i) consider the improvements to the statement of cash flows resulting from the topics laid out in paragraph 3(a) before deciding on any changes to the requirements for financial institutions;
 - (ii) specifically consider exempting financial institutions from some or all of the requirements for presenting a statement of cash flows; and
 - (iii) consider any presentation or supplemental disclosure requirements specific to financial institutions that might enhance the usefulness of information about cash flows for these entities.
- 4 All 14 IASB members agreed with these tentative decisions.
- 5 The IASB is still to decide whether the consultation document to be published as an output of the SCF project will be a discussion paper or an exposure draft, or a combination of both (for example, a discussion paper for statement of cash flows for financial institutions and an exposure draft for the rest of the issues).

Details about the topics to be explored in the SCF project plan

6 The table below provides more details about potential areas that will be considered on each topic included in the SCF project plan.

| Matters included in the SCF project plan | Matters excluded from the SCF project plan |
|--|---|
| Disaggregation | |
| <ul style="list-style-type: none"> Assess potential ways to improve disclosure for information about specific matters Assess potential ways to build on IFRS 18 disaggregation guidance specific to SCF | <ul style="list-style-type: none"> Defining growth and maintenance capex—sufficient evidence not feasible Cash flow information by reportable segment—feedback better considered in a holistic project on segment reporting Develop specific offsetting guidance (separate from principal or agent)—not a priority for any stakeholder group |
| Non-cash/ presentation method | |
| <ul style="list-style-type: none"> Assess potential ways to improve information about changes in balance sheet items—priority for most investors Assess potential ways to improve information about non-cash transactions that are economically similar to cash transactions—priority for most investors | <ul style="list-style-type: none"> Changes to requirements for the presentation of cash flows from operating activities using the direct or indirect method—low priority for most stakeholders |
| Transparency of information about common cash flow measures | |
| <ul style="list-style-type: none"> Assess possibility of MPM type approach for cash flow-based subtotals—priority for most investors Assess potential ways to improve other specific information with management definitions/approach (e.g. disaggregation of net debt, growth/maintenance capex, working capital) - priority for most investors | <ul style="list-style-type: none"> Defining free cash flows or net debt—initial feedback suggests not feasible and low priority for most stakeholders |

SCF and Related Matters - Issues Paper

| Matters included in the SCF project plan | Matters excluded from the SCF project plan |
|--|--|
| Classification of cash flows | |
| <ul style="list-style-type: none"> Assess potential ways to improve consistent application of classification requirements—priority for many preparers and others and helps investors identify items needed for analysis | <ul style="list-style-type: none"> Re-defining operating, investing, financing as an objective—feedback suggests these are useful categories Aligning classification with IFRS 18 as an objective—not a priority for investors |
| Definition of cash equivalents | |
| <ul style="list-style-type: none"> Assess potential ways to improve consistent application of definition—priority for many preparers and others and aids comparability Assess potential ways to clarify when cash is an entity's (agent)—priority for many preparers and others and important question for effects of noncash transactions topic | <ul style="list-style-type: none"> Expanding the definition of cash and cash equivalents—investor feedback is comparability more important and prefer not expanding to include more investments Alternative presentations of the statement of cash flows (e.g. statement of net debt)—feedback fundamental structure provides useful information and more targeted improvements stakeholder priority |
| Financial institutions | |
| <ul style="list-style-type: none"> Assess potential changes arising from other topics for improving usefulness for financial institutions including classification and disaggregation—some stakeholders identify usefulness of some items and identify challenges to scope of any exemptions Assess possibility of scope exemptions for some or all requirements for some entities—most stakeholders identify limited usefulness of SCF Assess potential improvements from specific disclosures identified by investors | <ul style="list-style-type: none"> Explore alternatives to statement of cash flows—low priority for many investors and beyond the scope of statement of cash flows |

The IASB proposed plan for scoping the SCF project

- 7 The IASB Staff proposed that work on the SCF project begin with the topic of classification to identify:
 - (a) areas for potential improvements that could be made by clarifying the requirements of IAS 7;
 - (b) areas for potential improvements that could be made by developing new requirements; and
 - (c) areas for improving consistent application where there would be limited benefits to users of financial statements such as transaction which are not prevalent in practice.
- 8 The project plan would then consider to what extent improvements might be made through the work of the IFRS Interpretations Committee to address some of the deficiencies in applying the requirements in IAS 7.
- 9 The IASB tentatively decided not to plan any specific work to actively explore the topics in paragraph 3(b). However, as the SCF project evolves, if there is evidence that the issues related to these topics can be addressed more extensively than initially assessed, the IASB could reconsider performing work in these areas. Additionally, excluding these topics from the SCF project plan does not restrict considering them to the extent they relate to assessing potential ways to improve financial reporting for topics included in the plan.
- 10 With respect to financial institutions, the IASB plans to first explore whether any improvements from other aspects of the project might apply, using a cost-benefit analysis specific to these entities and then consider whether some financial institutions should be scoped out of some, or all of the requirements of IAS 7. As a result, the work planned on the statement of cash flows for financial institutions will start at a later stage after key decisions are made on other topics of the SCF project.
- 11 The SCF project plan also considers resorting to the work of the IFRS IC, in particular, related to opportunities to reduce diversity in the application of requirements for classifying cash flows, the definition of cash and cash equivalents and the disaggregation of specific items. Explaining the applicable requirements in IAS 7 to the identified topics and improving consistent application of IFRS Accounting Standards other than IAS 7 would be explored to better resolve an issue than developing new requirements.
- 12 Appendix 1 includes a proposed draft timeline for the SCF project. The work undertaken by the IFRS IC is not included in the draft timeline as it will be conducted separately.

EFRAG Secretariat analysis

13 The EFRAG Secretariat is currently analysing the 16 comment letters and other input EFRAG has received in response to its Discussion Paper *The Statement of Cash Flows – Objectives, usages and issues* (the 'DP')(the EFRAG Secretariat has been informed that it will receive a couple of additional comment letters). The issues the IASB will deal with are generally those considered important by the respondents to EFRAG's DP. Nevertheless, the EFRAG Secretariat has identified the following potential concerns related to the IASB's approach and the issues it has decided to exclude from its project plan:

- (a) **Targeted improvements.** Most respondents to the DP considered that the IASB should only make targeted improvements to IAS 7 (which would be in accordance with the IASB's approach). However, a couple of respondents assessed that a comprehensive review of IAS 7 was necessary.
- (b) **Not starting by identifying the main objective(s) of the statement of cash flows.** Some comment letters (including from users) considered it important to start a project on the statement of cash flows by examining the objectives and usages of the statement. The DP listed identified objectives and usages, and respondents generally agreed with these, but had different views on which of the objectives were most important. Generally, however, respondents agreed that one of the main objectives of the statement of cash flows is to provide information for assessing the ability of an entity to generate cash and cash equivalents. The responses to the DP also indicate that differing views on the importance of the different issues with the statement of cash flows could be caused by differing views of the most important objectives of the statement of cash flows.
- (c) **Categorisation including alignment with IFRS 18.** Some respondents to EFRAG's DP considered that the current classifications do not always provide the most useful information (e.g., payments related to taxes, leases, and other types of transactions involving a financing element). These issues will not be solved by a project only aiming at improving consistent application of (existing) classification requirements. While respondents generally did not consider alignment with IFRS 18 to be important, some respondents did.
- (d) **Segment information.** The IASB considers that this issue is better dealt with in a project on segment reporting. However, there is a risk of 'kicking the can', and it is uncertain whether/when the IASB would start working on a project on segment reporting.

- (e) **Definition of cash and cash equivalents.** Users responding to EFRAG's DP did not consider the definition of cash and cash equivalents to be a significant issue, but a couple of other respondents considered that the current guidance on this should be amended.
- (f) **Disclosures and reconciliations.** It is not clear from the list of matters the IASB will include in/exclude from the project what types of note disclosures and reconciliations will be considered as part of the project. Generally, respondents to EFRAG's DP considered that additional note disclosures (also general disclosures related to classification of cash flows) and reconciliations of e.g., net debt should be important parts of the project.
- (g) **Offsetting guidance (separate from principal or agent).** It is not completely clear where the boundary between issues related to non-cash transactions and principal or agent issues (which will be considered) versus offsetting guidance (which will not be considered) is. Based on the feedback received, an important issue is whether/when/how to present certain transactions where a net cash flow has taken place, as if several cash flows had taken place.

Questions for EFRAG FR TEG

- 14 Does EFRAG FR TEG have any comments on the IASB's tentative decisions on scoping the SCF project as detailed in paragraphs 3 and 6 also considering the feedback received in response to EFRAG's DP as summarised in paragraph 13?
- 15 Does EFRAG FR TEG have any comments/suggestions related to the proposed timeline of the SCF project as included in Appendix 1?

Appendix 1: Draft timeline of the SCF project

| Month | Disaggregation | Non-cash/other | MPM-SCF | Classification | C&CE | FI |
|---|--|--|---------------------|-------------------------|-----------------|-------------------------------------|
| Joint CMAC-GPF | | | | | | |
| Q3 2025 | Scoping | Scoping | Scoping | | | |
| ASAF | | | | | | |
| Q4 2025 | | BS movements | Definitions | Scoping | | |
| CMAC, GPF, ASAF | | | | | | |
| Q1 2026 | -Build on principles -Specific disclosure | | Disclosure | | Definition | |
| CMAC, GPF, ASAF, IC | | | | | | |
| Q2 2026 | | -Other disclosure -Economically similar | Specified subtotals | Clarifying requirements | Principal agent | |
| Joint CMAC-GPF, ASAF, IC | | | | | | |
| Q3 2026 | | Presentation | | New requirements | | FI Exemptions |
| Q4 2026 | | | | | | -FI Enhancements -FI Disclosures |
| Decision to issue consultation document | | | | | | |

Source: *The IASB*