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EFRAG proposed discussion paper on the statement of cash flows

Cover Note

Objective

- 1 The objective of this session is to agree to recommend EFRAG's Discussion Paper on the statement of cash flows ('the DP') for issuance to EFRAG FRB. EFRAG FRB will be asked to approve the DP at its meeting on 8 October 2024.

EFRAG's discussion paper on the statement of cash flows

- 2 Following the 2021 consultation on EFRAG's research agenda, EFRAG decided in June 2022 to include on its research agenda a project on the statement of cash flows (see [EFRAG feedback statement](#)).
- 3 EFRAG will issue a DP for public comments that will:
 - (a) List and briefly discuss different alternative objectives/uses of the statement of cash flows;
 - (b) List the issues with current requirements/practice; and
 - (c) Discuss whether the IASB could consider the issues by targeted amendments, or a comprehensive review would be necessary to deal with the issues in a satisfactory manner.
- 4 The EFRAG Secretariat has presented EFRAG FR TEG and EFRAG FRB the [first draft of the DP](#), at the 1 July 2024 and 17 July 2024 meetings respectively. In addition, the EFRAG Secretariat has presented the chapter focusing on financial institutions to EFRAG FIWG and EFRAG IAWG at the 2 and 9 September 2024 meetings.
- 5 During these meetings, the EFRAG Secretariat collected feedback that has now been reflected in the revised version of the DP (except from the input received at the EFRAG IAWG meeting due to time constraints). The comments received by EFRAG FR TEG, FRB and FIWG are included in the Appendix to this cover note.

Questions for EFRAG FR TEG

- 6 Do you have any comments related to the content of the proposed DP?
- 7 Do you agree recommending the proposed DP to EFRAG FRB for issuance?

Next steps

- 8 EFRAG FRB will be asked to approve the DP as recommended by EFRAG FR TEG at its 8 October 2024 meeting.

Agenda Papers

- 9 In addition to this cover note, the agenda paper is Agenda paper 08-02 – *Proposed Discussion Paper on the statement of cash flows.*

Appendix – EFRAG FR TEG’s comments on the first draft of the DP

- 10 Input and suggestions of EFRAG FR TEG, FRB, FIWG (financial institutions chapter) in response to the [first version of the DP](#). The input is categorised by the chapters that it relates to.

General comments

- 11 Include illustrative examples to engage users [EFRAG FR TEG].
- 12 As it would be difficult to satisfy all user needs with one statement of cash flows, it should be discussed what should be in the statement of cash flows and what should be in additional notes [EFRAG FRB].

Chapter 2 and 3 objectives and usages

- 13 Merge Chapters 2 and 3 related to the objectives and usages of the statement of cash flows [EFRAG FR TEG].

Chapter 4 Issues for non-financial entities

- 14 Ensure issues are described in a way that it does not indicate that EFRAG has taken a position [EFRAG FR TEG].
- 15 Prioritise issues by presenting them in order of importance. For example, direct/indirect method and aggregation/disaggregation should be placed lower on the list of issues, as they are less important compared to other issues [EFRAG FR TEG].

Issues with included/excluded transactions

- 16 Separate sections on included/excluded transactions into ‘cash and cash equivalents’, ‘agent/principal issues’, ‘and non-cash transactions’ [EFRAG FR TEG].
- 17 Acknowledge that a less prescriptive definition of cash and cash equivalents allows preparers to better reflect their business [EFRAG FR TEG].
- 18 Acknowledge that including non-cash transactions in the statement of cash flows could confuse users, as this information is already available in other financial statements [EFRAG FR TEG].
- 19 Acknowledge that only capitalised expenses should be considered capital expenditures to ensure consistency across financial statements [EFRAG FR TEG].

Issues with classification

- 20 One of the most important issues was the distinction between operating, investing and financing cash flows, and that it should be useful. One issue was how to deal with cash flows related to leases, and APMs should be investigated. On this issue the question of non-cash transactions was also relevant [EFRAG FRB].

Insufficient disclosures

- 21 Acknowledge that some disclosures are more useful to be presented in the statement of profit or loss or statement of financial position, rather than the statement of cash flows (e.g., information on accruals represented by contract assets and contract liabilities, liquidity disclosures under IFRS 7) [EFRAG FR TEG].
- 22 Include an example of supplier finance arrangements affecting the statement of cash flows in the disclosures section [EFRAG FR TEG].

Presentation of cash flows from operating activities

- 23 Differentiate the impact of direct/indirect methods for different types of stakeholders [EFRAG FR TEG].

Definitions

- 24 Include a suggestion that instead of defining terms like free cash flows, require entities provide disclosures and reconciliation of these measures (e.g., free cash flows), similar to the MPM requirements in IFRS 18 [EFRAG FR TEG].
- 25 The current usage of alternative performance measures should be further investigated. It should be explored whether similar requirements related to MPMs under IFRS 18 should be extended to the statement of cash flows [EFRAG FRB].
- 26 Different views were expressed on the usefulness of defining free cash flows and net debt (it was thought it would not be possible to define maintenance and growth capital expenditures). One view was that it would be useful to define these KPIs as there were currently calculated and used inconsistently by analysts. Another view was that it would not be possible to agree on a uniform way of calculation, as different users making corporate valuations, would calculate it differently [EFRAG FRB].
- 27 The definition of capital expenditures could also be important for sustainability reporting [EFRAG FRB].

Cohesiveness with the other two primary financial statements

- 28 Present cohesiveness issues in a more balanced way and acknowledge that users may prefer cohesiveness between the statement of profit or loss and the statement of cash flows, especially when they are used to the categories in the statement of profit or loss as required by IFRS 18. Contrarily, it should be acknowledged that the statement of cash flows and the statement of financial position serve different purposes [EFRAG FR TEG].
- 29 Differences in the categorisation between the statement of profit or loss and the statement of cash flows could create uncertainties for users [EFRAG FRB].

Chapter 5: Alternatives to the statement of cash flows

- 30 Include the statement of changes in working capital, changes in other liquid assets and changes in assets used in liquidity management as alternatives to the statement of cash flows [EFRAG FR TEG].

Chapter 6: The statement of cash flows from financial institutions

- 31 The usefulness of the statement of cash flows for financial institutions (both banks and insurance companies) was questioned [EFRAG FR TEG, FRB, FIWG].
- 32 Consider the EFRAG's 2015 DP on the usefulness of statements of cash flows for financial institutions [EFRAG FR TEG].
- 33 In September 2024, consult FIWG and IAWG for the financial institutions section, and in particular to explore additional alternatives for the statement of cash flows [EFRAG FR TEG].
- 34 For banks and insurance companies, the statement of cash flows is not the most useful for predicting dividends, (for banks the ECB needs to approve them based on financial ratios

and for insurance companies the ability to pay dividends is based on other regulatory frameworks than IFRS) [EFRAG FR TEG].

- 35 Include a reference in the business model section to IFRS 18 regarding the requirements to assess the main business activity and the reclassification of some items from financing or investing categories into the operating category [EFRAG FR TEG].
- 36 Acknowledge the disadvantages of repeating information included in other reports with another purpose and framework [EFRAG FR TEG].
- 37 Include a reference to an academic paper on the value relevance of the statement of cash flows from banks [EFRAG FR TEG].
- 38 Acknowledge that some academic evidence suggests that the statement of cash flows for banks has some value relevance [EFRAG FR TEG].
- 39 It is important to distinguish between banks, insurance companies and pension funds [EFRAG FRB].
- 40 It was considered that users would look at other information such as financial ratios and solvency ratios. Differing views on the usefulness of incorporating prudential regulation into the financial statements were expressed. It was noted that Basel requirements were based on IFRS reporting [EFRAG FRB].
- 41 For insurance companies, liquidity could be an issue as cash was invested in fixed income assets which could not be transferred into cash without incurring a loss [EFRAG FRB].
- 42 The business model of banks may vary across entities, depending on the life-cycle and the area that these entities focus on (e.g., some banks may focus on payment solutions, while others may heavily invest on infrastructure). Therefore, the usefulness of the statement of cash flows may vary across entities [EFRAG FIWG].
- 43 The statement of cash flows does not provide incremental value to other statements and should be therefore replaced by alternative reporting requirements (e.g., statement of changes in debt, additional disclosure requirements) [EFRAG FIWG].